

March 2007

07/7

newsletter

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This newsletter provides a summary of CP07/7. Please see the section 'Who should read this paper?' to see if CP07/7 is relevant to you.

Financial Services Authority

Permitted Links for Long Term Insurance Business

Why are we issuing this Consultation Paper (CP)?

This Consultation Paper (CP) presents our proposed changes to the permitted links rules for linked long-term insurance business. It fulfils the commitment we made in our 2006/07 Business Plan to conduct a review of the permitted links rules.

Who should read this CP?

This CP will be directly relevant to all life insurance firms and friendly societies writing unit-linked business or with existing books of unit-linked business. In addition, it will also be of interest to asset management firms and investment houses providing products and services that are used in connection with unit-linked business. Also, pension scheme trustees using unit-linked funds as a home for their members' money will also have an interest in this CP, as will their professional advisers.

Is this of interest to consumers?

These proposals are relevant to consumers and consumer groups as they will affect the way in which benefits payable from both new and existing unit-linked policies are achieved.

What is the background to this?

The rules governing eligible investments for linked long-term life assurance, the permitted links rules, have been in place in their current form since 1994. They have not been substantially reviewed since then.

Our proposals aim to take away outdated and unnecessary detail, and replace it with more principles-based high-level rules. This is a practical expression of our stated aim of moving towards more principles-based regulation.

We intend to make changes because we believe that our rules have created regulatory failure in that they:

- have not kept up to date with market conditions;
- are creating market distortion; and
- give the opportunity for regulatory arbitrage.

What are we proposing?

The main detailed deregulatory changes we are proposing to make to the current rules are:

- i) allowing investment in property through investment vehicles rather than only directly;
- ii) allowing investment in property in properly functioning markets rather than only specified territories;
- iii) replacing the current detailed 'readily realisable' requirement for certain asset types by a high-level rule, based on what is necessary for the firm to meet its policy obligations;
- iv) allowing unlimited use of authorised or recognised collective investment schemes (CIS) to institutional policyholders which we define as trustees of defined benefit occupational pension schemes; and
- v) allowing some tolerances to avoid the need for waivers in the case of minor breaches.

What happens next?

This consultation will close on 28 June 2007. We will then finalise the draft rules in the light of responses to this CP and publish a Policy Statement in the summer.

This newsletter summarises Consultation Paper 07/7. The Financial Services Authority invites comments on this CP. Comments should reach us by 28 June 2007.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/pages/library/policy/cp/2007/cp07_07_response.shtml).

Alternatively, please send comments in writing to:

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Retail Policy Division
The Financial Services Authority,
25 The North Colonnade,
Canary Wharf,
London E14 5HS

Telephone: 020 7066 9572 Fax: 020 7066 1099 E-mail: cp07_07@fsa.gov.uk

It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

How can I get the full paper?

You can download the full Consultation Paper from:

www.fsa.gov.uk/pages/Library/Policy/CP/2007/07_07.shtml

Or you can order hard copies of the paper:

Phone our helpline on **0845 608 2372**, quoting reference **CP07/7**

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