

**HANDBOOK SEPARATION (INSURANCE) INSTRUMENT 2016****Powers exercised**

- A. The Financial Conduct 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 59 (Approval for particular arrangements);
  - (2) section 60 (Applications for approval);
  - (3) section 61 (Determination of applications);
  - (4) section 69 (Statement of policy);
  - (5) section 137A (The FCA’s general rules);
  - (6) section 137T (General supplementary powers); and
  - (7) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 7 March 2016.

**Amendments to the Handbook**

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
General Provisions (GEN)	Annex C
General Prudential sourcebook (GENPRU)	Annex D
Prudential Sourcebook for Insurers (INSPRU)	Annex E
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex F
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex G
Conduct of Business sourcebook (COBS)	Annex H
Supervision manual (SUP)	Annex I

**Citation**

- E. This instrument may be cited as the Handbook Separation (Insurance) Instrument 2016.

By order of the Board  
25 February 2016

## Annex A

## Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

<i>actuarial function</i>	<del>[deleted]</del> (in the <i>FCA Handbook</i> ) <u>PRA controlled function</u> described more fully in <u>SUP 4.3.13R, PRA Rulebook: Non Solvency II firms: Actuarial Requirements 5</u> , and, for a <i>Solvency II firm</i> , <u>PRA Rulebook: Solvency II firms: Conditions Governing Business 6.1</u> .
<i>actuarial investigation</i>	(1) (other than in <i>COBS</i> ) an investigation to which <i>IPRU-(INS)</i> rule 9.4 <u>as at 31 December 2015</u> applies.  ...
<i>admissible asset</i>	<del>(a) (in relation to an insurer which is not a pure reinsurer) an asset that, subject to paragraphs (2) and (3) of GENPRU 2 Annex 7, falls into one or more categories in paragraph (1) of GENPRU 2 Annex 7; or</del>  <del>(b) (in relation to a pure reinsurer) an asset the holding of which is consistent with compliance by the firm with INSPRU 3.1.61AR.</del>  <u>has the same meaning as ‘admissible asset’ in the insurance sectors of the PRA Rulebook: Glossary.</u>
<i>appropriate actuary</i>	an <i>actuary</i> appointed under <del>SUP 4.4.1R</del> <u>PRA Rulebook: Non-Solvency II Firms – Actuarial Requirements (Appointment of an appropriate actuary)</u> .
<i>capital resources</i>	(1) in relation to a <i>BIPRU firm</i> <del>or an insurer</del> , the <i>firm's</i> capital resources as calculated in accordance with the <i>capital resources table</i> ; or  ...
<i>capital resources gearing rules</i>	(1) <del>(in relation to an insurer) GENPRU 2.2.29R, GENPRU 2.2.30R and GENPRU 2.2.32R to GENPRU 2.2.41R. [deleted]</del>  ...
<i>capital resources requirement</i>	...  (2) an <i>insurer</i> must hold as set out in <del>GENPRU 2.1.17R to GENPRU 2.1.23R; or [deleted]</del>  ...
<i>capital resources</i>	(1) <del>(in the case of an insurer) GENPRU 2 Annex 1; and [deleted]</del>

<i>table</i>	...
<i>ECR</i>	<i>enhanced capital requirement</i> . <u>[deleted]</u>
<i>enhanced capital requirement</i>	<del>(1) (in relation to a firm carrying on general insurance business) the amount calculated in accordance with <i>INSPRU</i> 1.1.72CR.</del>  <del>(2) (in relation to a firm carrying on long term insurance business) an amount of capital resources that a firm must hold as set out in <i>GENPRU</i> 2.1.38R. <u>[deleted]</u></del>
<i>financial institution</i>	(1) (in accordance with paragraph 5(c) of Schedule 3 to the Act (EEA Passport Rights: EEA firm) and article 3 (22) of the <i>CRD</i> (Definitions)), but not for the purposes of <i>GENPRU</i> , <i>BIPRU</i> , <u>and</u> <i>IFPRU</i> <u>and</u> <i>INSPRU</i> ), ...
<i>individual capital assessment</i>	(in <del><i>INSPRU</i></del> and <i>COBS</i> 20.2) an assessment by a firm of the adequacy of its capital resources undertaken as part of an assessment of the adequacy of the firm's overall financial resources <del>carried out in accordance with <i>GENPRU</i> 1.2.</del>
<i>notification rule</i>	(1) (in relation to a firm) a rule requiring a firm to give the <del>appropriate regulator</del> <u>FCA</u> notice of, or information regarding, an event, but excluding:  ...
<i>overall financial adequacy rule</i>	(1) (in <del><i>GENPRU</i></del> , <u>and</u> <del><i>BIPRU</i></del> <u>and</u> <del><i>INSPRU</i></del> ) <i>GENPRU</i> 1.2.26AG (Requirement for certain firms to have adequate financial resources).  ...
<i>table of PRA controlled functions</i>	<del>the table of controlled functions in <i>SUP</i> 10B.4.3R.</del>
<i>technical provision</i>	(a) (for a firm which is not a <i>Solvency II</i> firm) a technical provision established:  (i) for <del>general insurance business</del> , in accordance with <del><i>INSPRU</i> 1.1.12 R</del> ; <u>and</u>  (ii) for <del>long term insurance business</del> , in accordance with <del><i>INSPRU</i> 1.1.16 R</del> <u>in accordance with the Insurance Company – Technical Provisions part of the <i>PRA</i> Rulebook.</u>  (b) ...
<i>tier one capital</i>	...  (2) (in <del><i>BIPRU</i></del> , <u>and</u> <del><i>GENPRU</i></del> <u>and</u> <del><i>INSPRU</i></del> ) an item of capital that is specified in stages A(Core tier one capital), B (Perpetual non-cumulative preference shares) or C (Innovative tier one capital) of the

*capital resources table.*

*with-profits actuary  
function*

~~(in the *PRA Handbook*) PRA controlled function CF12A in the table of PRA controlled functions, described more fully in SUP 4.3.16AR and SUP 10B.8.2R.~~

~~(in the *FCA Handbook*) PRA controlled function CF12A in the table of PRA controlled functions, described more fully in SUP 4.3.16AR and SUP 10B.8.2 R~~ or, for a *Solvency II firm*, the function described in rule 8 of PRA Rulebook: Solvency II firms: Insurance – Senior Insurance Management Functions and the Senior Insurance Management Function parts of the *PRA Rulebook*.

**Annex B**

**Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

**1.1A Application**

...

1.1A.2 G The provisions in SYSC should be read in conjunction with *GEN 2.2.23R* to *GEN 2.2.25G*. In particular:

- (1) ~~Provisions made by both the FCA and PRA may contain obligations for or references to FCA authorised persons. GEN 2.2.23R limits the application of those provisions so that the PRA will only apply them in respect of PRA authorised persons and not to such FCA authorised persons as are included within the provision. [deleted]~~
- (2) Provisions made by both the *FCA*, and by the PRA in the PRA Rulebook, may be applied by both regulators to *PRA-authorised persons*. Such provisions are applied by each regulator to the extent of its powers and regulatory responsibilities. ~~This general principle also applies where the PRA have made rules in the PRA Rulebook for Solvency II firms which overlap with those in SYSC.~~
- (3) ...

**1.2 Purpose**

1.2.1 G ...

- (1) ... matters likely to be of interest to the *appropriate regulator* FCA because they impinge on the *appropriate regulator's* FCA's functions ...

...

...

**1 Annex 1 Detailed application of SYSC**

<b>Part 1</b>	<b>Application of SYSC 2 and SYSC 3 to an insurer ...</b>	
...		
1.4	R	<i>SYSC 3.2.6AR</i> to <i>SYSC 3.2.6JG</i> do not apply:

[FCA]			
		...	
		(2)	...
			(g) <i>reversion activity</i> ; <u>or</u>
		(3)	<u>to a pure reinsurer.</u>
...			
1.8A	R	<p>(1) <i>SYSC 3</i>, except <i>SYSC 3.2.6AR</i> to <i>SYSC 3.2.6JG</i>, and</p> <p>(2) <u>for a UK domestic firm, SYSC 2;</u></p> <p><u>also apply in a prudential context with respect to activities wherever they are carried on.</u></p>	
...			

...

### 3.2 Areas covered by systems and controls

...

3.2.10 G ...

(3) ... controlling risk exposure. The risk assessment function is not a an FCA controlled function itself, but for certain firms is part of the *systems and controls function* (CF28).

...

...

3.2.14 G ...

(4) The requirements on *firms* with respect to *approved persons* are in Part V of the *Act* (Performance of regulated activities) and *SUP 10 10A* and the Senior Insurance Management Functions parts of the PRA Rulebook.

...

3.2.16 G ...

(2) ...The internal audit function is not a an FCA controlled function itself, but for certain firms is part of the *systems and controls function* (CF28).

...

## 12 Group risk systems and controls requirements

### 12.1 Application

...

12.1.9 G ... ~~Unless the firm is a Solvency II firm, risk~~ Risk management processes must include the stress testing and scenario analysis required by ~~GENPRU 1.2.42R and GENPRU 1.2.49R(1)(b)~~ the PRA Rulebook.

...

12.1.18 G ... this section will form part of the ~~appropriate regulator's~~ FCA's risk management process.

...

12.1.21 G ... is to make sure that the ~~appropriate regulator~~ FCA can take supervisory action ...

12.1.22 G ... the ~~appropriate regulator~~ FCA would not expect systems and controls to be duplicated. ...

...

## 13 Operational risk: systems and controls for insurers

...

### 13.4 Requirements to notify the appropriate regulator

13.4.1 G Under *Principle 11* and *SUP 15.3.1R*, a firm must notify the ~~appropriate regulator~~ FCA immediately of any operational risk matter of which the ~~appropriate regulator~~ FCA would reasonably expect notice. ...

13.4.2 G Regarding operational risk, matters of which the ~~appropriate regulator~~ FCA would expect notice under *Principle 11* include:

...

...

### 13.6 People

...

13.6.4 G ... A firm should also consider the *rules and guidance* for *approved persons* in other parts of the *Handbook* (including *APER*, *COCON* and *SUP*) and the *rules and guidance* on *senior manager* responsibilities in *SYSC 2.1* (Apportionment of Responsibilities).

...

## 13.7 Processes and systems

...

13.7.9 G ...

- (3) the extent to which local regulatory and other requirements may restrict its ability to meet regulatory obligations in the *United Kingdom* (for example, access to information by the ~~appropriate regulator~~ FCA and local restrictions on internal or external audit); and

...

## 13.8 External events and other changes

...

13.8.4 G ... However, the ~~appropriate regulator~~ FCA recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in *GEN* 1.3 (Emergency).

...

13.8.7 G ...

...

- (c) ... (including the ~~appropriate regulator~~ FCA and the press);

...

...

## 13.9 Outsourcing

...

13.9.2 G ... a *firm* should notify the ~~appropriate regulator~~ FCA when it intends to enter into a *material outsourcing* arrangement.

...

13.9.5 G ...

- (2) ... and to the ~~appropriate regulator~~ FCA (see *SUP* 2.3.5R (Access to premises) and *SUP* 2.3.7R (Suppliers under material outsourcing arrangements));

...

...

**21.1 Risk control: guidance on governance arrangements**

Additional guidance on governance arrangements

21.1.1 G ...

(3) The ~~appropriate regulator~~ FCA considers ...

...

Chief Risk Officer

21.1.2 G ...

(2) ...

(b) ...or the ~~PRA's systems and controls~~ relevant PRA controlled function.(3) The ~~appropriate regulator~~ FCA expects ...

...

21.1.3 G

(2) The ~~appropriate regulator~~ FCA recognises that ... the ~~appropriate regulator~~ FCA expects...

...

21.1.5 G (1) The ~~appropriate regulator~~ FCA considers that ...

## Annex C

### Amendments to the General Provisions (GEN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 2.2 Interpreting the Handbook

...

- 2.2.23 R (1) This *rule* applies to *Handbook* provisions made by both the *FCA* and the *PRA*, and to *Handbook* provisions made by the *FCA* ~~and formerly also made by the *PRA*~~ where the *PRA* have made commensurate provisions in the *PRA* Rulebook. It may affect their application by the *FCA* to *PRA-authorised persons* and *PRA approved persons*, and may affect their application by the *PRA* to any *authorised person* or *approved person*.

...

...

## Annex D

### Amendments to the General Prudential sourcebook (GENPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### 1.1 Application

...

1.1.2 G Broadly speaking however, *GENPRU* applies (except as provided in *GENPRU* 1.1.2-AAG) to:

(1) ~~an insurer that is not a Solvency II firm; [deleted]~~

...

(4) a *BIPRU firm*; and

(5) groups containing such *firms*.

...

1.1.2A G ... ~~In particular, many rules in *GENPRU* are made by both the *PRA* (in relation to *PRA* authorised persons) and by the *FCA* (in relation to *BIPRU firms* that are *FCA* authorised persons).~~

...

#### 1.2 Adequacy of financial resources

Application

1.2.1 R This section applies to:

~~(1) a *BIPRU firm*; and~~

~~(2) an insurer, unless it is:~~

~~(a) a non-directive friendly society; or~~

~~(b) a Swiss general insurer; or~~

~~(c) an EEA deposit insurer; or~~

~~(d) an incoming EEA firm; or~~

~~(e) an incoming Treaty firm; or~~

~~(f) a Solvency II firm.~~

- 1.2.1A R ~~This section also applies to an insurer, unless it is:~~
- ~~(1) a non-directive friendly society; or~~
  - ~~(2) a Swiss general insurer; or~~
  - ~~(3) an EEA deposit insurer; or~~
  - ~~(4) an incoming EEA firm; or~~
  - ~~(5) an incoming Treaty firm; or~~
  - ~~(6) a Solvency II firm. [deleted]~~
- ...
- 1.2.15 G ... The ~~appropriate regulator~~ FCA will review that assessment as part of its own assessment of the adequacy of a firm's capital under its *supervisory review and evaluation process (SREP)*. ...
- 1.2.16 G ... In the case of a *BIPRU firm*, the ~~appropriate regulator~~ FCA ... Therefore, when forming its view on a *BIPRU firm's capital planning buffer*, the ~~appropriate regulator~~ FCA will take into account the assessment made in relation to the *firm's ICG*.
- ...
- 1.2.19 G (1) ~~BIPRU 2.2 (Internal capital adequacy standards) and INSPRU 7.4 (Individual capital assessment) set sets out detailed guidance~~ ... the more reliance the ~~appropriate regulator~~ FCA will be able to place ...
- (2) ~~BIPRU 2.2 and INSPRU 7.4 also have~~ has information on how the ~~appropriate regulator~~ FCA will review and respond to the assessments referred to in *GENPRU 1.2.15G* and, ~~in the case of BIPRU firms, in GENPRU 1.2.16G~~. In particular they deal with the giving of *individual capital guidance* to a firm, which is *guidance* about the amount and quality of capital resources that the ~~appropriate regulator~~ FCA thinks a firm should hold at all times ...
- ...
- 1.2.21 G (1) ~~SYSC 11 sets out material on systems and controls that apply specifically to liquidity risk as that concept relates to an insurer.~~
- (2) ~~[deleted]~~
- (2A) ~~[deleted]~~
- (3) ~~[deleted]~~
- (4) ~~SYSC 11.1.21E is an evidential provision relating to the general stress and scenarior testing rule concerning stress testing and~~

~~scenario analyses. SYSC 11.1.24E is an evidential provision relating to the overall Pillar 2 rule about contingency funding plans. Both of these evidential provisions apply only to an insurer to which that section of SYSC applies.~~

(5) [deleted]

...

1.2.29 G ... ~~SYSC 11.1.24E is an evidential provision relating to the overall financial adequacy rule concerning contingency funding plans.~~

...

1.2.40 G ... The appropriateness of the internal process, and the degree of involvement of senior management in the process, will be taken into account by the ~~appropriate regulator~~ FCA when reviewing a firm's assessment as part of the ~~appropriate regulator's~~ FCA's own assessment of the adequacy of a firm's financial resources. ...

...

1.2.42B G ... A BIPRU firm without an IRB permission, ~~or an insurer that has a material credit and counterparty credit risk exposures,~~ should conduct analyses ...

...

1.2.43 G ... ~~SYSC 11.1.21E is an evidential provision relating to the general stress and scenario testing rule concerning scenario analysis in relation to liquidity risk.~~

...

1.2.55 G The purpose of ~~GENPRU 1.2.51R – GENPRU 1.2.53R~~ is to enable the ~~appropriate regulator~~ FCA to assess the extent ... under BIPRU 8 (Group risk – consolidation). The reason the ~~appropriate regulator~~ FCA wishes to make this assessment is ...

...

1.2.62 G Where a firm assesses the adequacy of its CRR in its particular circumstances in accordance with BIPRU 2.2 (Internal capital adequacy standards) ~~and INSPRU 7.1 (Individual capital assessment)~~ ...

...

1.2.73A G (1) ...

(c) ... However, the ~~appropriate regulator~~ FCA ...

...

...

- (5) ... within the *firm's ICAAP* ~~or ICA~~ submission document.
- (6) The ~~appropriate regulator~~ FCA will review the *firm's* records referred to in (5) as part of its *SREP*. The purpose of examining these is to enable the ~~appropriate regulator~~ FCA to judge whether a *firm* will be able to continue to meet its *CRR* ...
- (7) ... the ~~appropriate regulator~~ FCA may require the *firm* to set out additional countervailing measures ...

1.2.73B G The ~~appropriate regulator~~ FCA may formulate macroeconomic and financial market scenarios which a *firm* may use as an additional input to its *ICAAP* ~~or ICA~~ submission. In addition, the ~~appropriate regulator~~ FCA may also ask a *firm* to apply specific scenarios directly in its *ICAAP* ~~or ICA~~ submission.

1.2.73C G ~~For an insurer:~~

- (1) ~~the treatment of new business when making capital projections is likely to be different from its ICA. In projecting its financial position, an insurer should take account of new business based on the firm's business plan, but flexed to take account of potential changes in trading conditions and strategy. When assessing its current capital adequacy under its ICA, an insurer should take account of the effects of closure to new business (see GENPRU 1.2.27G, GENPRU 1.2.73AG (3) and (4) and INSPRU 7.1.16G to INSPRU 7.1.19G). Also, an insurer may use methods that are more approximate than used for its ICA; and~~
- (2) ~~where management discretion is exercised as a normal part of an insurer's business (for example, in changing bonus rates or surrender values in accordance with the PPFM for with-profits business), under GENPRU 1.2.73AG (3)(c) the insurer does not need to estimate the effect of an adverse event on its financial position without adjusting for such changes. However, the effect on the financial position of varying such actions should be estimated and understood. [deleted]~~

...

1.2.77 G Additional *guidance* on stress tests and scenario analyses for the assessment of *capital resources* is available in *BIPRU* 2.2 (Internal capital adequacy standards) and *INSPRU* 7.1 (Individual capital assessment).

1.2.78 G ~~Additional *guidance* in relation to stress tests and scenario analysis for *liquidity risk* as that concept relates to an *insurer* is available in *SYSC* 11 (Liquidity risk systems and controls). [deleted]~~

...

### 1.3 Valuation

#### Application

- 1.3.1 R (1) ~~This section of the Handbook applies to an insurer, unless it is:~~
- (a) ~~a non-directive friendly society;~~
  - (b) ~~an incoming EEA firm; or~~
  - (c) ~~an incoming Treaty firm; or~~
  - (d) ~~a Solvency II firm. [deleted]~~
- (2) This section of the *Handbook* applies to a *BIPRU firm*.
- (3) ~~This section of the Handbook applies to a UK ISPV. [deleted]~~

#### Purpose

- 1.3.2 G This section sets out, for the purposes of *GENPRU*, and *BIPRU* ~~and~~ *INSPRU*, rules and guidance as to how a firm should recognise and value assets, liabilities, *exposures*, equity and income statement items.
- ...
- 1.3.4 R Subject to *GENPRU* 1.3.9R to *GENPRU* 1.3.10R and *GENPRU* 1.3.36R, except where a rule in *GENPRU*, *BIPRU* or *INSPRU* provides for a different method of recognition or valuation, whenever a rule in *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* refers to an asset ...
- (1) ~~the insurance accounts rules, or the Friendly Societies (Accounts and Related Provisions) Regulations 1994; [deleted]~~
- ...
- 1.3.5 G Except where a rule in *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* makes a different provision, *GENPRU* 1.3.4R applies whenever a rule in *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* refers to the value or amount of an asset, liability, *exposure*, equity or income statement item, including:
- ...
- 1.3.6 G In particular, unless an exception applies, *GENPRU* 1.3.4R should be applied for the purposes of *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* to determine how to account for:
- ...
- ...
- 1.3.9 R For the purposes of *GENPRU*, or *BIPRU* ~~or~~ *INSPRU*, except where a rule in

*GENPRU*, or *BIPRU* ~~or~~ *INSPRU* provides for a different method of recognition or valuation:

...

- 1.3.10 R An election made under *GENPRU* 1.3.9R(2) must be applied consistently for the purposes of *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* in respect of any one financial year.

...

- 1.3.13 R (1) Except to the extent that *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* provide for another method of valuation, *GENPRU* 1.3.14R to *GENPRU* 1.3.34R (Marking to market, Marking to model, Independent price verification, or Valuation adjustments ~~or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves~~) apply:

...

...

...

- 1.3.16 R ...
- (2) ...
- (b) ... the *firm* must consider making adjustments ~~or, in the case of an insurer or a UK ISPV, making adjustments or establishing reserves~~.

...

General requirements: Valuation adjustments ~~or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves~~

- 1.3.29 R ... (Marking to market, Marking to model, Independent price verification, or Valuation adjustments ~~or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves~~). However if *GENPRU*, or *BIPRU* ~~or~~ *INSPRU* provide for another treatment of such gains or losses, that other treatment must be applied.

- 1.3.30 R A *firm* must establish and maintain procedures for considering valuation adjustments ~~or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves~~. These procedures must be compliant with the requirements set out in *GENPRU* 1.3.33R.

...

- 1.3.32 R A *firm* must consider the need for making adjustments ~~or, in the case of an insurer or a UK ISPV, establishing reserves~~ for less liquid positions and, on an ongoing basis, review their continued appropriateness in accordance with

the requirements set out in *GENPRU* 1.3.33R. Less liquid positions could arise from both market events and institution-related situations e.g. concentration positions and/or stale positions.

- 1.3.33 R ...
- (2) A *firm* must consider the following adjustments ~~or, in the case of an insurer or a UK ISPV, adjustments or reserves~~: unearned credit spreads, close-out costs, operational risks, early termination, investing and funding costs, future administrative costs and, where appropriate, model risk.
- (3) ...
- (b) A *firm* must consider several factors when determining whether a valuation adjustment ~~or, in the case of an insurer or a UK ISPV, valuation adjustment or reserve~~ is necessary for less liquid positions. ...
- ...
- 1.3.34 R If the result of making adjustments ~~or, in the case of an insurer or a UK ISPV, making adjustments or establishing reserves~~ under *GENPRU* 1.3.29R to *GENPRU* 1.3.33R ...
- 1.3.35 G Reconciliation differences under *GENPRU* 1.3.34R should not be reflected in the valuations under *GENPRU* 1.3 but should be disclosed to the ~~appropriate regulator~~ FCA in prudential returns. *Firms* which are subject to the reporting requirement under *SUP* 16.16 should disclose those reconciliation differences in the Prudent Valuation Return which they are required to submit to the ~~appropriate regulator~~ FCA under *SUP* 16.16.4R.

...

~~Specific requirements: firms carrying on insurance business~~

## 2.1 Calculation of capital resources requirements

...

- 2.1.1 R This section applies to:
- (1) a *BIPRU firm*; ~~and~~
- (2) an *insurer*, unless it is:
- (a) a *non-directive friendly society*; ~~or~~
- (b) a *Swiss general insurer*; ~~or~~

- (c) ~~an EEA deposit insurer; or~~
- (d) ~~an incoming EEA firm; or~~
- (e) ~~an incoming Treaty firm; or~~
- (f) ~~a Solvency II firm.~~
- ...
- 2.1.3 R ...
- (2) ~~Where an insurer carries on both long-term insurance business and general insurance business, except where a particular provision provides otherwise, this section applies separately to each type of business. [deleted]~~
- ...
- 2.1.6 G ... The adequacy of a firm's capital resources needs to be assessed both by that firm and the appropriate regulator. Through its rules, the ~~appropriate regulator~~ FCA sets minimum capital resources requirements for firms. It also reviews a firm's own assessment of its capital needs, and the processes and systems by which that assessment is made, in order to see if the minimum capital resources requirements are appropriate (see GENPRU 1.2 (Adequacy of financial resources); and BIPRU 2.2 (Internal capital adequacy standards) ~~and INSPRU 7.1 (Individual capital assessment)~~).
- 2.1.7 G ... are set out in GENPRU 1.3 (Valuation) ~~and, for an insurer, INSPRU and, for a BIPRU firm, BIPRU.~~
- ...
- 2.1.9 R A firm must at all times monitor whether it is complying with ~~GENPRU 2.1.13R (the main capital adequacy rule for insurer) or the main BIPRU firm Pillar 1 rules~~ and be able to demonstrate that it knows at all times whether it is complying with those rules.
- 2.1.10 G For the purposes of GENPRU 2.1.9R, a firm should have systems in place to enable it to be certain whether it has adequate capital resources to comply with ~~GENPRU 2.1.13R and the main BIPRU firm Pillar 1 rules (as applicable)~~ at all times. This does not necessarily mean that a firm needs to measure the precise amount of its capital resources and its CRR on a daily basis. A firm should, however, be able to demonstrate the adequacy of its capital resources at any particular time if asked to do so by the ~~appropriate regulator~~ FCA.
- 2.1.11 R A firm must notify the ~~appropriate regulator~~ FCA immediately of any breach, or expected breach, of ~~GENPRU 2.1.13R (in the case of an insurer) or the main BIPRU firm Pillar 1 rules (in the case of a BIPRU firm).~~

## Additional capital requirements

- 2.1.12 G The ~~appropriate regulator~~ FCA may impose a higher capital requirement than the minimum requirement set out in this section as part of the *firm's Part 4A permission* (see *GENPRU 1.2* (Adequacy of financial resources); and *BIPRU 2.2* (Internal capital adequacy standards) ~~and~~ ~~*INSPRU 7.1*~~ (~~Individual capital assessment~~)).

...

**2.2 Capital resources**

In each of the following provisions in *GENPRU 2.2* (Capital Resources), replace “*appropriate regulator*” wherever appearing with “*FCA*”:

2.2.8G (three instances)  
 2.2.61BR  
 2.2.61CR (two instances)  
 2.2.61DR (two instances)  
 2.2.61ER  
 2.2.61FR  
 2.2.61GR (two instances)  
 2.2.67AG  
 2.2.68G  
 2.2.69DG  
 2.2.69F (eight instances)  
 2.2.70R  
 2.2.70AG  
 2.2.71R  
 2.2.73G  
 2.2.74R  
 2.2.74AG (two instances)  
 2.2.79AR  
 2.2.79GR  
 2.2.79HG (two instances)  
 2.2.79IR (two instances)  
 2.2.83BR  
 2.2.96G  
 2.2.115A (two instances)  
 2.2.115CG (four instances)  
 2.2.117CG  
 2.2.135R  
 2.2.136G (two instances)  
 2.2.164G (two instances)  
 2.2.171R (two instances)  
 2.2.174R  
 2.2.179G  
 2.2.187G

2.2.197G  
 2.2.220R  
 2.2.243R.

The new and deleted text is not shown in the text of the GENPRU provisions below.

Application

- 2.2.1 R This section applies to:
- (1) a *BIPRU firm*; ~~and~~
  - (2) an *insurer*, unless it is:
    - (a) a *non-directive friendly society*; ~~or~~
    - (b) a *Swiss general insurer*; ~~or~~
    - (c) an *EEA deposit insurer*; ~~or~~
    - (d) an *incoming EEA firm*; ~~or~~
    - (e) an *incoming Treaty firm*; ~~or~~
    - (f) a *Solvency II firm*.

...

Table: Arrangement of GENPRU 2.2

2.2.6 G ...

Topic	Location of text
...	...
<del>Additional requirements for insurer carrying on with profits insurance business</del>	<del>GENPRU 2.2.270R to GENPRU 2.2.272G; GENPRU 2.2.274G</del>

...

- 2.2.10 G ... *Tier one capital* is divided into:
- (1) ~~in the case of an insurer, core tier one capital, perpetual non-cumulative preference shares and innovative tier one capital; and~~
  - (2) ~~in the case of a BIPRU firm, core tier one capital and hybrid capital. Hybrid capital is further divided into the different stages B1, B2 and~~

C of the calculation in the *capital resources table*.

...

- 2.2.14 G Deductions should be made at the relevant stage of the calculation of *capital resources* to reflect capital that may not be available to the *firm* or assets of uncertain value (for example, holdings of intangible assets) ~~and assets that are inadmissible for an insurer.~~

...

- 2.2.31 G The purpose of the requirements in ~~GENPRU 2.2.29R and GENPRU 2.2.30AR(1)~~ is to ensure that the *firm's tier one capital resources* includes a minimum proportion of *core tier one capital* which provides the highest quality of capital. Within the 50% limit on non-*core tier one capital*:

- (1) ~~GENPRU 2.2.30R places a further sub-limit on the amount of innovative tier one capital that an insurer may include in its tier one capital resources; and [deleted]~~
- (2) *GENPRU ...*

...

- 2.2.63 R The categories referred to in *GENPRU 2.2.62R(1)* are:

...

- (5) ~~(in the case of an insurer) a perpetual non-cumulative preference share; [deleted]~~

...

- (7) ~~(in the case of an insurer) an innovative tier one instrument; and [deleted]~~

- (8) ~~(in the case of a BIPRU firm) hybrid capital.~~

General conditions for eligibility as tier one capital

- 2.2.64 R The conditions that an item of capital of a *firm* must comply with under *GENPRU 2.2.62R(2)* are as follows:

...

- (4) ...

(b) ... an item of capital that is:

- (i) ~~in the case of a BIPRU firm, core tier one capital; and~~
- (ii) ~~in the case of an insurer, included in a higher stage of capital or the same stage of capital as that first item~~

of capital;

...

(6) it is able to absorb losses to allow the *firm* to continue trading and:

(a) ~~in the case of an insurer, in particular it complies with GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption) and, in the case of an innovative tier one instrument, GENPRU 2.2.116R to GENPRU 2.2.118R (Other tier one capital: loss absorption); and [deleted]~~

(b) ~~In the case of a BIPRU firm, it does not, ...~~

...

...

(9) it ranks for repayment upon winding up, administration or any other similar process:

(a) ~~in the case of an insurer, no higher than a share of a company incorporated under the Companies Act 2006 (whether or not it is such a share); or [deleted]~~

(b) ~~in the case of a BIPRU firm, lower than any items of capital that are:~~

...

(10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9) ~~and, where it applies, GENPRU 2.2.271R (Other requirements: insurers carrying on with profits business (Insurer only)).~~

...

2.2.70 R A *firm* may not include a *capital instrument* in its *tier one capital resources*, unless its contractual terms are such that:

...

(2) the *firm* cannot exercise that redemption right:

(a) ...; and

(b) ...; and

(c) unless at the time of exercise of that right it complies with ~~GENPRU 2.1.13R (the main capital adequacy rule for insurers) or the main BIPRU firm Pillar 1 rules~~ and will continue to do so after redemption;

...

...

- 2.2.71 R A *firm* may include a term in a *tier one instrument* allowing the *firm* to redeem it before the date in *GENPRU 2.2.70R(2)(a)* if the following conditions are satisfied:

...

- (2) the circumstance that entitles the *firm* to exercise that right is:
- (a) ~~(in the case of an *insurer*) a change in law or regulation in any relevant jurisdiction or in the interpretation of such law or regulation by any court or authority entitled to do so; and~~
  - (b) ~~(in the case of a *BIPRU firm*) a change in the applicable tax treatment or regulatory classification of those instruments;~~
- (3) (a) ~~(in the case of an *insurer*) it would be reasonable for the *firm* to conclude that it is unlikely that that circumstance will occur, judged at the time of issue or, if later, at the time that the term is first included in the terms of the *tier one instrument*; and~~
- (b) ~~(in the case of a *BIPRU firm*) the circumstance that entitles the *firm* to exercise that right was not reasonably foreseeable at the date of issue of the *tier one instrument*; and~~
- (4) the *firm's* right is conditional on it obtaining the *appropriate regulator's* consent in the form of a waiver of *GENPRU 2.2.72R*.

...

- 2.2.82 G There are additional loss absorption requirements for ~~(in the case of an *insurer*) innovative tier one capital and (in the case of a *BIPRU firm*) hybrid capital~~ in ~~*GENPRU 2.2.116R*~~ *2.2.116AR* to *GENPRU 2.2.118R* (Other tier one capital: loss absorption) and ~~(in the case of a *BIPRU firm*) for core tier one capital~~ in *GENPRU 2.2.83AR(9)* to (10) (General conditions for eligibility of capital instruments as core tier one capital ~~(*BIPRU firm* only)~~).

...

- 2.2.84 G ~~In the case of an *insurer*, *GENPRU 2.2.83R(2)* and *GENPRU 2.2.83R(3)* have the effect that the *firm* should be under no obligation to make any payment in respect of a *tier one instrument* if it is to form part of its *permanent share capital* unless and until the *firm* is wound up. A *tier one instrument* that forms part of *permanent share capital* should not therefore count as a liability before the *firm* is wound up. The fact that relevant company law permits the *firm* to make earlier repayment does not mean that the *tier one instruments* are not eligible. However, the *firm* should not be~~

required by any contractual or other obligation arising out of the terms of that capital to repay *permanent share capital*. Similarly a *tier one instrument* may still qualify if company law allows dividends to be paid on this capital, provided the *firm* is not contractually or otherwise obliged to pay them. There should therefore be no fixed costs. [deleted]

...

2.2.117 G ... ~~As tier one capital resources for an insurer should be undated, this will generally only be relevant on a solvent winding up of the firm.~~ ...

...

2.2.118 R (1) ~~An insurer may not include an innovative tier one instrument, unless it is a preference share, in its tier one capital resources unless it has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the criteria in GENPRU 2.2.64R(6) (loss absorption) and GENPRU 2.2.80R to GENPRU 2.2.81R (Loss absorption) are met. [deleted]~~

(2) ...

...

2.2.138 R ...

(2) ...

(a) ... issue by more than :

(i) ~~in the case of a BIPRU firm, 150%; and~~

(ii) ~~in the case of an insurer, 200%; or~~

(b) ...

...

...

2.2.143 G (1) The significance of the limitations on conversion in GENPRU 2.2.138R(2) can be seen in the example in this paragraph, ~~which uses the conversion ratio applicable to an insurer.~~

(2) ~~An insurer~~ A firm issues innovative notes with a par value of £100 each. ...

(3) ...

(a) ... ~~200%~~ 150% ...

(b) ... £100\* ~~2~~ 1.5/ £4 = ~~50~~ 37.5

- (4) ...
- (5) If the market price of the ordinary *shares* fell by half to 200 pence, the maximum permitted number of *shares* (~~50~~ 37.5) would have to be issued in order to give an investor in the innovative note ordinary *shares* with a market value equal to £100. ...

2.2.144 G (1) In addition to the maximum conversion ratios of ~~200% for an insurer and 150% for a BIPRU firm~~, GENPRU 2.2.138R(2)(b) does not permit a *firm* to issue *shares* that would have a market value that exceeds the issue price of the instrument being redeemed.

...

...

2.2.159 G A *capital instrument* must not form part of the *tier two capital resources* of a *firm* unless it meets the following conditions:

...

- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9) ~~and, where it applies, GENPRU 2.2.271R (Other requirements: insurers carrying on with-profits business (Insurer only))~~;

...

...

2.2.174 G In relation to a *tier two instrument*, a *firm* must notify the ~~appropriate regulator~~:

- (1) ~~in the case of an insurer, six Months; and [deleted]~~
- (2) ~~in the case of a BIPRU firm, one Month; [deleted]~~

FCA one month before it becomes committed ...

(3) ...

(4) ...

...

2.2.245 R Table: Application of tier two capital rules to tier three debt

<i>Tier two capital rule</i>	Adjustment
GENPRU 2.2.159R ...	... The reference in GENPRU 2.2.159R(10)

	(Description of <i>tier two capital</i> in marketing documents) to <i>GENPRU 2.2.265R 2.2.271R</i> ( <del>Other requirements: insurers carrying on with profits business (Insurer only)</del> ) does not apply
...	

...

~~Other requirements: insurers carrying on with profits business (Insurer only)~~

- 2.2.270 R ~~*GENPRU 2.2.270R to GENPRU 2.2.275G* only apply to an *insurer* falling within *GENPRU 2.218*. [deleted]~~
- 2.2.270A G ~~*GENPRU 2.2.271R to GENPRU 2.2.272G* and *GENPRU 2.2.274G* are made by both the *PRA* and *FCA* for the purpose of applying these provisions to *insurers* pursuant to the *statutory objectives*. [deleted]~~
- 2.2.271 R ~~An *insurer* carrying on *with profits insurance business* must, in addition to the other requirements in respect of *capital resources* elsewhere in *GENPRU 2.2*, meet the following conditions before a *capital instrument* can be included in that *insurer's capital resources*:~~
- (1) ~~the *insurer* must manage the *with profits fund* so that discretionary benefits under a *with profits insurance contract* are calculated and paid disregarding, insofar as is necessary for its *customers* to be treated fairly, any liability the *firm* may have to make payments under the *capital instrument*;~~
  - (2) ~~the intention to manage the *with profits fund* on the basis set out in (1) must be disclosed in the *firm's Principles and Practices of Financial Management*; and~~
  - (3) ~~no amounts, whether interest, principal, or other amounts, must be payable by the *firm* under the *capital instrument* if the *firm's* assets would then be insufficient to enable it to declare and pay under a *with profits insurance contract* discretionary benefits that are consistent with the *firm's* obligations under the *FCA's Principle 6 (Customers' interests)*. [deleted]~~
- 2.2.272 G ~~The purpose of *GENPRU 2.2.271R* is to achieve practical subordination of *capital instruments* if they are to qualify as *capital resources* to the liabilities an *insurer* has to *with profits policyholders*, including liabilities which arise from the regulatory duty (as regulated by the *FCA*) to treat *customers* fairly in setting discretionary benefits. (*FCA's Principle 6 (Customers' interests)* requires a *firm* to pay due regard to the interests of its customers and treat them fairly.) It is not sufficient for a *capital instrument* to be subordinated to such liabilities only on winding up of the *firm* because such liabilities to *policyholders* may have been reduced by the inappropriate use of management discretion to enable funds to be applied in repaying~~

~~subordinated *capital instruments* before winding up proceedings commence. [deleted]~~

- 2.2.274 G ~~*GENPRU 2.2.64R(10)* and *GENPRU 2.2.159R(10)* contain provisions concerning the marketing of a *capital instrument*. In relation to a *firm* to which *GENPRU 2.2.271R* applies, in order to comply with *GENPRU 2.2.64R(10)* and *GENPRU 2.2.159R(10)*, it should draw to the attention of subscribers the risk that payments may be deferred or cancelled in order to operate the *with-profits fund* so as to give priority to the payment of discretionary benefits to *with-profits policyholders*. [deleted]~~

## Annex E

## Amendments to the Prudential sourcebook for Insurers (INSPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

## 1 Capital resources requirements and technical provisions for insurance business

### 1.1 Application

...

1.1.3 R For a *non-EEA insurer* with a branch in the *United Kingdom* whose insurance business in the *United Kingdom* is not restricted to reinsurance (other than an *EEA-deposit insurer*, a *Swiss general insurer* or a *UK-deposit insurer*): INSPRU 1.1.27R applies separately in respect of its world-wide activities and its activities carried on from a branch in the *United Kingdom*.

(1) ~~the part of this section headed "Capital requirements for insurers" (INSPRU 1.1.43G to INSPRU 1.1.92BG) applies to its world-wide activities;~~

(2) ~~The parts of this section headed:~~

(a) ~~"Establishing technical provisions" (INSPRU 1.1.12R to INSPRU 1.1.19G);~~

(b) ~~"Reinsurance and analogous non-reinsurance financing agreements: risk transfer principle" (INSPRU 1.1.19AR to INSPRU 1.1.19FG);~~

(c) ~~"Assets of a value sufficient to cover technical provisions and other liabilities" (INSPRU 1.1.20R to INSPRU 1.1.29G);~~

(d) ~~"Matching of assets and liabilities" (INSPRU 1.1.34R to INSPRU 1.1.40G); and~~

(e) ~~"Premiums for new business" (INSPRU 1.1.41R to INSPRU 1.1.42G);~~

~~apply in respect of the activities of the *firm* carried on from a branch in the *United Kingdom*; and~~

(3) ~~the part of this section headed "Localisation" (INSPRU 1.1.30R to INSPRU 1.1.33R) does not apply (see INSPRU 1.5 (Internal contagion risk)).~~

1.1.4 R For an *EEA-deposit insurer* or a *Swiss general insurer*: INSPRU 1.1.27R

applies in respect of the activities carried on from a *branch* in the *United Kingdom*.

- (1) the parts of this section headed:
- (a) “Establishing technical provisions” (*INSPRU* 1.1.12R to *INSPRU* 1.1.19G);
  - (b) "Reinsurance and analogous non-reinsurance financing agreements: risk transfer principle" (*INSPRU* 1.1.19AR to *INSPRU* 1.1.19FG);
  - (c) "Assets of a value sufficient to cover technical provisions and other liabilities" (*INSPRU* 1.1.20R to *INSPRU* 1.1.29G);
  - (d) "Matching of assets and liabilities" (*INSPRU* 1.1.34R to *INSPRU* 1.1.40G); and
  - (e) "Premiums for new business" (*INSPRU* 1.1.41R to *INSPRU* 1.1.42G);

apply in respect of the activities of the *firm* carried on from a *branch* in the *United Kingdom*; and

- (2) the part of this section headed “Capital requirements for insurers” (*INSPRU* 1.1.43G to *INSPRU* 1.1.92BG) applies to its world-wide activities;

1.1.5 R For an *UK deposit insurer*: *INSPRU* 1.1.27R applies separately in respect of its world-wide activities and its activities carried on from a *branch* in the *EEA*.

- (1) the part of this section headed “Capital requirements for insurers” (*INSPRU* 1.1.43G to *INSPRU* 1.1.92BG) applies to its world-wide activities;
- (2) The parts of this section headed:
- (a) “Establishing technical provisions” (*INSPRU* 1.1.12R to *INSPRU* 1.1.19G);
  - (b) "Reinsurance and analogous non-reinsurance financing agreements: risk transfer principle" (*INSPRU* 1.1.19AR to *INSPRU* 1.1.19FG);
  - (c) "Assets of a value sufficient to cover technical provisions and other liabilities" (*INSPRU* 1.1.20R to *INSPRU* 1.1.29G);
  - (d) "Matching of assets and liabilities" (*INSPRU* 1.1.34R to *INSPRU* 1.1.40G); and
  - (e) "Premiums for new business" (*INSPRU* 1.1.41R to *INSPRU*

1.1.42G);

apply in separately in respect of its world-wide activities and its activities carried on from *branches* in *EEA States*; and

(3) the part of this section headed "Localisation" (~~INSPRU 1.1.30R to INSPRU 1.1.33R~~) does not apply (see *INSPRU 1.5 (Internal contagion risk)*).

1.1.6 G ...

[1.1.7 to 1.1.26 not used]

Assets of a value sufficient to cover technical provisions and other liabilities

1.1.27 R ...

1.1.29 G ~~INSPRU 1.1.27R and INSPRU 1.1.28R support the funding of policyholder benefits by requiring firms to maintain admissible assets in with profits funds to cover the technical provisions and other long-term insurance liabilities relating to all the business in that fund. [deleted]~~

The brought forward amount

Insurance related capital requirement

1.1.73 [intentionally blank]

...

## 1.2 Mathematical reserves

...

1.2.6A G ~~A number of rules in this section are made by the FCA and the PRA. Some of the rules made by the FCA and PRA contain references to, or are reliant on, rules that are only made by the PRA. Firms should consider GEN 2.2.13AR (cross-references in the Handbook) and GEN 2.2.23R to GEN 2.2.25G (cutover: application of provisions made by both the FCA and the PRA) when applying these rules. In the context of mathematical reserves, the FCA rules ensure a firm takes into account its regulatory duty to treat customers fairly. Where an FCA rule refers to a PRA rule, GEN 2.2.13AR and GEN 2.2.23R will apply so that the PRA rule is also made by the FCA to the extent necessary to make the FCA rule function but only to the extent of the FCA's powers and regulatory responsibilities.~~

[1.2.7 to 1.2.9 not used]

Methods and assumptions

1.2.10 R In the actuarial valuation under ~~INSPRU 1.2.7 R~~ PRA Rulebook: Non Solvency II firms: Insurance Company – Mathematical Reserves, 2.1, a firm

must use methods and prudent assumptions which:

...

(3) are consistent with the method of valuing assets (~~see GENPRU 1.3~~) (see PRA Rulebook: Non-Solvency II firms: Insurance Company – Overall Resources and Valuation, 3);

(4) include appropriate margins for adverse deviation of relevant factors (~~see INSPRU 1.2.12 G~~);

...

...

1.2.21 G ~~SYSC 14.1.53R requires firms to maintain accounting and other records for a minimum of three years, or longer as appropriate. For the purposes of INSPRU 1.2.20R, records should be maintained for a period of longer than three years will be appropriate for a firm's long-term insurance business. In determining an appropriate period, a firm should have regard to:~~

(1) ~~the detailed rules and guidance on record keeping in SYSC 14.1.51 G – SYSC 14.1.64 G; [deleted]~~

...

[1.2.22 to 1.2.27 not used]

Cash flows to be valued

1.2.28 R In a prospective valuation, a firm must:

(1) include in the cash flows to be valued the following:

(a) future premiums (~~see INSPRU 1.2.35G to INSPRU 1.2.47G~~);

(b) expenses, including commissions (~~see INSPRU 1.2.50R to INSPRU 1.2.58G~~);

(c) benefits payable (see INSPRU 1.2.29R); and

(d) subject to (2), amounts to be received or paid in respect of the long-term insurance contracts under contracts of reinsurance or analogous non-reinsurance financing agreements (~~see INSPRU 1.2.77AR to INSPRU 1.2.89G~~); but

(2) ...

1.2.28A G ... ~~The conditions that will need to be met, in addition to the statutory tests under section 138A(4) of the Act, before the PRA will consider granting~~

such a ~~waiver~~ are set out in ~~INSPRU 1.6.13G to INSPRU 1.6.18G~~.

...

1.2.30 G ... Cash flows may be omitted from the valuation calculations provided the reserves obtained as a result of leaving those cash flows out of the calculation are not less than would have resulted had all cash flows been included (~~see INSPRU 1.2.22R(2)(b)2~~). Provision for future expenses in respect of *with-profits insurance contracts* (excluding *accumulating with-profits policies*) may be made implicitly, using the *net premium* method of valuation (~~see INSPRU 1.2.43R below~~). For the purposes of *INSPRU 1.2.28R(1)(b)3*, any charges included in expenses should be determined in accordance with the *firm's* regulatory duty to treat its *customers* fairly.

1.2.31 G *INSPRU 1.2.29R(4)* requires ~~regulatory basis only life firms~~ firms to make allowance for any future *annual bonus* that a *firm* would expect to grant, assuming future experience is in line with the assumptions used in the calculation of the *mathematical reserves*. ~~final bonuses~~ Final bonuses do not have to be taken into consideration in these calculations except in relation to *accumulating with-profits policies* (~~see INSPRU 1.2.9R~~). The calculations required for *accumulating with-profits policies* are set out in *INSPRU 1.2.71R(1)*.

[1.2.32 to 1.2.58 not used].

...

1.2.60 G The rates of mortality or morbidity should contain prudent margins for adverse deviation (~~see INSPRU 1.2.13R to INSPRU 1.2.19G~~). In setting those rates, a *firm* should take account of:

...

...

...

1.2.66 G ~~In accordance with INSPRU 1.2.7R and INSPRU 1.2.13R, take-up~~ Take-up rates for guaranteed annuity options should be assessed on a prudent basis with assumptions that include margins for adverse deviation (~~see INSPRU 1.2.13R to INSPRU 1.2.19G~~) that take account of current experience and the potential for future change. ...

...

1.2.70 R (1) Where a *policyholder* may opt to be paid a cash amount, or a series of cash payments, the *mathematical reserves* for the *contract of insurance* ~~established under INSPRU 1.2.7R~~ must be sufficient to ensure that the payment or payments could be made solely from:

...

...

...

**Persistency assumptions**1.2.73 ~~{intentionally blank}~~1.2.74 ~~{intentionally blank}~~1.2.75 ~~{intentionally blank}~~[1.2.73 to 1.2.85 not used]**Reinsurance**1.2.86 R ~~For the purposes of *INSPRU* 1.2.79R(2) and *INSPRU* 1.2.85R, future surplus~~ Future surplus may only be offset ...[1.3 and 1.4 not used.]**1.5 Internal-contagion risk****Application**1.5.1 R ~~*INSPRU* 1.5 applies to an insurer.~~1.5.2A R ~~*INSPRU* 1.5 does not apply, to the extent stated, to~~ *INSPRU* 1.5 applies to an insurer except any insurer in (1) to (3):1.5.1

...

1.5.3 G ~~The scope of application of *INSPRU* 1.5 is not restricted to firms that are subject to the relevant *EU* directives. [deleted]~~[1.5.2 to 1.5.3 not used]

...

1.5.8 G This section sets out requirements for a *firm* relating to 'internal-contagion risk'. This is the risk that losses or liabilities from one activity might deplete or divert financial resources held to meet liabilities from another activity. It arises where the two activities are carried on within the same *firm*. It may also arise from the combination of activities within the same *group*, but this aspect of internal-contagion risk falls outside the scope of this section. ~~Requirements relevant to *group* contagion risk are set out in *INSPRU* 6.~~

...

- 1.5.18 R A *firm* carrying on *long-term insurance business* must identify the assets relating to its *long-term insurance business* which it is required to hold by virtue of the requirements in the Non Solvency II firms: Insurance Company – Technical Provisions and Non-Solvency II firms: Insurance Company – Mathematical Reserves parts of the PRA Rulebook:
- (1) in the case of a *pure reinsurer*:
    - (a) ~~INSPRU 1.1.20R or INSPRU 1.1.21R~~; and
    - (b) ~~INSPRU 3.1.61AR~~; and
  - (2) in any other case:
    - (a) ~~INSPRU 1.1.20R or INSPRU 1.1.21R~~; and
    - (b) ~~INSPRU 3.1.57R and INSPRU 3.1.58R~~.
- 1.5.19 G (1) ~~INSPRU 1.1.16R requires a firm to establish adequate technical provisions for its long-term insurance contracts. INSPRU 1.1.20R requires a firm which is not a composite firm to hold admissible assets of a value at least equal to the amount of the technical provisions and its other long-term insurance liabilities. INSPRU 1.1.21R ensures that a composite firm identifies separate admissible assets with a value at least equal to the technical provisions for long-term insurance business and its other long-term insurance liabilities as well as holding other admissible assets of a value at least equal to the amount of its technical provisions for general insurance business and its other general insurance liabilities.~~
- (2) ~~In the case of a firm carrying on long-term insurance business which is not a pure reinsurer, there are excluded from the scope of INSPRU 1.1.20R and INSPRU 1.1.21R property-linked liabilities and index-linked liabilities and the assets held to cover them under INSPRU 3.1.57R and INSPRU 3.1.58R. The latter two rules do not apply to a pure reinsurer (see INSPRU 3.1.58AR). However, a pure reinsurer is required by INSPRU 3.1.61AR to invest all its assets in accordance with the requirements of that rule.~~
- (3) ~~The overall impact of these provisions in INSPRU 1.1 and INSPRU 3.1, the requirements in the PRA Rulebook to hold admissible assets of a value at least equal to the amount of technical provisions, when read together with INSPRU 1.5.18R, is that any firm writing long-term insurance business must identify separately assets of a value at least equal to the amount of its long-term insurance business technical provisions, including those in respect of any property-linked liabilities or index-linked liabilities, and its other long-term insurance liabilities.~~
- ...
- 1.5.26 G ... When considering merging the funds, the *firm* should consider the impact on its *PPFM* (see *COBS 20.3*) and on its obligations to notify the *appropriate regulator FCA* (see *SUP 15.3*). ...

...

1.5.28 G ... However, even where the investigation is still in-date, the *firm* should not make the transfer unless there is sufficient surplus at the time of the transfer to allow it to be made without breach of ~~INSPRU 1.1.20R or INSPRU 1.1.21R~~ of the requirements in *PRA Handbook*. Rulebook: Non Solvency II firms: Insurance Company – Technical Provisions.

1.5.29 G ~~INSPRU 1.1.27R and INSPRU 1.1.28R~~ provide provides further constraints on the transfer of assets out of a *with-profits fund*. ...

...

### 3.1 Market risk in insurance

...

#### Purpose

3.1.7 G *INSPRU 3.1* addresses the impact of *market risk* on *insurance business* in the ways set out below:

- (1) Any *firm* that carries on *long-term insurance business* ~~which is a regulatory basis only life firm~~ must comply with the ~~resilience capital requirement~~. This requires the *firm* is required to hold capital to cover *market risk*. ~~The resilience capital requirement is dealt with in INSPRU 3.1.9G to INSPRU 3.1.26R.~~ INSPRU 3.1.26R makes particular provision for assets invested outside the UK.
- (2) ~~For a firm that carries on long-term insurance business, the assets that it must hold must be of a value sufficient to cover the firm's technical provisions and other long-term insurance liabilities. INSPRU 1.2 contains rules and guidance as to the methods and assumptions to be used in calculating the mathematical reserves. One of these assumptions is the assumed rate of interest to be used in calculating the present value of future payments by or to a firm. INSPRU 3.1.28R to INSPRU 3.1.48G set out the methodology to be used in relation to long-term insurance liabilities.~~
- (3) ~~Firms carrying on either long-term insurance business or general insurance business are also subject to currency risk. That is, the risk that fluctuations in exchange rates may impact adversely on a firm. INSPRU 3.1.49G to INSPRU 3.1.56G set out the requirements a firm must meet so as to cover this risk.~~
- (4) ~~For a firm carrying on general insurance business, the Enhanced Capital Requirement already captures some elements of market risk. In addition, the requirements as to the assumed rate of interest used in calculating the present value of general insurance liabilities are contained in the insurance accounts rules, and these requirements are outlined in INSPRU 3.1.27G.~~

- ~~(5)~~ *Firms carrying on long-term insurance business that have property-linked liabilities or index-linked liabilities must cover these liabilities*  
 (2) *by holding appropriate assets. INSPRU 3.1.57R and INSPRU 3.1.58R set out these cover requirements.*
- ~~(6)~~ *INSPRU 3.1.61AR(1) applies to pure reinsurers "prudent person"*  
 (3) *investment principles in relation to the investment of their assets.*

**~~Resilience capital requirement (only applicable to the long-term insurance business of regulatory basis only life firms)~~**

3.1.14 [intentionally blank]

Market risk scenario for assets invested outside the United Kingdom

3.1.26 R Where the assets of a *firm* invested in a significant territory of a kind referred to in *INSPRU 3.1.23R(1)*, *INSPRU 3.1.23R(2)* or *INSPRU 3.1.23R(3)(a)* for the purposes of *PRA Rulebook: Non-Solvency II firms: Capital Resources Requirements, 20.10*, represent less than 0.5% of the *firm's long-term insurance assets* (excluding assets held to cover *index-linked liabilities* or *property-linked liabilities*), measured by *market value*, the *firm* may assume for those assets the *market risk* scenario for assets of that kind invested in the *United Kingdom* set out in *PRA Rulebook: Non-Solvency II firms: Capital Resources Requirements, 20.10* ~~*INSPRU 3.1.16R*~~ instead of the other *market risk* scenarios set out in ~~*INSPRU 3.1.23R*~~ that provision.

...

3.1.60 G ... Orders made by the Department for Work and Pensions under section 148 of the Social Security Administration Act 1992, and which are limited to 5% per annum, may also be matched by a fixed interest investment matching cash flows increasing at 5% per annum compound (~~see also *INSPRU 3.1.61 AG*~~).

3.1.61 G ... ~~*Rules and guidance* relating to credit risk are set out in *INSPRU 2.1*.~~

3.1.61-A G Where liabilities are linked to orders made under section 148 of the Social Security Administration Act 1992, ~~*firms* are required by *COBS 21.3.5R* to notify the *PRA* before effecting any such business and to explain how the risks associated with this business will be safely managed. This requirement does not apply in respect of liabilities for which a limited revaluation premium has been paid to the Department for Work and Pensions so that the liability for revaluation, while still linked to section 148 orders, is limited to 5%. The the risks associated with the business may be mitigated by holding assets to cover an alternative index which is reasonably expected to at least cover the section 148 order (e.g. RPI plus a margin) over the duration of the link. The *firm's* exposure to an order under section 148 exceeding this index should be appropriately limited by putting a cap on the liabilities linked to the order so that risks are within acceptable limits.~~

...

**3.2 Derivatives in insurance**

## Application

3.2.1 R ...

3.2.2 G ~~The scope of application of *INSPRU* 3.2 is not restricted to *firms* that are subject to the relevant *EU4* directives. [deleted]~~

...

3.2.3A G ~~References in this section to *GENPRU* are to *GENPRU* in the *PRA Handbook*. [deleted]~~

## Purpose

3.2.4 G ~~*GENPRU* 2.2.17R requires a *firm* to calculate its *capital resources* for the purpose of *GENPRU* in accordance with the *capital resources table*, subject to the limits in *GENPRU* 2.2.32R to *GENPRU* 2.2.41R. The *capital resources table* and *GENPRU* 2.2.251R require a *firm* to deduct from total *capital resources* the value of any asset included in an insurance fund which is not an *admissible asset* as listed in *GENPRU* 2 Annex 7. *GENPRU* 2 Annex 7 *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13 provides that a *derivative*, *quasi-derivative* or *stock lending transaction* will only be an *admissible asset* if it is approved. This section sets out the criteria for determining when a *derivative*, *quasi-derivative* or *stock lending transaction* is approved for this purpose. *INSPRU* 3.2.5R to *INSPRU* 3.2.35R set out the criteria for *derivatives* and *quasi-derivatives*. *INSPRU* 3.2.36R to *INSPRU* 3.2.41R set out the criteria for *stock lending transactions*.~~

## Derivatives and quasi-derivatives

3.2.5 R For the purpose of ~~*GENPRU* 2 Annex 7 *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13~~ (Admissible assets in insurance), ...

...

3.2.5A G (1) ~~*GENPRU* 2 Annex 7 R(3) *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13.3 requires *firms* ... notwithstanding that it is also capable of falling within one or more other categories in *GENPRU* 2 Annex 7R(1) *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13.1 ...~~

...

...

- 3.2.11 G ~~Firms are reminded that *INSPRU* 2.1 (Credit risk in insurance) sets out the different types of loss mitigation techniques. [deleted]~~

Investment risk

- 3.2.12 R For the purposes of *INSPRU* 3.2.8R, investment risk is the risk that the assets held by a *firm*:
- (1) (where they are *admissible assets* held by the *firm* to cover its *technical provisions*) might not be:
    - (a) of a value at least equal to the amount of those *technical provisions* as required by ~~*INSPRU* 1.1.20R~~ *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Technical Provisions, 4; or
    - (b) of appropriate safety, yield and marketability as required by ~~*INSPRU* 1.1.34R(1)(a)~~ *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Technical Provisions, 6.2(1); or
    - (c) of an appropriate currency match as required by ~~*INSPRU* 3.1.53R~~ *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Risk Management, 3.2;
  - ...
  - (3) (where they are held to cover *property-linked liabilities*) might not be appropriately selected in accordance with contractual and constructive liabilities ~~as required by *INSPRU* 1.5.36R~~ and appropriate cover for those liabilities as required by ~~*INSPRU* 3.1.57R~~ *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Risk Management, in particular the definition of ‘investment risk’.

...

- 3.2.17 R An obligation to pay a monetary amount (whether or not falling in *INSPRU* 3.2.16R) is covered if:

...

- (3) a provision at least equal to the value of the assets in (1) is implicitly or explicitly set up. A provision is implicitly set up to the extent that the obligation to pay the monetary amount is recognised under ~~*GENPRU* 1.3 (Valuation)~~ *PRA* Rulebook: Non Solvency II firms: Insurance Company – Overall Resources and Valuation, in particular chapters 3-7, either by offset against an asset or as a separate liability. A provision is explicitly set up if it is in addition to an implicit provision.

...

3.2.34 R ... taking into account any valuation adjustments or reserves established by the *firm* under ~~GENPRU 1.3.29R to GENPRU 1.3.34R~~ PRA Rulebook: Non-Solvency II firms: Insurance Company – Overall Resources and Valuation, in particular chapter 7.

...

3.2.35 R For the purpose of *INSPRU* 3.2.5R(3)(b), ... :

(1) ... in compliance with ~~GENPRU 1.3.4R~~ PRA Rulebook: Non-Solvency II firms: Insurance Company – Overall Resources and Valuation, 3.1; and

...

3.2.35A G The purpose of *INSPRU* 3.2.34R and *INSPRU* 3.2.35R is to ensure the appropriate application of ~~GENPRU 1.3~~ PRA Rulebook: Non-Solvency II firms: Insurance Company – Overall Resources and Valuation, to *derivatives* and *quasi-derivatives* effected or issued off-market with an *approved counterparty*.

Stock lending

3.2.36 R (1) For the purposes of ~~GENPRU 2 Annex 7~~ PRA Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13 (Admissible assets in insurance), a *stock lending* transaction (including a *repo* transaction) is approved if:

...

(b)

...

(iv) ~~the Office of Thrift Supervision;~~ and

...

...

3.2.36A R ...

...

(b)

...

(iv) ~~the Office of Thrift Supervision;~~ and

- ...
- ...
- ...
- 3.2.38A R ...
- ...
- (b)
- ...
- (iii) the Board of Governors of the Federal Reserve System;  
and
- (iv) the Office of Thrift Supervision.
- 3.2.39 G For the purposes of assessing adequate quality in *INSPRU* 3.2.38R(3), reference should be made to the criteria for credit risk loss mitigation set out in *INSPRU* 2.1.16R. The valuation rules in ~~*GENPRU* 1.3 *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Overall Resources and Valuation~~ apply for the purpose of determining the value of both *collateral* received, and the *securities* transferred, by the *firm*. In addition, where *collateral* takes the form of assets transferred, under the *rules* in ~~*GENPRU* the *PRA* Rulebook: Non-Solvency II firms: Insurance Company – Capital Resources 13~~ any such asset that is not an *admissible asset* (see ~~*GENPRU* 2 *Annex 7*~~) does not have a value.
- ...
- 3.2.42 G References in *INSPRU* 3.2.40R(2) and *INSPRU* 3.2.41R to the close of business on the day of the transfer or the day of expiry are to close of business on that day in all time regions.
- ...

## 7 Individual Capital Assessment

### 7.1 Application

- 7.1.3A G ~~A firm should refer to *GEN* 2.2.23R to *GEN* 2.2.25G (cutover: application of provisions made by both the *FCA* and the *PRA*) when applying the *rules* and *guidance* in *INSPRU* 7. In particular:~~
- (1) ~~*INSPRU* 7.1.16G to 7.1.18G and *INSPRU* 7.1.20G are made by the *FCA* for the purpose of applying this *guidance* to *insurers* pursuant to the *statutory objectives*; and~~
- (2) ~~Certain The *rules* and *guidance* in *INSPRU* 7.1 are also made by the~~

*FCA solely for the purpose of their application to dormant account fund operators. These provisions are ~~INSPRU 7.1.4G to 7.1.21G, INSPRU 7.1.25G to 7.1.27G, INSPRU 7.1.29G to 7.1.73G and 7.1.91G? 7.1.99 G.~~*

- 7.1.3B    G    References in this chapter to *GENPRU*, *INSPRU*, and connected terms, are to the provisions in force as at 31 December 2015. References in this chapter to the *appropriate regulator* are to the *FCA*.

## Annex F

Amendments to the Interim Prudential sourcebook for Friendly Societies  
(IPRU(FSOC))

In this Annex, underlining indicates new text and striking through indicates deleted text.

## GUIDANCE: ...

...

2 So far as a *friendly society* is concerned, the Principles for Businesses are particularly relevant to its internal systems and controls. Principle 3, for example, requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. ~~Principle 4 requires a firm to maintain adequate financial resources.~~

3 In addition to the general obligations placed on a *friendly society*, certain staff of all authorised persons which are *approved persons* are subject to a number of high level obligations, ~~referred to as Statements of Principle. The FCA has issued a Code of Practice to help determine whether an approved person's conduct has complied with a Statement of Principle. The Statements and the Code are set out in the High Level Standards part of the Handbook (APER) see *COCON* and in certain cases *APER*.~~

4 ~~One of the features of a *contract of insurance* is the long period of risk the contract may cover. The prudential rules for *friendly societies* seek to protect the *policyholder* against the risk that a *friendly society* will fail to meet a valid claim as it falls due.~~

...

8 ~~The rules in Chapter 4 set out the *required margins of solvency* for a *friendly society* having regard to the type of its business.~~

9 ~~The extent to which an asset may be taken into account for prudential purposes, and the method of valuing it, is determined in accordance with the rules in the Appendices. It is a fundamental part of the approach to prudential regulation for *friendly societies* that the rules limit the assets which are 'admissible' for solvency purposes and specify the methods of valuation. Similarly, the amount of a liability is determined in accordance with the rules in the Appendices.~~

11 ~~As part of the continuing supervision of a *friendly society*, the rules in Chapter 5 require the *friendly society* to prepare certain accounts and statements in accordance with the rules and deposit them with the *PRA*.~~

[4, 5 and 8-11 are not used]

...

15. FCA *Guidance* is set out in the Annexes and *friendly societies* may also wish to refer to the guidance in *IPRU(INS)*, ~~*GENPRU*~~ and *INSPRU*.

## CONTENTS

...

Chapter 4 ...

1. Margins of solvency

2 ...

3. ~~[deleted]~~

4. ~~[deleted]~~

5. ...

6. ~~Linked long term contracts~~

7. ~~Liquidity~~

Chapter 5 Prudential reporting

Chapter 6 ~~[deleted]~~

...

### List of Appendices

Appendix 1 ~~Long term insurance business: margin of solvency~~

Appendix 2 ~~General insurance business solvency margin~~

Appendix 3 ~~[deleted]~~

Appendix 4 ~~Asset valuation rules~~

~~Annex A: [deleted]~~

~~Annex B: Assets to be take into account only to a specified event.~~

Appendix 5 ~~Liability valuation rules~~

Appendix 6 ~~Balance sheet~~

Appendix 7 ~~General insurance business: revenue account, other revenue account and additional information~~

Appendix 8 ~~Long term insurance business: revenue account and additional information~~

Appendix 9 ~~Abstract of actuarial investigation~~

Appendix 10 ~~Prudential reporting forms~~

### List of Annexes

...

Annex 4 ~~Guidance on margins of solvency and the guarantee fund~~

Annex 5 ~~Guidance on exemption from triennial valuation~~

~~Attachment — Proforma Application~~

...

1.1A

...

***Restriction of business to insurance***

...

3.1 ...  
(6)

(b) ... *appropriate regulator* FCA ...

...

4.11 ~~Except for rule 4.24, which applies to all friendly societies, the remaining~~  
The rules in this chapter do not apply to *registered friendly societies*.

4.12 ...  
(2) ...

(b) ... reference value ... is based [footnote:] ~~6 See paragraph 2 of Guidance Note 4.4 IPRU (INS).~~

**Chapter 8: Transitional provisions**

...

**Table 1**

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: Dates in force	(6) Handbook provision: coming into force
3	<i>IPRU (FSOC) Rule 5.1A</i>	R	(1) This paragraph and Table 2 below apply to a <i>directive friendly society</i> .  (2) <i>IPRU (FSOC) rule 5.1A</i> is modified so that a <i>directive friendly society</i> must comply with <i>IPRU (INS) rule 9.6(1)</i> varied as set	From 31 December 2004 to 30 December 2007	31 December 2004

			out in Table 2.		
4	<i>IPRU (FSOC) rules 4.21, 4.22, 7.1 (Definitions), Appendix 3 paragraphs 9 and 12</i>	R	For the period given in column (5), for the purposes of the <i>rules</i> specified in column (2), a <i>directive friendly society</i> must apply the definition of <i>permitted derivative contract</i> as it takes effect in relation to a <i>non-directive incorporated friendly society</i> .	31 December 2004 to 30 December 2005	31 December 2004
5	<i>IPRU (FSOC) rules 4.21, 4.22, 7.1 (Definitions), Appendix 3 paragraphs 9 and 12</i>	R	(1) This paragraph applies to a contract concluded on or before 30 December 2005 which satisfies the definition of <i>permitted derivative contract</i> as it takes effect in relation to a <i>non-directive incorporated friendly society</i> .  (2) In relation to a	31 December 2004 until the relevant <i>rule</i> is revoked	31 December 2004

			contract to which this paragraph applies, for the purposes of the <i>rules</i> specified in column (2), a <i>directive friendly society</i> may continue to apply the definition of <i>permitted derivative contract</i> as it takes effect in relation to a <i>non-directive incorporated friendly society</i> .		
--	--	--	---	--	--

**Table 2**

This Table belongs to *IPRU (FSOC) Chapter 8, Table 1, paragraph 3*

<b>Deposit period following the <i>financial year end</i></b>		
<b><i>Financial year ending on or after</i></b>	<b>Where the deposit is made electronically</b>	<b>Otherwise</b>
31 December 2004	6 months	6 months
31 December 2005	6 months	6 months
31 December 2006	4 months	3 months and 15 days
31 December 2007	3 months	2 months and 15 days

## Annex G

### Amendments to the Interim Prudential sourcebook for Insurers (IPRU(INS))

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### ~~————~~ Interim Prudential Sourcebook

#### Insurers (IPRU (INS))

**IPRU (INS) comprises four chapters: Chapter 1 Application rule, Chapter 3 Long-term insurance business, Chapter 8 Non-UK insurers and Chapter 11 Definitions.**

#### ~~————~~ Volume One

#### ~~————~~ Rules

### ~~THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS INSTRUMENT 2001~~

#### ~~INTRODUCTION~~

~~1— The FSA makes the rules and guidance in this instrument on 21 June 2001.~~

~~2— [deleted]~~

~~3— This instrument will come into force at the beginning of the day on which section 19 of the *Act* (the general prohibition) comes into force.~~

~~4— This instrument is to be interpreted in accordance with, and applies subject to, the general provisions contained in the General Provisions Instrument 2001.~~

~~5— This instrument may be cited as the Interim Prudential Sourcebook for Insurers Instrument 2001.~~

~~6— This instrument, excluding the provisions in this Introduction, may be cited as the Interim — Prudential Sourcebook for Insurers.~~

~~By Order of the Board~~

~~21 June 2001~~

~~INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS~~~~GUIDANCE~~~~— THE PURPOSE OF THE PRUDENTIAL RULES FOR INSURERS AND AN OVERALL DESCRIPTION~~~~————— [deleted text]~~~~INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS~~~~CONTENTS~~~~Volume One: Rules~~

Guidance	<del>[deleted]</del>
Chapter 1	Application rule
Chapter 2	<del>[deleted]</del>
Chapter 3	Long-term insurance business
	Part I Identification and application of assets
	Part II <del>[deleted]</del>
Chapter 4	<del>[deleted]</del>
Chapter 5	<del>[deleted]</del>
Chapter 6	<del>[deleted]</del>
Chapter 7	<del>[deleted]</del>
Chapter 8	Non-UK insurers
	Part I <del>[deleted]</del>
	Part I <del>[deleted]</del>
	Part III <del>[deleted]</del>
Chapter 9	Financial Reporting
	Part I Accounts and statements
	Part I Accounts and statements for a marine mutual
	Part III Statistical rules
	Part IV Material connected-party transactions

	<del>Part V <u>[deleted]</u></del>
	<del>Part VII <u>[deleted]</u></del>
Chapter 9	Financial Reporting
	<del>Part I Accounts and statements</del>
	<del>Part I Accounts and statements for a marine mutual</del>
	<del>Part III Statistical rules</del>
	<del>Part IV Material connected-party transactions</del>
	<del>Part V Group Capital Adequacy</del>
	<del>Part VI Enhanced Capital Requirement</del>
	<del>Part VII Lloyds of London</del>
Chapter 10	<del><u>[deleted]</u></del>
Chapter 11	Definitions
	<del>Part I Definitions</del>
	<del>Part I General Provisions</del>
	<del>Annex 11.1 Classes of long term insurance business</del>
	<del>Annex 11.2 Classes, and groups of classes, of general insurance business</del>
	<del>Annex 11.3 Descriptions of PRA general insurance business reporting categories</del>
Chapter 12	Transitional arrangements

The whole of the next sections Volume 2 and Volume 3 are deleted in their entirety. The deletions are not shown.

## **Volume 2: Appendices to the Rules**

## **Volume 3: Guidance**

### **1. Chapter 1: Application Rule**

#### **CONTENTS**

*Application*

**1.1 Insurers**

**1.2 [deleted]**

...

**~~3. Chapter 3: Long Term Insurance Business~~**

**CONTENTS**

**~~Part I—Identification and Application of Assets and Liabilities~~**

**~~3.3 Allocations to policy holders~~**

**~~3.5 Arrangements to avoid unfairness between separate insurance funds~~**

...

**~~8. Chapter 8: Non-UK Insurers~~**

**CONTENTS**

**~~Part III—Rules applicable to branches~~**

**~~8.3~~**

**~~9. Chapter 9: Financial Reporting~~**

...

## Annex H

## Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

### 20.1A The with-profits fund

...

20.1A.13 R A ~~Solvency II firm~~ firm, other than a non-directive friendly society, which is subject to contractual terms providing for payments under a capital instrument included in that ~~insurer's own funds~~ own funds, must:

...

20.1A.14 G (1) A ~~Solvency II firm~~ firm, other than a non-directive friendly society, is expected to manage its *with-profits fund* so that amounts (whether interest, principal, or other outgoings) payable by the *firm* under a capital instrument included in that ~~insurer's own funds~~ own funds (as determined in accordance with the *PRA Rulebook: Solvency II Firms: Own Funds or Non-Solvency II firms: Insurance Company – Capital Resources*) do not impact ...

...

### 21.2 Rules for firms engaged in linked long-term insurance business

...

21.2.8 R ... or of the *PRA Rulebook: Solvency II Firms: Investments* or the PRA Rulebook: Non-Solvency II firm sector to the extent applicable to *linked long-term contracts of insurance*.

21.2.9 G ... the ~~appropriate regulator~~ FCA will have regard to the extent to which the relevant circumstances are exceptional and temporary ...

### 21.3 Further rules for firms engaged in linked long-term insurance business

...

21.3.2 G ...

(2) In the ~~appropriate regulator's~~ FCA's view the Consumer Prices Index, as well as the Retail Prices Index, is a national index of retail prices and so may be used as an *approved index* for the purposes of

COBS 21.3.1R(1).

...

21.3.11 R (1) ...

...

(iv)

(A) ~~the Office of the Comptroller of the Currency~~  
[deleted];

(B) the Federal Deposit Insurance Corporation;

...

21.3.14 G ~~Firms~~ Solvency II firms are also required to comply with the *PRA*  
Rulebook: Solvency II Firms ...

## Annex I

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### **SUP 2.3 Information gathering by the ~~appropriate regulator~~ FCA on its own initiative: cooperation by firms**

In each of the following provisions in SUP 2.3 (Information gathering by the appropriate regulator on its own initiative: cooperation by firms), replace “*appropriate regulator*” wherever appearing with “*FCA*”:

- 2.3.1G (ten instances);
- 2.3.2G (three instances);
- 2.3.3G (eight instances);
- 2.3.4G, 2.3.5R (three instances);
- 2.3.6G, 2.3.7R;
- 2.3.8G;
- 2.3.9G (five instances);
- 2.3.10G (two instances);
- 2.3.11G (three instances).

Amend the following as shown.

...

- 4.1.2 G This chapter applies to *long-term insurers* (including *friendly societies*) and other *friendly societies* and to the *Society of Lloyd's* and *managing agents* at Lloyd's. This chapter does not apply to *actuaries* advising the auditors of *long-term insurers* ~~under IPRU(INS) 9.35(1A) or IPRU(FSOC) 5.11(2A)~~, as they are not appointed to act on behalf of the *firm*.

...

#### **4.2 Purpose**

- 4.2.1 G Section 340 of the *Act* gives the *PRA* power to make *rules* requiring an *authorised person*, or an *authorised person* falling into a specified class, to appoint an *actuary*. ~~Section 340 further empowers the *PRA* to make *rules* governing the manner, timing and notification of such an appointment and, where an appointment is not made, for the *PRA* to make an appointment on the *firm's* behalf. The *PRA* has exercised its power to make such *rules* in *PRA Rulebook: Solvency II firms: Actuaries*; and *PRA Rulebook: Non-Solvency II firms: Actuarial Requirements*. The rule-making powers of the *PRA* and *FCA* under section 340 of the *Act* also extend to an *actuary's* duties.~~

...

### 4.3 Appointment of actuaries

#### Appointment by firms

- 4.3.2 G ~~The provisions relating to the duties of an *actuary* appointed to perform these functions are set out in SUP 4.3.13R to SUP 4.3.18G. For *Solvency II firms*, the *actuarial function* is set out in rule 6.1 of the PRA Rulebook: Solvency II firms: Conditions Governing Business and the rule of an external *actuary* set out in the PRA Rulebook: Solvency II Firms: Actuaries. The functions performed by *actuaries* appointed by a *firm* under SUP 4.3.1R are specified as *controlled functions* (CF 12, the *actuarial function*, and CF 12A, the *with-profits actuary function*) in SUP 10B (*PRA-Approved persons*). For *Solvency II firms* the functions required to be *controlled functions* are set out in PRA Rulebook: Solvency II firms: Insurance – Senior Insurance Management Functions. As a result, an application must be made to the PRA under section 60 of the Act (Applications for approval) for approval by the PRA with the consent of the FCA of the *person* proposing to take up such an appointment. Section 61(3) of the Act (Determination of applications) gives the PRA three months to grant its approval or give a *warning notice* that it proposes to refuse the application. A *firm* should not appoint an *actuary* until the PRA with the consent of the FCA has approved the *actuary*. In order to comply with SUP 4.3.1R, a *firm* should ensure it applies to the PRA as soon as practicable before the date when it needs the *actuary* to take office. The PRA will need time to consider the application before deciding whether to grant approval. See SUP 10B (*PRA-Approved persons*). [deleted]~~

#### Actuaries' qualifications

- 4.3.8 G ~~The appropriate regulator FCA is concerned to ensure that every *actuary* appointed by a *firm* under ~~this section~~ PRA rules made under section 340 of the Act or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6, has the necessary skill and experience to provide the *firm* with appropriate actuarial advice from a conduct perspective. SUP 4.3.9R to SUP 4.3.10G set out the ~~appropriate regulator's~~ FCA's rules and guidance aimed at achieving this.~~

- 4.3.9 R Before a *firm* applies for approval of the *person* it proposes to appoint as an *actuary* under ~~SUP 4.3.1R~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6, it must take reasonable steps to ensure that the *actuary*:

...

...

- 4.3.11 R A *firm* must not appoint under ~~SUP 4.3.1R~~ PRA rules made under section 340 of the Act or for the purposes of rule 6.1 of the PRA PRA Rulebook:

Solvency II firms: Conditions Governing Business, ~~or in accordance with the PRA Rulebook: Solvency II Firms: Actuaries~~ an *actuary* who is disqualified by the *FCA* under section 345 of the *Act* (Disciplinary measures: FCA) or the *PRA* under section 345A of the *Act* (Disciplinary measures: PRA) from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.

- 4.3.12 G If it appears to the *FCA* ~~or PRA~~ that an *actuary* has failed to comply with a duty imposed on him under the *Act*, it ~~have~~ has the power to and may disqualify him under section 345 ~~or 345A~~ respectively of the *Act*. A list of *actuaries* who are disqualified may be found on the *FCA* website (<http://www.fca.org.uk>).

#### Conflicts of interest

- 4.3.12A R A *firm* must take reasonable steps to ensure that an *actuary* who is to be, or has been, appointed under ~~SUP 4.3.1R or rule 6.1 of the PRA Rulebook: Solvency II firms: Conditions Governing Business, or in accordance with the PRA Rulebook: Solvency II Firms: Actuaries~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6:

...

...

- 4.3.13 R An *actuary* appointed to perform the *actuarial function* must, in respect of those classes of the *firm's long-term insurance business* which are covered by his appointment:

...

- (3) advise the *firm's governing body* on the methods and assumptions to be used for the ~~investigations~~ actuarial investigations and reports of the appropriate actuary required by ~~IPRU(INS) 9.4R or IPRU(FSOC) 5.1R~~ and the calculation of the ~~with-profits insurance capital component~~ under INSPRU 1.3 as applicable the PRA Rulebook;

...

- 4.3.14 G ~~IPRU(INS) 9.4R and IPRU(FSOC) 5.1R~~ require The *PRA Rulebook* requires firms to which this section applies to cause an investigation to be made at least yearly by the *actuary* or *actuaries* appointed to perform the *actuarial function*, and to report on the result of that investigation. ...

...

#### 4.4 Appropriate actuaries

...

- 4.4.5 G If it appears to the *FCA* ~~or *PRA*~~ that an *appropriate actuary* has failed to comply with a duty imposed on him under the *Act*, it may have the power to and may disqualify him under section 345 ~~or 345A~~ respectively of the *Act*. A list of *actuaries* who have been disqualified may be found on the *FCA* website (<http://www.fca.org.uk>).

#### Specific duties of the appropriate actuary

- 4.4.6 R An *appropriate actuary* must carry out the triennial investigation and prepare an abstract of the report as required by *IPRU(FSOC) 5.2(2)* and ~~provide the interim certificate or statement as required by *IPRU(FSOC) 5.2(3)*~~ the *PRA Rulebook*.

## 4.5 Provisions applicable to all actuaries

### Objectivity

- 4.5.1 R An *actuary* appointed under ~~this chapter or the *PRA Rulebook: Solvency II firms sector*~~ *PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6*, must be objective in performing his duties.

...

- 4.5.3 R An *actuary* appointed under ~~this chapter or the *PRA Rulebook: Solvency II firms*~~ *PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6*, must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.

...

- 4.5.7 G (1) *Actuaries* appointed under ~~this chapter or the *PRA Rulebook: Solvency II firms*~~ *PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6*, are subject to regulations made by the Treasury under sections 342(5) and 343(5) of the *Act* (Information given by auditor or actuary to a regulator). Section 343 and the regulations also apply to an actuary of an *authorised person* in his capacity as an actuary of a *person with close links with the authorised person*.

...

### Termination of term of office

- 4.5.8 G *SUP 4.5.9R* to *SUP 4.5.11G* apply to a *person* who is or has been an *actuary* appointed under ~~this chapter or the *PRA Rulebook: Solvency II*~~

~~firms~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6.

- 4.5.9 R An *actuary* appointed under ~~this chapter or the PRA Rulebook: Solvency II firms~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6 must notify the *appropriate regulator* without delay if he:

...

- 4.5.10 R An *actuary* who has ceased to be appointed under ~~this chapter or the PRA Rulebook: Solvency II firms,~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6 ...

...

...

- 4.5.13 R When carrying out his duties, an *actuary* appointed under ~~this chapter or the PRA Rulebook: Solvency II firms~~ PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6, must pay due regard to generally accepted actuarial practice.

...

## 10A.14 Changes to an FCA-approved person's details

...

- 10A.14.4 D ...

(3) A *firm* must not use Form E if ...

...

(c) ~~SUP 10B.12.18R (the PRA rule equivalent to (a))~~ or the corresponding *PRA* requirements for *relevant authorised persons* to (a).

...

...

## 13 Exercise of passport rights by UK firms

...

### 13.2 Introduction

- 13.2.1 G This chapter gives *guidance* to *UK firms*. In most cases *UK firms* will be *authorised persons* under the *Act*. However, under the *CRD*, a subsidiary of

a *firm* which is a *credit institution* ~~which~~ and meets the criteria set out in that Directive also has an *EEA right*. Such an unauthorised subsidiary is known as a *financial institution*. References in this chapter to a *UK firm* include a *financial institution*. The chapter does not provide guidance for *Solvency II firms*. *Solvency II firms* should consult the relevant parts of the *PRA Rulebook* and the *PRA website* at: <http://www.bankofengland.co.uk/pr/Pages/authorisations/passporting/notifying.aspx> as the *PRA* is the *appropriate UK regulator* for *Solvency II firms*.

...

- 13.2.3 G In some circumstances, a *UK firm* that is carrying on business which is outside the scope of the *Single Market Directives* has a right under the *Treaty* to carry on that business. ~~For example, for an *insurer* carrying on both direct insurance and *reinsurance* business, the *authorisation* of *reinsurance* business is not covered by the *Solvency II Directive*. The *firm* may, however, have rights under the *Treaty* in respect of its *reinsurance* business. Such *UK firms* may wish to consult with the *appropriate UK regulator* on their particular circumstances (see *SUP 13.12.2G*).~~

...

### 13.3 Establishing a branch in another EEA State

...

- 13.3.2 G A *UK firm* ~~other than a *UK pure reinsurer*~~ cannot establish a *branch* in another *EEA state* for the first time under an *EEA right* unless ...
- ...
- (3) ...
- (b) ...
- (i) the *Host State regulator* has notified the *UK firm* ~~(or, where the *UK firm* is *passporting* under the *Solvency II Directive*, the *PRA*)~~ of the *applicable provisions* ...

...

...

- 13.3.5 G ...
- (2) (a) ~~If the *UK firm's EEA right* derives from the *Solvency II Directive*, the *PRA* will give the *Host State regulator* a *consent notice* within three *months* unless it has reason to:~~
- (i) ~~doubt the adequacy of the *UK firm's* resources or its administrative structure; or~~

- (ii) ~~question the reputation, qualifications or experience of the *directors* or managers of the *UK firm* or its proposed authorised agent;~~

~~in relation to the business the *UK firm* intends to conduct through the proposed *branch*. The *Host State regulator* then has a further two *months* to notify the *applicable provisions* (if any) and prepare for the supervision, as appropriate, of the *UK firm*.~~

- (b) ~~In assessing the matters in (2)(a), the *PRA* may, in particular, seek further information from the *firm* or require a report from a *skilled person* (see *SUP 5* (skilled persons)).~~
- (c) ~~If the *PRA* has required a “recovery plan” or a “finance scheme” of a *UK firm* of the kind mentioned in *PRA Rulebook: Solvency II firms: Undertakings in Difficulty*, the *PRA* would not expect to give a *consent notice* for so long as it considers that *policyholders* are threatened within the meaning of those provisions.~~
- (d) ~~If the *UK firms EEA right* derives from the *Insurance Mediation Directive* ...~~

...

...

13.3.6 G ...

- (2) ~~The *consent notice* will contain, among other matters, the *requisite details* or, if the *firm* is passporting under the *Solvency II Directive*, the *relevant EEA details* (see *SUP 13 Annex 1*) provided by the *UK firm* in its *notice of intention* (see *SUP 13.5* (Notices of intention)).~~

...

...

## 13.4 Providing cross border services into another EEA State

...

13.4.2 G ~~A *UK firm* other than a *UK pure reinsurer* or an *AIFM* exercising an *EEA right* ... unless it satisfies the conditions in paragraphs 20(1) of Part III of Schedule 3 to the *Act* and, if it derives its *EEA right* from the *Solvency II Directive*, *AIFMD*, *MiFID* or the *UCITS Directive*, paragraph 20(4B) of Part III of Schedule 3 to the *Act*. ...~~

...

- (2) ~~if the *UK firm* is passporting under the *Solvency II Directive*, the *firm* has received written notice from the *PRA* as described in *SUP*~~

13.4.6G; or [deleted]

...

...

13.4.4 G ...

- (2) (a) ~~If the UK firm's EEA right derives from the Solvency II Directive, paragraph 20(3A) of Part III of Schedule 3 to the Act requires the PRA, within one month of receiving the notice of intention, to:~~
- (i) ~~give notice in a specified form (known as a consent notice) to the Host State regulator; or~~
  - (ii) ~~give written notice to the UK firm of its refusal to give a consent notice and the reasons for that refusal.~~
- (b) ~~The issue or refusal of a consent notice under paragraph 20(3A) of Part III of Schedule 3 to the Act is the consequence of a regulatory decision, and this consent notice (unlike the consent notice for establishment of a branch) is not a statutory notice as set out in section 395 of the Act. A UK firm that receives notice that the PRA refuses to give a consent notice may refer the matter to the Tribunal under paragraph 20(4A) of Part III of Schedule 3 to the Act.~~
- (c) ~~If the PRA has required of a UK firm a “recovery plan” or “finance scheme” of the kind mentioned in PRA Rulebook: Solvency II firms: Undertakings in Difficulty, the PRA would not expect to give a consent notice for so long as it considers that policyholders' rights are threatened within the meaning of those provisions. [deleted]~~

...

...

## 13.5 Notices of intention

Specified contents: notice of intention to establish a branch

13.5.1 R A UK firm, other than a ~~UK pure reinsurer, or~~ a CRD credit institution wishing to establish a branch in a particular EEA State for the first time under an EEA right other than under the auction regulation must submit a notice of intention in the form set out in SUP 13 Annex 1R.

...

13.5.2 R A UK firm wishing to provide cross border services ... must submit a notice in the form set out in:

...

(1A) ~~SUP 13 Annex 3R if the UK firm is passporting under the Solvency II Directive; or~~

...

...

13.5.2A G ~~SUP 13.5.2R does not apply to UK pure reinsurers or a UK firm~~ firms exercising an *EEA right* under the *auction regulation* as they have automatic passport rights on the basis of their *Home State authorisation* under ~~the Solvency II Directive or the auction regulation~~. However, the information required by *SUP 13.5.2-AR* assists the ~~FSA's~~ FCA's supervision of a *UK firm's* provision of a service in another *EEA state* under the *auction regulation*.

...

## 13.6 Changes to branches

13.6.1 G Where a *UK firm* is exercising an *EEA right*, other than under the *Insurance Mediation Directive* (see *SUP 13.6.9AG*) ~~or as a pure reinsurer~~ or the *CRD*, and has established a *branch* in another *EEA State*, any changes to the details of the *branch* are governed by the *EEA Passport Rights Regulations*.

...

...

13.6.3 G *UK firms* should also note that changes to the details of *branches* may lead to changes to the *applicable provisions* to which the *UK firm* is subject. These changes should be communicated to the *UK firm* ~~either~~ by the *Host State regulator*, ~~or, if the firm is passporting under the Solvency II Directive, via the PRA.~~

...

13.6.10 G (1) If the change arises from circumstances beyond the *UK firm's* control, the *UK firm*:

- (a) is required by regulation ... to give a notice...
- (b) ~~may, if it is passporting under the Solvency II Directive, make a change to its relevant UK details under regulation 15(1) if it has, as soon as practicable (whether before or after the change), given notice to the PRA stating the details of the change.~~

...

The process

- 13.6.11 G When the *appropriate UK regulator* receives a notice from a *UK firm* other than a *MiFID investment firm* (see *SUP 13.6.5G(1)* and *SUP 13.6.7G(1)*) a *pure reinsurer* (see *SUP 13.6.9BR*), a *UK firm* exercising an *EEA right* under the *MCD* (see (*SUP 13.6.9DG*) or an *AIFM* (see *SUP 13.6.9CG*) it is required by regulations 11(4) and 13(4) to either refuse, or consent to the change within a period of one *month* from the day on which it received the notice.

...

## 13.7 Changes to cross border services

- 13.7.1 G Where a *UK firm*, ~~other than a *pure reinsurer*~~, is exercising an *EEA right* under the *UCITS Directive*, *MiFID*, ~~the *Solvency II Directive*~~, the *MCD* or *AIFMD* and is providing *cross border services* into another *EEA State*, ...

...

### ~~Firms passporting under the Insurance Directives~~ Standard electronic forms

- 13.7.6A G For further details on giving the notices to the *appropriate UK regulator*, as described in *SUP 13.7.3 G(1)*, *SUP 13.7.3AG*, and *SUP 13.7.3BG*, ~~*SUP 13.7.5 G(1)* and *SUP 13.7.6G*~~, *UK firms* may wish to use the standard electronic form available from the *FCA* and *PRA* authorisation teams (see *SUP 13.12* (Sources of further information)).
- 13.7.7A G ~~Where the *PRA* is the *appropriate UK regulator*, it will consult the *FCA* before deciding whether to give consent to a change (or proposed change) and where the *FCA* is the *appropriate UK regulator*, it will consult the *PRA* before deciding whether to give consent in relation to a *UK firm* whose immediate group includes a *PRA authorised person*. [deleted]~~

...

## 13.8 Changes of details: provision of notices to the appropriate UK regulator

...

- 13.8.2 G ~~*UK firms*, other than *pure reinsurers*~~, passporting under the *CRD* ~~or the *Solvency II Directive*~~ may be required to submit the change to details notice in the language of the *Host State* as well as in English.

## 13A Qualifying for the authorisation under the Act

### 13A.1 Application and purpose

#### Application

- 13A.1.1 G (1) This chapter applies to an *EEA firm* that wishes to exercise an entitlement to establish a *branch* in, or provide *cross border services*

into, the *United Kingdom* under a *Single Market Directive* or the *auction regulation*. (The *Act* refers to such an entitlement as an *EEA right* and its exercise is referred to in the *Handbook* as "passporting".) (See *SUP* App 3 (Guidance on passporting issues) for further *guidance* on passporting.)

The chapter does not, apart from in *SUP* 13A.6G (rules which an incoming EEA firm will be subject to), and *SUP* 13A Annex 1 and Annex 2, provide guidance in relation to an EEA firm that is a *Solvency II* firm or to Gibraltar firms treated as *Solvency II* firms. *Solvency II* firms and those Gibraltar firms should consult the relevant parts of the *PRA* Rulebook and the *PRA* website at: <http://www.bankofengland.co.uk/pr/Pages/authorisations/passporting/notifying.aspx> as the *PRA* is the *appropriate UK regulator*.

...

13A.1.2 G This chapter does not apply to:

- (1) ...
- (2) ~~an EEA firm that carries on any insurance activity:~~
  - (a) ~~by the provision of services; and~~
  - (b) ~~pursuant to a community co-insurance operation in which the firm is participating otherwise than as leading insurer (see Article 11 of the Regulated Activities Order); or [deleted]~~

...

13A.1.3 G (1) Under the *Gibraltar Order* made under section 409 of the *Act*, a Gibraltar firm is treated as an *EEA firm* under Schedule 3 to the *Act* if it is:

- (a) ~~authorised in Gibraltar under the *Solvency II Directive*; or [deleted]~~

...

...

- (2) ~~Gibraltar insurance companies, credit institutions~~ Credit institutions, insurance intermediaries, ...

...

## 13A.2 EEA firms and Treaty firms

13A.2.1 G ... A person may be a *Treaty firm*, where, for example, it carries on business that includes *regulated activities*, the right to carry on which does not fall within the scope of the *Single Market Directive* or the *auction regulation* under which it is entitled to exercise an *EEA right*, ~~for example, reinsurance~~

~~in the case of a direct insurer to which the *Solvency II Directive* applies.~~

...

#### **13A.4 EEA firms establishing a branch in the United Kingdom**

...

- 13A.4.4 G (1) ... notify the *applicable provisions* (if any) to:
- (a) ... ;and
  - (b) ~~in the case of an *EEA firm* passporting under the *Solvency II Directive*, the *Home State regulator*;~~

within two *months* of the notice date.

...

...

#### **13A.5 EEA firms providing cross border services into the United Kingdom**

...

- 13A.5.2 G An *EEA firm* (other than ~~an *EEA pure reinsurer* or~~ an *EEA firm* that received authorisation under article 18 of the *auction regulation*) should note that...
- 13A.5.3 G Before an *EEA firm* (other than ~~an *EEA pure reinsurer* or~~ an *EEA firm* that has received authorisation under article 18 of the *auction regulation*) exercises an *EEA right* ...
- 13A.5.4 G (1) Unless the *EEA firm* (other than ~~an *EEA pure reinsurer* or~~ an *EEA firm* that received authorisation under article 18 of the *auction regulation*) is passporting ...

...

...

#### **13A.6 Which rules will an incoming EEA firm be subject to?**

...

- 13A.6.3 G .... must comply with the *applicable provisions* in *SUP 10A* and *10C* (Approved persons). An *EEA firm* or *Treaty firm* should also refer to *SUP 10A.1* and *10C.1* (Application) which sets out the territorial provisions of the *approved persons* regime.

...

## 14 Incoming EEA firms changing details, and cancelling qualification for authorisation

### 14.1 Application and purpose

#### Application

- 14.1.1 G This chapter applies to an *incoming EEA firm* ~~other than an EEA pure reinsurer~~ which has established a *branch* in, or is providing *cross border services* into, the *United Kingdom* under one of the *Single Market Directives* or the *auction regulation* and, therefore, qualifies for *authorisation* under Schedule 3 to the *Act*. The chapter does not apply to an EEA firm that is a Solvency II firm or to Gibraltar firms treated as such Solvency II firms. Solvency II firms and such Gibraltar firms should consult the relevant parts of the PRA Rulebook and the PRA website at: <http://www.bankofengland.co.uk/pr/Pages/authorisations/passporting/notifying.aspx> as the PRA is the appropriate UK regulator.

...

- 14.1.3 G (1) ...
- (a) ~~authorised in Gibraltar under the Solvency II Directive; or~~  
[deleted]
- ...
- ...
- (2) ~~Gibraltar insurance companies, credit institutions~~ Credit institutions,  
 ...

...

### 14.2 Changes to branch details

...

Changes arising from circumstances beyond the control of an incoming EEA firm passporting under the CRD, or UCITS Directive ~~or Insurance Directive~~

...

### 14.3 Changes to cross border services

- 14.3.1 G Where an *incoming EEA firm* passporting under the *MiFID*, *UCITS Directive*, ~~*Solvency II Directive*~~, *MCD* or *AIFMD* is exercising an *EEA right* and is providing *cross border services* into the *United Kingdom*, ...

...

**SUP 15 Notifications to the FCA ~~or PRA~~**

In each of the following provisions in SUP 15 Notifications to the FCA, replace “*appropriate regulator*” wherever appearing with “*FCA*”:

15.2.1G (four instances)  
15.2.2G (five instances)  
15.2.3G  
15.3.1R  
15.3.2G  
15.3.3G  
15.3.5G  
15.3.7G (two instances)  
15.3.8G (two instances)  
15.3.9G  
15.3.10G (three instances)  
15.3.11R  
15.3.13G  
15.3.15G (two instances)  
15.3.17R  
15.3.19G  
15.3.20G  
15.3.21R  
15.3.22D (three instances)  
15.3.23D (two instances)  
15.3.24D, 15.3.25D  
15.4.1R  
15.4.2G (two instances)  
15.4.3G (two instances)  
15.4.3AG (two instances)  
15.4.4G (two instances)  
15.5.1R  
15.5.4R  
15.5.5R  
15.5.6G  
15.5.7R  
15.5.8G  
15.5.9R (two instances)  
15.5.10G (two instances)  
15.6.1R (two instances)  
15.6.2G  
15.6.3G  
15.6.4R (two instances)  
15.6.6R  
15.6.7G (two instances)  
15.7.2G (two instances)  
15.7.3G (two instances)  
15.7.4R (two instances)  
15.7.7G (two instances)

15.7.8G (two instances)  
 15.7.9G (two instances)  
 15.7.10G (two instances)  
 15.7.14G (three instances)  
 15.7.16G  
 15.8.9R  
 15.9.1R  
 15.9.4R (two instances)  
 15.9.5R  
 SUP 15 Annex 1R.

## **SUP 16 Reporting requirements**

In each of the following provisions in SUP 16 Reporting requirements, replace “*appropriate regulator*” wherever appearing with “*FCA*”:

SUP 16.1.4G (two instances)  
 16.1.7G, 16.2.1G (seven instances)  
 16.3.8R, 16.3.9R, 16.3.10G (two instances)  
 16.3.11R, 16.3.12G, 16.3.13R (two instances)  
 16.3.14AG (three instances)  
 16.3.15G (two instances)  
 16.3.16G, 16.3.17R (two instances)  
 16.3.18G (six instances)  
 16.3.19G  
 16.3.22G  
 16.3.23G  
 16.3.24G (two instances)  
 16.4.4G  
 16.4.5G  
 16.4.12R  
 16.6.4R  
 16.10.2G  
 16.10.4R (two instances)  
 16.10.4A  
 16.10.5G  
 16.12.2 (five instances)  
 16.12.3R (three instances)  
 16.16.3G (three instances)  
 16.16.4G.

## **16 Reporting requirements**

...

### **16.2 Purpose**

- 16.2.1 G ...
- (2) ... They supplement the provisions of *SUP 2* (Information gathering by the appropriate regulator on its own initiative) and *SUP 15* (Notifications to the FCA ~~or PRA~~). ...

...

## 16.4 Annual controllers report

...

- 16.4.12 R An *insurer* need not submit a report under *SUP 16.4.5R* to the extent that the information has already been provided to the ~~*appropriate regulator*~~ under ~~*IPRU(INS) 9.30R*~~ (Additional information on controllers) *PRA* under requirements in the *PRA* Rulebook.

...

## 16.16 Prudent valuation reporting

### Application

- 16.16.1 R This section applies to ~~a UK bank, a UK designated investment firm or a full-scope IFPRU investment firm~~ which meets the condition in *SUP 16.16.2R*.

...

- 16.16.4 R ...
- (2) ~~A PRA authorised person to which this section applies must submit the report via electronic mail to prudentvaluationreturns@bankofengland.co.uk or via post or hand delivery to Regulatory Data Group, Statistics and Regulatory Data Division (HO5 A-B), Bank of England, Threadneedle Street, London EC2R 8AH; or via fax to the Regulatory Data Group of the Bank of England (020 7601 3334) [deleted]~~

...

## App 2 Insurers: Regulatory intervention points and run-off plans

### App 2.1 Application

...

- App 2.1.6 R ~~*SUP App 2.7* and *SUP App 2.11* do not apply to a *Solvency II firm*. [deleted]~~

...

SUP App 2.2 (Interpretation) is deleted in its entirety. The deleted text is not shown.

Amend the following as shown.

**App 2.7 Capital resources below the level of individual capital guidance**

App 2.7.1 G ~~Unless~~ For a dormant fund account operator, unless ... given to the *firm* by the ~~appropriate regulator~~ FCA ...

...

App 2.7.2 G Terms in SUP App 2.7.1G have the meaning in INSPRU 7 and GENPRU in force as at 31 December 2015. References to SUP App 2 provisions are to the provisions in force in the PRA Rulebook on 31 December 2015.

**App 2.8 Ceasing to effect contracts of insurance**

App 2.8.1 G ... submit a run-off plan to the ~~appropriate regulator~~ FCA including ...

App 2.8.4 G Under *Principle 11*, the ~~appropriate regulator~~ FCA normally expects to be notified by a *firm* when it decides to cease *effecting new contracts of insurance* in respect of one or more classes of contract of insurance (see *SUP 15.3.8G*). At the same time, the ~~appropriate regulator~~ FCA would normally expect the *firm* to discuss with it the need for the *firm* to apply to vary its *permission* (see *SUP 6.2.6G* and *SUP 6.2.7G*) and, if appropriate, to submit a *scheme of operations* in accordance with *SUP App 2.8.1R*.

**App 2.10 Grant or variation of permission**

App 2.10.1 G ... *Firms* which have submitted such a *scheme of operations* are not required to submit to the *PRA* a further *scheme of operations* under this appendix unless ~~SUP App 2.4, SUP App 2.5 or SUP App 2.8 or the relevant parts of PRA Rulebook: Non-Solvency II firms: Run Off Operations or PRA Rulebook: Solvency II firms: Run Off Operations applies~~ apply. ~~SUP App 2.13 and SUP 6 Annex 4 do~~ does, however, apply to such a *firm*.

**App 2.14A Fairness issues for with-profit firms in difficulty or in an irregular situation**

...

App 2.14A.2 G Action which a *firm* takes either to restore its capital resources to the levels set by the intervention points in ~~this appendix or in PRA PRA~~ PRA Rulebook: Solvency II Firms: Undertakings in Difficulty or PRA Rulebook: Non-Solvency II firms: Run Off Operations ...

...

App 2.14A.4 G When a firm submits a plan for restoration under ~~this appendix or~~ complies with PRA Rulebook: Solvency II Firms: Undertakings in Difficulty or PRA Rulebook: Non-Solvency II firms: Run Off Operations,

...

### App 2.15 Run-off plans for closed with-profits funds

...

App 2.15.8A G ...

- (1) a forecast summary revenue account for the *with-profits fund*, in accordance with ~~SUP App 2.12.7R~~ PRA Rulebook: Non-Solvency II firms: Run Off Operations 6.1(3)(a);
- (2) ... in accordance with ~~SUP App 2.12.8R~~ PRA Rulebook: Non-Solvency II firms: Run Off Operations 6.1(3)(b); and
- (3) ... in accordance with ~~SUP App 2.12.8R and SUP App 2.12.9R~~ PRA Rulebook: Non-Solvency II firms: Run Off Operations 6.1(3)(b) and 6.1.3(c) to (e);

...

...

App 2.15.11 G The run-off plan of a *firm* to which ~~INSPRU 7~~ PRA Supervisory Statement: Non-Solvency II Insurance companies – Capital assessments applies should include:

...