



# **The Actuarial Profession**

making financial sense of the future

consultation response

**FSA CP07/18**

***Quarterly consultation (No.14)***

**Comments from the Actuarial Profession**

**December 2007**

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17 December 2007

Dear Trevor

**FSA CP07/18 Quarterly consultation (No.14)**

I refer to the FSA's recent consultation paper 07/18 which included proposed amendments to various Insurance Prudential sourcebooks. The Actuarial Profession has reviewed the consultation paper and has the following comments on the proposed regulations as currently drafted.

As a general point, the ICA and capital projection proposals have major implications for insurance companies and we hope that relevant stakeholders have picked up on the proposals, given that a quarterly consultation paper has been used to expose them - particularly one which appears to be of primary concern to banks.

In addition, attached is a further comment which may be of assistance from one of our members regarding specific GENPRU rules.

We hope these comments are helpful and would be happy to discuss them if that would be useful.

Yours sincerely

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## **GENPRU 2.2.67A G and 2.2.179 G(1)**

For these to make sense, it may be better if in both cases an "an" in the sentence starting with "However" is replaced by "the" so that in the latter part of each of them it reads "... a right to make payments of a coupon mandatory if the item of capital ...". Otherwise the meaning seems far too wide.

Perhaps more significantly, further clarity would be helpful in respect of the proposed rules.

The existing GENPRU 2.2.64 R (4) requires (our underlining, to highlight the point)

"The conditions that an item of capital of a firm must comply with under GENPRU 2.2.62R (2) are as follows ...

- (4) the item of capital meets the following conditions in relation to any coupon:
  - (a) firm is under no obligation to pay a coupon; or
  - (b) (if the firm is obliged to pay the coupon) the coupon is payable in the form of an item of capital that is included in a higher stage of capital or the same stage of capital as that first item of capital"

The proposed new GENPRU 2.2.67A G says

"The purpose of GENPRU 2.2.64 R (4) is to ensure that a firm retains flexibility over the payment of coupons and can preserve cash in times of financial stress. However, a firm may include, as part of the capital instrument terms, a right to make payments of a coupon mandatory if [the] item of capital becomes ineligible to form part of its capital resources (for example, through a change in the relevant rules) and the firm has notified the FSA that the instrument is ineligible."

It is clear from the above that a coupon on an item of capital can be mandatory only if it satisfies the condition under GENPRU 2.2.64 R (4)(b) for the form of the coupon. The reference in the proposed new GENPRU 2.2.67A G refers to the possibility of a coupon becoming mandatory in a different situation, but it says nothing about the form of the coupon - it is left to the reader to deduce that (presumably) there is no longer a restriction on the form of the coupon because in this case the instrument giving rise to the coupon is no longer part of the capital resources of the firm. It would seem better, given the overall context, to make this lack of a restriction explicit in the new guidance.

The same point applies to the similarly worded existing GENPRU 2.2.177 R (2) and proposed GENPRU 2.2.179 G.