PRUDENTIAL SOURCEBOOK FOR INSURERS (AMENDMENT NO 2) INSTRUMENT 2011

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

(1) section 138 (General rule-making power);
(2) section 150(2) (Actions for damages);
(3) section 156 (General supplementary powers); and
(4) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 6 March 2011.

Amendments to the Handbook

D. The Prudential sourcebook for Insurers (INSPRU) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Prudential Sourcebook for Insurers (Amendment No 2) Instrument 2011.

By order of the Board
24 February 2011

Annex

Amendments to the Prudential sourcebook for Insurers (INSPRU)

In this Annex, underlining indicates new text.

6.1.42A R For the purposes of calculating *group capital resources*, a *firm* must exclude:

(1) the book value of any investment by a *related undertaking* of the *undertaking* in *INSPRU* 6.1.17R in shares of, or loans to, an *undertaking* that is not a *related undertaking*, where that *undertaking* has invested in the *capital resources* of a *regulated related undertaking* of the *undertaking* in *INSPRU* 6.1.17R; and

(2) any item of capital not in (1) to the extent that it is the result of or otherwise attributable to reciprocal financing arrangements entered into by the *undertaking* in *INSPRU* 6.1.17R or by a *related undertaking* of an *undertaking* in *INSPRU* 6.1.17R.

6.1.42B G The *Insurance Groups Directive* gives an example of reciprocal financing as when an *insurance undertaking*, or any of its *related undertakings*, holds shares in, or makes loans to, another *undertaking* which, directly or indirectly, holds an element eligible for the solvency margin of the first undertaking. However, there are other instances of reciprocal financing, for example where a *group undertaking* provides a guarantee to an *undertaking* outside the *group*, in whole or partial reliance on which the non-*group undertaking* invests in or provides any kind of financial accommodation to support the *capital resources* of a *group undertaking* whose *capital resources* are relevant to the *group capital resources* calculation. *INSPRU* 6.1.42AR(2) requires that *firms* exclude from *group capital resources* those items of capital resulting from or attributable to such reciprocal financing arrangements.