

HANDBOOK ADMINISTRATION (NO 7) INSTRUMENT 2007**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 73A (Part 6 rules);
 - (b) section 84 (Matters which may be dealt with by prospectus rules);
 - (c) sections 89A to 89G (Transparency Rules);
 - (d) section 88 (Sponsors);
 - (e) section 96 (Obligations of issuers of listed securities);
 - (f) section 96A (Disclosure of information requirements);
 - (g) section 101 (Listing rules: general provisions); and
 - (h) Schedule 7 (The Authority as Competent Authority for Part VI); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force as follows:
- (1) Part 1 of Annex L comes into force on 28 September 2007;
 - (2) Part 2 of Annex F, Annex H, Part 2 of Annex L and Part 2 of Annex Q come into force on 1 November 2007;
 - (3) Part 2 of Annex K comes into force on 15 December 2007;
 - (4) the remainder of this instrument comes into force on 6 October 2007.

Amendments to the Handbook

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

(1)	(2)
Glossary of definitions	Annex A
Threshold Conditions (COND)	Annex B
The Fit and Proper Test for Approved Persons (FIT)	Annex C
General Provisions (GEN)	Annex D
Fees manual (FEES)	Annex E
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex F
Conduct of Business sourcebook (COB)	Annex G
New Conduct of Business sourcebook (COBS)	Annex H
Insurance: Conduct of Business sourcebook (ICOB)	Annex I
Market Conduct sourcebook (MAR)	Annex J

Supervision manual (SUP)	Annex K
Decision Procedure and Penalties manual (DEPP)	Annex L
Compensation sourcebook (COMP)	Annex M
Credit Unions sourcebook (CRED)	Annex N
Electronic Money sourcebook (ELM)	Annex O
Professional Firms sourcebook (PROF)	Annex P
Recognised Investment Exchanges and Recognised Clearing Houses sourcebook (REC)	Annex Q
Listing Rules sourcebook (LR)	Annex R
Prospectus Rules sourcebook (PR)	Annex S
Disclosure Rules and Transparency Rules sourcebook (DTR)	Annex T
Perimeter Guidance manual (PERG)	Annex U

Notes

- E. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

Citation

- F. This instrument may be cited as the Handbook Administration (No 7) Instrument 2007.

By order of the Board
27 September 2007

Annex A

Amendments to the Glossary of definitions

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

<i>ancillary risk</i>	(in relation to an <i>insurer</i> with <i>permission</i> under the <i>Act</i> ... (as defined for the purposes of <i>AUTH</i> , <i>INSPRU</i> and <i>SUP</i>) ...
<i>class</i>	(1) (in <i>AUTH</i> , <i>GENPRU</i> , <i>INSPRU</i> and <i>SUP</i>)
<i>COLL</i>	the New Collective Investment Schemes sourcebook.
<i>commitment</i>	... (as defined for the purposes of <i>AUTH</i> , <i>INSPRU</i> and <i>SUP</i>)...
<i>controlled undertaking</i>	any subsidiary undertaking within the meaning of the <i>Act</i> other than section 1162 of the Companies Act 2006 <u>258(4)(b) of the Companies Act 1985</u> or section 420(2)(b) of the <i>Act</i> ;
<i>employees' share scheme</i>	has the same meaning as in section 1166 <u>743</u> of the Companies Act 2006 <u>1985</u> .
<i>ENF</i>	the Enforcement manual.
<i>open to review</i>	(as defined in section 391(8) of the Act (Publication)) (in relation to a <i>supervisory notice</i> which does not take effect immediately or on a specified date) the status of the matter to which the notice relates when: (a) the period during which any <i>person</i> may refer a matter to the <i>Tribunal</i> is still running; or (b) the matter has been referred to the <i>Tribunal</i> but has not been dealt with; or (c) the matter has been referred to the <i>Tribunal</i> and dealt with but the period during which an appeal may be brought against the <i>Tribunal's</i> decision is still running; or (d) such an appeal has been brought but has not been determined.
<i>overseas regulator</i>	... (a) ... (b) ...

	...
	(iii) a function corresponding to any function exercised by the Secretary of State under the Companies Act 1985 <u>Acts (as defined in section 2 of the Companies Act 2006)</u> ;
	...
<i>parent undertaking</i>	(1) ... section 446 <u>258</u> of the Companies Act 2006 <u>1985</u> ...:
	...
	in relation to (ii) ... Schedule 7 <u>10A</u> to the Companies Act 2006 <u>1985</u> ...
	...
<i>regulated market</i>	...
	(3) <u>(in DTR 4, 5 and 6, and in LR to the extent necessary to give effect to these provisions)</u> (in accordance with article 4(1)(14) of <i>MiFID</i>) a multilateral system operated and/or managed by a <i>market operator</i> , which brings together or facilitates the bringing together of multiple third-party buying and selling interests in <i>financial instruments</i> – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the <i>financial instruments</i> admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions [Title III of MiFID].
<i>relevant pension scheme</i>	(a) an appropriate scheme for the purposes of section 1(8) of the section 1(8) of the Social Security Act 1986 or for the purposes of article 3(8) of the Social Security (Northern Ireland) Order 1986; or
	(b) an exempt approved scheme under section 592(1) of the Income and Corporation Taxes Act 1988 to which the employer is not a contributor and which provides benefits additional to those provided by:
	(i) another scheme approved under Chapter 1 of Part XIV of that Act to which the employer is a contributor; or
	(ii) a statutory scheme as defined in section 612(1) of that Act; or
	(iii) a relevant statutory scheme as defined in section 611A(1) of that Act; or

(e) ~~a pension scheme approved under Chapter IV of Part XIV of that Act.~~

a pension scheme or an additional voluntary contribution.

share

...

(3) (in *DTR* and *LR*, and in *FEES* where relevant to *DTR* or *LR*)
(in accordance with section ~~540~~ 744 of the Companies Act
~~2006~~ 1985) ...

subsidiary undertaking

...

(3) (in *LR*) as defined in section ~~1162~~ 258 of the Companies
Act ~~2006~~ 1985.

treasury shares

qualifying shares to which ~~Chapter 6~~ sections 162A to 162G of
the Companies Act ~~2006~~ 1985 ~~applies~~ apply.

undertaking

(as defined in section ~~1161~~ 259 of the Companies Act ~~2006~~
1985...)

Annex B

Amendments to the Threshold Conditions (COND)

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

- 2.4.6 G ...
- (3) ... A *firm* requiring specific *guidance* on the contents and level of detail of its business plan should contact the ~~Corporate Authorisation department (see AUTH 3: Applications for Part IV permission)~~ Firm Contact Centre (020 7066 3954), or, if relevant ...
- 2.5.3 G (1) ... The suitability of each *person* who performs a *controlled function* will be assessed by the *FSA* under the *approved persons* regime (see ~~AUTH 6 (Approved persons)~~; *SUP 10 (Approved persons)* and *FIT*). ...
- ...
- 2.5.6 G In determining whether a *firm* will satisfy, and continue to satisfy, threshold condition 5 in respect of conducting its business with integrity and in compliance with proper standards, the relevant matters, as referred to in *COND 2.5.4G(2)*, may include but are not limited to whether:
- ...
- (2) the firm has been convicted, or is connected with a *person* who has been convicted, of any criminal offence; this must include, where provided for by the Exceptions Order to the Rehabilitation of Offenders Act 1974, any spent convictions; particular consideration will be given to offences of dishonesty, fraud, financial crime or an offence whether or not in the *United Kingdom* or other offences under legislation relating to companies, building societies, industrial and provident societies, credit unions, friendly societies, banking and or other financial services, insolvency, consumer credit companies, insurance, and consumer protection, *money laundering*, market manipulation or *insider dealing* any unspent offence involving fraud, corruption, perjury, theft, false accounting or other dishonesty, *money laundering*, *market abuse* or *insider dealing*, offences under legislation relating to insurance, banking or other financial services, companies, insolvency, consumer credit or consumer protection or any significant tax offence; where relevant, any spent convictions excepted for this purpose under the Rehabilitation of Offenders Act 1974 will be taken into consideration;
- ...

Annex C

Amendments to The Fit and Proper test for Approved Persons (FIT)

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

- 1.2.2 G The method of applying for *approved person* status is set out in ~~AUTH 6~~ and SUP 10. ...
- 2.1.3 G The matters referred to in FIT 2.1.1G to which the FSA will have regard include, but are not limited to:
- (1) whether the *person* has been convicted of any criminal offence; this must include, where provided for by relevant, any spent convictions excepted under the Exceptions Order to the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975 (see Articles 3 and 4 of the order), any spent convictions; particular consideration will be given to offences of dishonesty, fraud, financial crime or an offence whether or not in the *United Kingdom* or other offences under legislation relating to companies, building societies, industrial and provident societies, credit unions, friendly societies, banking and or other financial services, insolvency, consumer credit companies, insurance, and consumer protection, *money laundering*, market manipulation or ~~insider dealing~~ *insider dealing*;
- ...

Annex D

Amendments to the General Provisions (GEN)

In this Annex, striking through indicates deleted text.

GEN TP 1.2 Table 2: Transitional Provisions applying across the Handbook

(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
...					
24	Paragraph 23 and <i>guidance</i> in the <i>Handbook</i> other than in: <i>COND</i> ; <i>APER</i> ; <i>FIT</i> ; <i>AUTH</i> ; <i>PROF</i> ; <i>MAR</i> 1	G	Expired		

Annex E

Amendments to the Fees manual (FEES)

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

- 3.1.7 G A potential applicant for *Part IV permission* (or *Treaty firm*) has the opportunity to discuss its proposed application (or exercise of *Treaty rights*) with the *FSA* before submitting it formally. (see ~~*AUTH 3.9.1G*~~ For more information, contact the Firm Contact Centre (020 7066 3954) or visit the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>.) ...
- 3.1.8 G See ~~*AUTH 3.9*~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml> in relation to the procedures for making applications for *Part IV permission* ...

Annex F

Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU(INV))

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

Part 1: Changes which come into force on 6 October 2007

...

13.9.1A G Table 13B is a summary of the financial resources test for a *Category B firm*.

Table 13B This table forms part of rule 13.9.1

SUMMARY OF FINANCIAL RESOURCES FOR <i>CATEGORY B FIRMS</i>				
Type of <i>firm</i>	Financial Resources Test 1 <i>Own funds</i> Test	Financial Resources Test 1A Adjusted <i>Net current assets</i> Test	Financial Resources Test 2 Expenditure-based Test	<i>Rule/section</i> References
...				
All <i>Category B firms</i> that do not hold <i>client money</i> or assets, but are <i>permitted</i> to <i>establish, operate or wind up a personal pension scheme</i> .	£10,000	Adjusted <i>net current assets</i> of £1	Adjusted capital equal to the highest of 6/52 of relevant annual expenditure, £400 per adviser, and £10,000 <u>and any other expenditure-based requirement set out in 13.12.1 applicable to the firm</u>	13.10 13.11 13.12.1 G 13.12.2 to 13.12.5A

...

13.12.1G R A *category B firm* whose permission includes *establishing, operating or winding up a personal pension scheme* must have financial resources calculated in accordance with (1) or (2):

(1) ...

(2) For a *firm* which does not hold client money or assets, the highest of:

(a) 6/52 of its relevant annual expenditure, calculated in accordance with 13.12.2 to 13.12.2D;

- (b) an amount equal to £400 multiplied by the number of its advisers; ~~and~~
- (c) £10,000; and
- (d) any other expenditure-based requirement set out in 13.12.1 applicable to the firm.

...

Appendix 13(1)

Defined terms for Chapter 13

...

Category B3 firm a *Category B firm* whose *permission* includes only *insurance mediation activity* in relation to *non-investment insurance contracts*, ~~*mortgage home finance*~~ *mediation activity*, *assisting in the administration and performance of contracts of insurance*, *arranging transactions in life policies* and other *insurance contracts*, *advising on investments* and receiving and transmitting, on behalf of investors, orders in relation to *securities* and *units in collective investment schemes*; but which is subject to a *requirement* not to hold or control *client money* or *custody assets*.

Part 2: Changes which come into force on 1 November 2007

3-173A(1) R ...

- (a) ...
- (b) after notifying the *FSA* in writing, ~~in accordance with rule 10-174,~~ in accordance with rule 3-173B.

...

The following text is all new and is not underlined.

After 3-173A(9), insert 3-173B as follows:

3-173B CRR for derivative transactions under 3-173A(1)(b)
 General rule

3-173B(1) R A *firm* must calculate for each *derivative* transaction a *CRR* by multiplying the *counterparty* exposure calculated in accordance with (2) and (3) below, by the appropriate percentage in Table 3-173B(5) below.

Collateral

3-173B(2) R A *firm* may:

- (a) reduce the *counterparty* exposure on which its *CRR* is calculated to the extent that it holds *acceptable collateral* to cover that exposure; and
- (b) where it does not have an *ACMP*, may continue to multiply the *counterparty* exposure by 8% multiplied by the *counterparty* weight, to the extent that the *firm* holds *adequate collateral* to cover that exposure.

Counterparty exposure

3-173B(3) R A *firm* must calculate the *counterparty* exposure on *derivative* transactions in accordance with either (a), (b) or (c) below:

- (a) where a *counterparty* has not fully paid a *margin requirement* on a *derivative* transaction listed on an *exchange* or cleared through a *clearing house*, or met it through the deposit of *acceptable collateral* not otherwise used, a *firm* must calculate the *counterparty* exposure as the shortfall;
- (b) where a *firm* sells or writes an *option* to a *counterparty* or buys an *option* on behalf of a *counterparty* and the *counterparty* has not paid the full *option* premium, or met it through the deposit of *acceptable collateral* not otherwise used, it must calculate the *counterparty* exposure as the uncovered premium on the transaction; or
- (c) a *firm* must calculate the *counterparty* exposure arising from a *derivative* transaction other than a written or sold *option* or a *derivative* transaction listed on an *exchange* or cleared through a *clearing house*, as the credit equivalent amount calculated in accordance with Table 3-173B(3A), not covered by the deposit of *acceptable collateral* not otherwise used.

R Table 3-173B(3A) – Method of calculating credit equivalent amount

Type of derivative transaction	Credit equivalent amount	
	If A is positive	If A is negative
Interest rate swaps: single currency		
(a) floating rate swapped against floating rate A nil	A	nil
(b) fixed rate swapped against floating rate:		

- under one year to maturity - over one year to five years - over five years	A A + 0.5% of N A + 1.5% of N	nil 0.5% of N 1.5% of N
Cross-currency interest rate swaps - under one year to maturity - over one year to five years - over five years	A + 1% of N A + 5% of N A + 7.5% of N	1% of N 5% of N 7.5% of N
Other interest rate contracts* - under one year to maturity - over one year to five years - over five years	A A + 0.5% of N A + 1.5% of N	nil 0.5% of N 1.5% of N
Foreign exchange and gold contracts* - exchange rate contracts with an original maturity of 14 days or less - under one year to maturity - over one year to five years - over five years	nil A + 1% of N A + 5% of N A + 7.5% of N	nil 1% of N 5% of N 7.5% of N
Equity contracts* - under one year to maturity - over one year to five years - over five years	A + 6% of N A + 8% of N A + 10% of N	6% of N 8% of N 10% of N
Precious metal (not gold) contracts* - under one year to maturity - over one year to five years - over five years	A + 7% of N A + 7% of N A + 8% of N	7% of N 7% of N 8% of N
Commodity contracts* - under one year to maturity - over one year to five years - over five years	A + 10% of N A + 12% of N A + 15% of N	10% of N 12% of N 15% of N
Notes		
* <i>FRAs, swaps, futures, purchased options, and other contracts for differences</i>		
A = the replacement cost of the contract		
N = the notional or actual principal amount or value underlying the contract		
For contracts with multiple exchanges of principal, the % of N has to be multiplied by the remaining number of payments still to be made according to the contract.		
In the case of a derivative referenced on a bond which satisfies the criteria for a <i>qualifying debt security</i> , the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a 'non-qualifying' bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.		
For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate		

contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.

If a *firm* uses the modified maturity ladder approach to calculate *PRR*, it may use Table 3-173B(3B).

R Table 3-173B(3B) – Method of calculating credit equivalent amount for commodities

Type of derivative transaction*	Credit equivalent amount	
	If A is positive	If A is negative
Precious metals (except gold) - under one year to maturity - over one year to five years - over five years	A + 2% of N A + 5% of N A + 7.5% of N	2% of N 5% of N 7.5% of N
Base metals - under one year to maturity - over one year to five years - over five years	A + 2.5% of N A + 4% of N A + 8% of N	2.5% of N 4% of N 8% of N
Softs (agricultural) - under one year to maturity - over one year to five years - over five years	A + 3% of N A + 5% of N A + 9% of N	3% of N 5% of N 9% of N
Other commodity - under one year to maturity - over one year to five years - over five years	A + 4% of N A + 6% of N A + 10% of N	4% of N 6% of N 10% of N
<p>Notes</p> <p><i>FRAs, swaps, futures, purchased options, and other contracts for differences</i></p> <p>A = the replacement cost of the contract</p> <p>N = the notional or actual principal amount or value underlying the contract</p> <p>For contracts with multiple exchanges of principal, the % of N has to be multiplied by the remaining number of payments still to be made according to the contract.</p> <p>In the case of a derivative referenced on a bond which satisfies the criteria for a <i>qualifying debt security</i>, the %N applicable to interest rate derivatives may be utilised to calculate the credit equivalent amount. For a derivative referenced on a ‘non-qualifying’ bond, the credit equivalent amount must be calculated with reference to the %N applicable to equity derivatives.</p> <p>For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate</p>		

contracts that meet these criteria and have a remaining maturity of over one year, the percentage is no lower than 0.5%.
--

Sums due for payment or owed on closed out derivative transactions

3-173B(4) R When a *counterparty* has not fully met amounts owed to a *firm* arising out of losses on closed out *derivative* transactions through the deposit of *acceptable collateral* not otherwise used, or has not fully settled amounts owed in respect of periodic or final settlement of transactions, a *firm* must calculate *CRR* equal to the unpaid loss multiplied by the appropriate percentage from the Table 3-173B(5) below.

3-173B(4A) R In the case of a failed FX transaction (whether originally contracted for *forward* settlement, or undertaken in the spot market) where the *firm* has released funds to its *counterparty*, but has not received the funds in the alternative currency, the *CRR* must be calculated as the gross value of the funds not received, multiplied by the appropriate percentage from Table 3-173B(5) below.

CRR percentages

3-173B(5) R A *firm* must multiply the *counterparty* exposure by the appropriate percentage from the table below, but:

- (a) may opt to calculate *CRR* using the highest available credit percentage in the table below in order to avoid undue complication; and
- (b) may reduce the *counterparty* weight applicable to *counterparty* exposures calculated in accordance with (3)(c) above to 50%, where the *counterparty* would normally attract a *counterparty* weight of 100% in accordance with Table 1 in Appendix 47.

R TABLE 3-173B(5) - CRR percentages

Type of contract	Nature of <i>counterparty</i> to whom <i>counterparty</i> exposure exists	Business days after <i>counterparty</i> exposure first occurred	
		0 - 5	6 or more
Failed FX transaction	Any	8% x <i>counterparty</i> weight*	100%
Other	A <i>counterparty</i> granted a credit line under an <i>ACMP</i>	8% x <i>counterparty</i> weight*	
	A <i>counterparty</i> not granted a credit line under an <i>ACMP</i>	8% x <i>counterparty</i> weight*	100%

Netting

- 3-173B(6) R A *firm* may offset *counterparty* exposures arising on *derivative* transactions calculated in accordance with (2), (3) and (4) above before it multiplies the residual exposure by the appropriate *CRR* percentage as follows:
- (a) variation margin payable to a counterparty against an initial *margin requirement* or variation *margin requirement* receivable from a counterparty;
 - (b) variation margin payable to a counterparty against a positive “A” as calculated in accordance with Table 3-173B(3A);
 - (c) a negative “A” as calculated in accordance with Table 3-173B(3A) against an initial *margin requirement* or variation *margin requirement* receivable from a counterparty;
 - (d) a negative “A” against a positive “A” in each case as calculated in accordance with Table 3-173B(3A);
 - (e) loss on a closed out *derivative* transaction which has not been settled against variation margin payable to a counterparty;
 - (f) loss on a closed out *derivative* transaction which has not been settled against negative “A” calculated in accordance with Table 3-173B(3A);
 - (g) profit on a closed out *derivative* transaction which has not been settled against an initial *margin requirement* or variation *margin requirement* receivable from a *counterparty*;
 - (h) profit on a closed out *derivative* transaction which has not been settled against a loss on a closed out *derivative* transaction;
 - (i) profit on a closed out *derivative* transaction which has not been settled against a positive “A” as calculated in accordance with Table 3-173B(3A);
 - (j) premium receivable in respect of written *options* against variation margin payable, initial margin payable or a closed out profit payable to the counterparty or a negative “A” as calculated in accordance with Table 3-173B(3A);
 - (k) where the *firm* has received the premium due for a written *option*, a negative “A” (the replacement cost) for the written *option* against a positive “A” in each case as calculated in accordance with Table 3-173B(3A); or
 - (l) in the case of *perfectly matched contracts* these may be treated as a single contract with a notional principal equivalent to the net

receipts; or

- (m) where transactions are subject to (3)(c) above, the potential future credit exposures (PFCE) on transactions with the same *counterparty* (i.e. % o N) may be netted in accordance with Table 3-173B(6) below,

provided that:

- (i) the exposures arise on transactions with the same *counterparty*; and
- (ii) the *firm* has a written agreement, supported by a legal opinion obtained in accordance with rule 3-170(11).

Table 3-173B(6)

The netted PFCE is the sum of:	
step one	40% of gross PFCE
step two	60% of gross PFCE multiplied by the net-to-gross ratio (NGR)
Notes:	
$\text{NGR} = \frac{\text{(net replacement cost)}}{\text{(gross replacement cost)}}$	
The NGR must be calculated on all contracts included in a legally valid bilateral netting agreement with a given counterparty.	

Equivalent contracts

- 3-173B (7) R Rule 3-173B(3)(c) also applies to contracts, which, although they are listed on an *exchange* are fully dependent upon the issuer for performance (e.g. covered warrants).

Sub-total

- 3-173B (8) R The sum of the amounts calculated in accordance with this rule is the *firm's CRR* for *derivative* transactions.

...

APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU(INV) 3

Amend the following definitions as shown:

- acceptable collateral* (1) (other than for the purposes of rule 3-173B) means any of the following items of collateral provided to a *firm* by a *counterparty* ...
- (2) (for the purposes of rule 3-173B) means any of the following items of collateral provided to a *firm* by a *counterparty*:
- (a) cash;
 - (b) gold and silver bullion and coinage;
 - (c) certificates of deposit issued by and lodged with the *firm*;
 - (d) securities issued by *Zone A* central governments and *Zone A* central banks; and
 - (e) *securities* issued by the *European Communities*,
- to which the following conditions apply:
- (i) the *firm* must have an unconditional right to apply or realise the *acceptable collateral* for the purpose of repaying the *counterparty*'s obligations to the *firm*; and
 - (ii) *securities* must be *marked to market* daily using the valuation principles in rule 3-41(9);

qualifying debt security means a *debt security* which:

- (1) (other than for the purposes of rule 3-173B):
- (a) represents or evidences indebtedness;
 - ...
 - ...
- (3) (for the purposes of rule 3-173B) meets the following conditions:
- (a) it attracts zero specific risk under Table 2 in Appendix 47; or
 - (b) it is issued by, or fully guaranteed by:
 - (i) a *Zone B* central government or central bank and the *security* is denominated in the local currency of the issuer;

- (ii) a multilateral development bank;
- (iii) a Zone A public sector entity;
- (iv) a company whose share is a constituent of one of the indices making up the FTSE All-World Index; or
- (v) an issue of, or fully guaranteed by an investment firm or recognised third-country investment firm; or
- (c) it is issued by, fully guaranteed by, endorsed or accepted by:
 - (i) a credit institution incorporated in a Zone A country; or
 - (ii) a credit institution incorporated in a Zone B country and the debt security has a residual maturity of one year or less; or
- (d) it is a mortgage backed security relating to residential real estate of the type referred to in BIPRU 3.4.94R(1)(d)(i) which meets the requirements about legal certainty referred to in BIPRU 3.4.62R; or
- (e) it is rated by at least one of the agencies shown in Table 3 in Appendix 47, and every such rating equals or exceeds the corresponding minimum shown in that table;

Insert the following definitions in the appropriate alphabetical position; the text is not underlined:

- adequate collateral* means any of the following items of collateral provided to a *firm* by a *counterparty*:
- (a) cash;
 - (b) standby letters of credit and unconditional, irrevocable first on demand guarantees to the extent of their face value, issued by a *Zone A credit institution* which is not the counterparty nor an *associate* of the *counterparty*, and which is not an *affiliated company*, *associate* or a *controller* of the *firm*;
 - (c) standby letters of credit and unconditional, irrevocable first on demand guarantees to the extent of their face value, issued

by a bank which is not a *Zone A credit institution* (not being the *counterparty* nor an *associate* of the *counterparty*) which has been accepted under the *firm's ACMP* and which is not an *affiliated company, associate* or a *controller* of the *firm*;

- (d) *certificates of deposit*;
- (e) gold and silver bullion and coinage;
- (f) *securities*;
- (g) *physical commodities*; and
- (h) the performance guarantees issued in support of the securities lending and borrowing programmes of Euroclear and Clearstream, in respect only of exposure arising from participation in such programmes,

to which the following conditions apply -

- (i) the *firm* must have an unconditional right to apply or realise the collateral for the purpose of repaying the *counterparty's* obligations to the *firm*; and
- (ii) *securities* must -
 - (aa) be *marked to market* daily using the valuation principles in rule 3-41(9); and
 - (bb) not be issued by the *counterparty* nor by an *associate* of the *counterparty*;

margin requirement means, in relation to a *counterparty*, the value of any amounts which the *firm* or *intermediate broker* would be required to pay under the rules of an *exchange* or *clearing house* to -

- (a) meet any *marked to market* losses occurring on contracts undertaken for that *counterparty* at that time; or
- (b) as an initial margin fidelity deposit in respect of all the *counterparty's* open positions at that time,

on the assumption that those transactions were the only transactions undertaken on the *exchange* or *clearing house* by the *firm* or *intermediate broker* at that time;

option (for the purposes of rule 3-173B) means a contract which confers the right to buy or sell a security, contractually based investment, currency, gold or commodity at a given price on or before a given date. (NB: the definition of an option used for this purposes deliberately differs from that in the main Handbook Glossary);

The following text is all new and is not underlined.

After Appendix 46, insert Appendix 47 as follows:

Appendix 47

Tables applicable to CRR for derivative transactions under rule 3-173B

TABLE 1
Counterparty Weights To Be Applied In Calculating Liquidity Adjustment And CRR
(rule 3-173B(5)(b))

Type of counterparty	Counterparty weight
claims on, or explicitly guaranteed by, or collateralised with <i>securities</i> issued by: <ul style="list-style-type: none"> - the central government or central bank of a <i>Zone A</i> country; - the <i>European Communities</i>; or - any other government or central bank, provided the <i>exposure</i> is denominated in that country's national currency. 	NIL
claims on discount houses, gilt-edged <i>market makers</i> , institutions with a <i>money</i> market dealing relationship with the Bank of England and those <i>Stock Exchange money brokers</i> which operate in the gilt-edged market, where the claims are secured on gilts, UK Treasury bills, eligible <i>local</i> authority and eligible bank bills, or London CDs	10%
claims on, or explicitly guaranteed by: <ul style="list-style-type: none"> - a <i>multilateral development bank</i>; - the regional government or <i>local</i> authority of a <i>Zone A</i> country; - a <i>Zone A credit institution</i>; - a <i>recognised clearing house</i> or <i>recognised exchange</i>; - a recognised third country or <i>EEA investment firm</i>; - a <i>Zone B credit institution</i>, provided the <i>exposure</i> has a maturity of one year or less. 	20%
any other <i>counterparty</i>	100%

Guidance

The guarantee should be explicit and be legally enforceable by the *firm* and should prevent a *firm's* capital from becoming deficient as a result of experiencing a loss on such an exposure. The exposure must be retained on the *firm's* balance sheet.

TABLE 2
Specific risk *PRA*s

Issuer	Residual maturity	<i>PRA</i>
An issue of, or fully guaranteed by, or fully collateralised by a <i>Zone A</i> central government or central bank or the European Communities	Any	0%
An issue of, or fully guaranteed by, a <i>Zone B</i> central government or central bank denominated in the local currency	Zero to 12 months	0%

TABLE 3
Minimum ratings for *qualifying debt securities*

Issuer	Rating agency	Minimum Rating	
		<i>Securities</i>	Money Market Obligations
Any	Moody's Investors Service Standard & Poor's Corporation FITCH Ratings Ltd	Baa3 BBB- BBB-	P3 A3 F-3
Canadian	Canadian Bond Rating Service Dominion Bond Rating Service	B++low BBB low	A-3 R-2
Japanese	Japan Credit Rating Agency, Ltd Mikuno & Co Japan Rating & Investment Information Inc	BBB- BBB BBB-	J-2 M-3 a-2

Annex G

Amendments to the Conduct of Business sourcebook (COB)

In this Annex, underlining indicates new text.

- 3.2.7 G ...
- (4) A company's annual report and accounts issued in accordance with a requirement of the Companies Act 1985 or Companies Act 2006 (as applicable) (or corresponding Northern Ireland or EEA provisions) are exempt under item (2) and article 59 of the *Financial Promotion Order*. ...
- ...
- 7.17.14 G In relation to companies limited by shares and incorporated in Great Britain, the most meaningful measure of "total issued share capital" is likely to be the concept of "paid up and issued share capital" under the Companies Act 1985 or Companies Act 2006 (as applicable).

Annex H

Amendments to the new Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text.

- 12.4.13 G In relation to companies limited by shares and incorporated in Great Britain, the most meaningful measure of “total issued share capital” is likely to be the concept of “paid up and issued share capital” under the Companies Act 1985 or Companies Act 2006 (as applicable).

Annex I

Amendments to the Insurance: Conduct of Business sourcebook (ICOB)

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

ICOB 1 Ann 2G Summary of Handbook provisions for insurance intermediaries

...

	Module	Application
...		
Regulatory processes	Authorisation manual, AUTH	Applies to: (1) a person, other than an authorised person, considering carrying on the regulated activities that include insurance mediation activities in the United Kingdom, and who requires guidance on whether authorisation is required and, if so, how to apply to the FSA for Part IV permission; (2) an EEA firm or a Treaty firm that wishes to establish a branch or provide cross border services into the United Kingdom in relation to insurance mediation activities or wishes to apply for a top-up permission that includes insurance mediation activities; (3) a person wishing to obtain approval for persons to perform controlled functions in relation to insurance mediation activities; and (4) a person wishing to understand how the FSA will use its powers in relation to authorisation to determine applications.
	...	
...		

Insert at the end of the Table.

The following Regulatory Guides may also be relevant to insurance intermediaries:

The Perimeter Guidance manual (PERG): see PERG 5 (Guidance on insurance mediation activities)

Annex J

Amendments to the Market Conduct sourcebook (MAR)

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

1.9.5 E In the opinion of the *FSA*, the following factors are to be taken into account in determining whether or not *behaviour* that creates a false or misleading impression as to, or distorts the market for, a *qualifying investment*, has also failed to meet the standard expected by a *regular user*:

...

(3) the characteristics of the market in question, including the users and applicable rules and codes of conduct (including, if relevant, any statutory or regulatory obligation to disclose a holding or position, such as under ~~section 198 of the Companies Act 1985~~ DTR 5);

...

Annex K

Amendments to the Supervision manual (SUP)

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

Part 1: Changes which come into force on 6 October 2007

- 1.2.1 G (1) The ~~Authorisation manual (AUTH)~~, the Supervision manual (SUP)
...
- (2) ~~AUTH sets out the relationships between the FSA and applicants for PART IV permission and persons wishing to exercise EEA rights, Treaty rights or UCITS directive rights. [deleted]~~
...
- 3.2.2 G The Act, together with other legislation such as the Companies Acts 1985, ~~and 1989 and 2006~~, the Building Societies Act 1986 and the Friendly Societies Act 1992, provides the statutory framework for *firms*' and auditors' obligations.
- 6.2.1 G ... A *firm's Part IV permission* specifies all or some of the following elements (~~as detailed in AUTH 3.3.3G (When is Part IV permission required and what does it contain? see PERG 2 Annex 2 (Regulated activities and the permission regime) and the FSA website "How do I get authorised": <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>): ...~~
- 6.3.3 G In applying for a variation of *Part IV permission*, a branch of a *firm* from outside the *EEA* should be mindful of any continuing requirements referred to in AUTH 3.18 and, for *insurers*, AUTH 3.12 the rest of the Handbook.
- 6.3.5 G ... For example, the *FSA* will not grant a variation of *Part IV permission* to allow a *friendly society* to carry on reinsurance business (~~see AUTH 3.12.5G~~) as this is not permitted under the Friendly Societies Acts 1974 and 1992. A firm should refer to AUTH 3 for details of any restriction or discuss its plans with its usual supervisory contact at the FSA.
- 6.3.13 G ... *Firms* should note that, ~~as explained in AUTH 3.9.29G(3), the FSA will not use the power described in AUTH 3.9.29G(2) to grant Part IV permission for insurance business which has not been included in the application although the FSA is able in principle to use its power to give Part IV permission for an applicant to carry on a regulated activity for which it did not originally apply, this is not possible under the Insurance Directives, which set out minimum information requirements for an application for authorisation including information on the specified investments the applicant proposes to deal in.~~
- 6.3.20 G ... In these circumstances, the *FSA* may require the *firm* to complete appropriate parts of the full application pack (see AUTH-3 the FSA website "How do I get authorised":

<http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>), as directed by the FSA. Applications for variation involving significant changes may be processed by the *firm's* usual supervisory contact at the FSA, in conjunction with the ~~Corporate Authorisations~~ Permissions department.

- 6.3.30 G The FSA will also consider the specific requirements that apply to certain types of activity (see ~~AUTH 3.11 to AUTH 3.20~~) as these may not allow certain combinations of activity.
- 6.3.31 G In considering whether to grant a *firm's* application to vary its *Part IV permission*, the FSA will also have regard, under section 49(1) of the Act (Persons connected with an applicant), to any *person* appearing to be, or likely to be, in a relationship with the *firm* which is relevant (see ~~AUTH 3.9.22G to AUTH 3.9.24G (Connected persons)~~). The *Financial Groups Directive Regulations* make special consultation provisions where the FSA is exercising its functions under Part IV of the Act (Permission to carry on regulated activities) for the purposes of carrying on supplementary supervision (see ~~AUTH 3.9.22G(1A)~~). Broadly, where the FSA, in the course of carrying on supplementary supervision, is considering varying the Part IV permission of a person who is a member of a group which is a financial conglomerate, the consultation provisions in section 49(2) of the Act are disappplied. In their place, the regulations impose special obligations, linked to the Financial Groups Directive, to obtain the consent of the relevant competent authorities, to consult those authorities and to consult with the group itself.

The FSA's powers in respect of application for variation of Part IV permission

- 6.3.32 G The FSA's power to vary a *Part IV permission* after it receives an application from a *firm* extends to including in the *Part IV permission* as varied any provision that could be included as though a fresh *permission* was being given in response to an application under section 40 of the Act (Application for permission), see ~~AUTH 3.~~ ...
- 7.2.1 G ... (~~See AUTH 3.6 and AUTH 3.7 for a further explanation of potential limitations and requirements on a firm's permission.~~)
- 10.6.5 G ... Such a *person* is defined in section ~~741~~ 251 of the Companies Act ~~1985~~ 2006 as a "shadow director". ...
- 11.4.11 G The steps that the FSA expects a *firm* to take to comply with SUP 11.4.10R include, if applicable:
- ...
- (2) monitoring notifications to the *firm* in accordance with Part ~~VI~~ 22 of the Companies Act ~~1985~~ 2006;
- ...
- 13.12.1 G ...

- (2) An applicant for *Part IV permission* which is submitting a *notice of intention* with its application for such *permission* (~~see *AUTH 3.20* (Specific obligations: applicants seeking to establish a branch in, or provide services into, another EEA State)~~) should contact the ~~Authorisation~~ Permissions department (020 7066 3954) in the first instance (~~see *AUTH 1.9* (Next steps)~~).
- 13A.1.2 G This chapter does not apply to:
- (1) an *EEA firm* ...; in this case the *EEA firm* requires a “*top-up permission*” under Part IV of the *Act* and ~~should refer to *AUTH 3* (Applications for Part IV permission)~~ (see the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>); or ...
- ...
- 13A.3.11 G ...
- (2) ... Otherwise, it will have to seek a *Part IV permission* (see ~~*AUTH 3* (Applications for Part IV permission)~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>).
- 13A.6.3 G ... An *EEA firm* or *Treaty firm* should ~~read *AUTH 6* (Approved persons)~~ but also refer to *SUP 10.1* (Application) which sets out the territorial provisions of the *approved persons* regime.
- 13A.7.1 G If a *person* established in the *EEA*: ...
- to carry on a particular *regulated activity* in the *United Kingdom*, it must seek *Part IV permission* from the *FSA* to do so (see ~~*AUTH 3*~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>). ...
- 13A.7.4 G For *guidance* on how to apply for *Part IV permission* under the *Act*, see ~~*AUTH 3* (Applications for Part IV permission)~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>. ...
- 14.6.8 G Where the *FSA* gives a direction referred to in *SUP 14.6.4G*, the *incoming EEA firm* may apply for *Part IV permission* (see ~~*AUTH 3* (Applications for Part IV permission)~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>) to take effect not earlier than the date that its qualification for *authorisation* is cancelled (as specified in the direction).
- 18.2.12 G ... In any case the *FSA* will need time to:
- (1) consider the application, if an application by the transferee for a *Part IV permission* or a variation of *permission* is necessary (~~*AUTH* and *SUP 6*~~ provide provides *guidance* on this);

...

Appendix 2

- 2.10.1 G The FSA may ask a *firm* seeking a grant or variation of *permission* to provide a *scheme of operations* as part of the application process (see ~~AUTH 3.9.9G(1)~~ and SUP 6.3.25G). ...
- 2.13.1 R A *firm* which has submitted a *scheme of operations* to the FSA, whether required by SUP App 2.4, SUP App 2.5 or SUP App 2.8, or as part of an application under SUP 6.3 (see SUP 6.3.25G), SUP 6.4 (see SUP 6 Annex 4), ~~AUTH 3.9~~ (see ~~AUTH 3.9.9G(1)~~) or SUP 11.5 (see SUP 11.5.5G), or an amended *scheme of operations*, must during the period covered by that *scheme of operations*: ...

Appendix 3

- 3.10.1 G The *guidance* in ~~AUTH 3.10~~ and Table 3 describes in broad outline ...
- 3.10.13 G ... The *insurance undertaking* will, therefore, generally be able to qualify for *permission* as a *Treaty Firm* ~~firm~~ for its reinsurance business if it follows the procedure provided for by Schedule 4 (see SUP 13A.3.4G to SUP 13A.3.11G (Treaty Firms) and also ~~AUTH 3.21~~ (Treaty firms applying for Part IV permission)). ...

Part 2: Changes which come into force on 15 December 2007

Bureau de Change Money service business and trust or company service providers

- 15.8.4 G (1) In accordance with article ~~25~~ 31 of the *Money Laundering Regulations*, with effect from ~~1 April 2004~~ 15 December 2007, a *firm* is required to notify the FSA:
- (a) before it begins or within 28 days of it beginning; and
- (b) ~~as soon as reasonably practicable~~ immediately after it ceases;
- to operate a money service business or a trust or company service provider bureau de change (within (a) of *money service business*).
- (2) The notification referred to in (1) should be made in accordance with the requirements in SUP 15.7 (Form and method of notification).
- 15.8.5 G A *firm* which is already operating a ~~bureau de change~~ money service business or a trust or company service provider as at ~~1 April 2004~~ 15 December 2007 and ~~intends to continue doing so~~ is required by the *Money Laundering Regulations* to notify the FSA of that fact and should do so in the manner specified in SUP 15.8.4G(2) before 15 January 2008.

Annex L

Amendments to the Decision Procedure and Penalties manual (DEPP)

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

Part 1: Changes which come into force on 28 September 2007

- 2.5.18 G Some of the distinguishing features of notices given under enactments other than the ~~Act~~ Act are as follows:
- ...
- (3) Friendly Societies Act 1992, section 58A: ...
- 6.2.2 G In relation to *behaviour* which may have happened or be happening in the context of a *takeover bid*, the *FSA* will refer to the *Takeover Panel* and give due weight to its views ~~in the context of the *Takeover Panel's* powers and responsibilities.~~

Part 2: Changes which come into force on 1 November 2007

DEPP 2 Annex 1G

Section of the Act	Description	Handbook reference	Decision maker
...			
280(1)/(2)	...	...	...
301C(5)/(7)	when the <i>FSA</i> is proposing/deciding <u>proposing or deciding</u> to object to a change in control of a <i>UK RIE</i> following receipt of a notice of control	<i>REC 4.2C</i>	<i>Executive procedures</i>
301D(1)/(3)/ (4)	when the <i>FSA</i> has imposed a requirement on an institution to suspend a <i>financial instrument</i> from trading and it is proposing/deciding to refuse an application by the institution or the issuer for the revocation of the requirement	<i>REC 4.2</i>	
<u>301D(1)/</u> (4)	<u>when the <i>FSA</i> is not satisfied that the approval requirement is met, it may give a decision notice (which must be preceded by a warning notice) to a</u>	<i>REC 4.2C</i>	<i>Executive procedures</i>

	<u>person who has failed to comply with a duty to notify imposed by section 301A</u>		
<u>301D(3)/(4)</u>	<u>when the FSA becomes aware of matters as a result of which it is satisfied that the approval requirement is not met with respect to a person who is a controller of a recognised investment exchange, it may give a decision notice (which must be preceded by a warning notice) to the controller</u>	<u>REC 4.2C</u>	<u>Executive procedures</u>
313B(9)	...	...	...
<u>313B(10)/(11)</u>	<u>when the FSA has required an institution to suspend a financial instrument from trading and it is proposing or deciding to refuse an application by the institution or the issuer for the cancellation of the suspension</u>	<u>REC 4.2D</u>	<u>Executive procedures</u>
321(8)/(9)	...	...	...

Annex M

Amendments to the Compensation sourcebook (COMP)

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

5.4.4 R For the purpose of *COMP 5.4.3R* and *COMP 5.4.5R(1)(b)*, the situation of a risk or commitment is determined as follows:

...

(4) in cases not covered by (1) to (3):

(a) where the policyholder who first took out the *contract of insurance* is an individual, the risk or commitment is situated where he has his ~~habitual residence~~ habitual residence at the date when the *contract of insurance* commenced;

...

Annex N

Amendments to the Credit Unions sourcebook (CRED)

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

- 2.2.4 G Each sourcebook or manual has a reference code of two or more letters. This is usually a contraction or abbreviation of its titles, for use in cross-references in the text and in the index. Thus, for example the *Credit Unions* sourcebook abbreviates to *CRED*, while the ~~*Authorisation*~~ *Supervision* manual abbreviates to *AUTH SUP*.
- 6.1.3 G The full provisions are to be found in the following sourcebooks or manuals of the *Handbook*:
- ...
- (3) ~~*Authorisation*~~ manual (*AUTH*) [deleted]
- ...
- 13.2.2 G ~~The *Authorisation* manual (*AUTH*) explains in full the circumstances in which *authorisation* is required, the *authorisation* process and the *FSA*'s powers in relation to *authorisation*.~~ The circumstances in which *authorisation* is required are set out in the Perimeter Guidance manual (*PERG*). Information on the *authorisation* process can be found on the *FSA* website "How do I get authorised":
<http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>.
- 13.2.3 G ~~*AUTH* 3.9.3D requires an applicant for *Part IV* permission to apply in writing in the manner directed, and with the information required, in the application pack provided by the *FSA*. An applicant for *Part IV* permission should consult the *FSA* website "How do I get authorised":~~
<http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>.
- 13.5.4 G ~~The *FSA*'s *Authorisation* manual (*AUTH*) explains in full the circumstances in which *authorisation* is required, the *authorisation* process and the *FSA*'s powers in relation to *authorisation*.~~ The circumstances in which *authorisation* is required are set out in the Perimeter Guidance manual (*PERG*). Information on the *authorisation* process can be found on the *FSA* website "How do I get authorised":
<http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>, and FEES 3 (Application, Notification and Vetting Fees) sets out the authorisation fees that are payable. ~~The key chapters of *AUTH* for a person applying, or considering applying, to the *FSA* to become a *credit union* with a *Part IV* permission to accept deposits are:~~
- (1) ~~*AUTH* 3: Applications for *Part IV* permission; and~~

- (2) ~~AUTH 6: Approved persons.~~
- (3) ~~{deleted}~~
- 13.6.4 G As part of its application for *Part IV permission*, an applicant may wish to apply for certain *limitations* or *requirements* (~~see AUTH 3.6, AUTH 3.7 and the application pack~~). ...
- 13.6.5 G ... For example, the *FSA* can:
- ...
- (2) ~~the FSA~~ can impose *requirements*, for example, to restrict the scope of a *credit union's Part IV permission* to carry on *regulated activities* or require a *credit union* to submit financial returns more frequently than normal (~~see AUTH 3.7~~).
- 13.7.3 G ~~AUTH 6.3.1D requires an applicant~~ Applicants for *Part IV permission* to ~~to~~ *should* complete Form A (included as part of the *FSA's* application pack) when applying for approval of a *person* to perform a *controlled function*.
- 13.7.7 G ~~AUTH 6.3.4D requires that, until an application for approval has been determined by the FSA, the applicant must inform the FSA of any significant change to the information given in Form A immediately.~~ *SUP 10.13.16R* requires that, if a *firm* becomes aware of information which would reasonably be material to the assessment of an *approved person's*, or a *candidate's*, fitness and propriety (see *FIT*), it must inform the *FSA* on Form *D* as soon as practicable.

Annex O

Amendments to the Electronic Money sourcebook (ELM)

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

1.5.2 G Application of other parts of the Handbook to ELMIs

Block	Module	Application
...
Business Standards	...	...
	Conduct of Business sourcebook (<i>COB</i>)	... Otherwise, <i>COB</i> does not apply to an <i>ELMI</i> when <i>issuing e-money</i> . As explained in <i>AUTH App 3 PERG 3</i> , the <i>rules in COB</i> about <i>financial promotions</i> do not usually apply to <i>e-money</i> , but may do so in certain situations.

Regulatory processes	Authorisation manual (<i>AUTH</i>)	Applies to every <i>ELMI</i>.
...

5.5.2 R Except as otherwise provided for in *ELM*, and subject to *ELM* 5.5.3R, a *firm* must determine amounts included in the calculations required by the *ELM financial rules* in accordance with the accounting principles and rules which the *firm* would apply if it were drawing up financial statements under the Companies Act 1985 (and Companies Act 2006 (as applicable)) including those accounting principles and rules contained in the United Kingdom Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) or, where applicable, *international accounting standards* effective at the relevant time.

6.3.10 G ... There is *guidance* on the meaning of issuer under that article in *AUTH App 3.2 PERG 3* (The regulated activity of issuing e-money).

8.3.3 G ~~*AUTH App 3.4 PERG 3*~~ gives *guidance* on the restrictions on financial promotion in section 21 of the *Act* (Restrictions on financial promotion) in relation to *e-money*.

Annex P

Amendments to the Professional Firms sourcebook (PROF)

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

- 2.1.15 G ... For further guidance on when a *regulated activity* is carried on ‘in the *United Kingdom*’, *exempt professional firms* are referred to section 418 of the *Act* and the *guidance* in ~~AUTH 2.4~~ PERG 2.4 (Link between activities and the United Kingdom).

Annex Q

Amendments to the Recognised Investment Exchanges and Recognised Clearing Houses sourcebook (REC)

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

Part 1: Changes which come into force on 6 October 2007

- 6.2.3 G ~~Applications~~ Applicants for *authorised person* status should ~~be made in accordance with the Authorisation manual (AUTH)~~ refer to the *FSA* website “How do I get authorised”:
<http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>. ...

Part 2: Changes which come into force on 1 November 2007

- 2.4.6 R In assessing whether the *persons* who effectively direct the business and operations of the *UK RIE* are of sufficiently good repute and sufficiently experienced to ensure the sound and prudent management and operation of the financial markets operated by it, the *FSA* may have regard to the repute and experience of the *UK RIE's key individuals*.

Annex R

Amendments to the Listing Rules sourcebook (LR)

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

- 5.2.11 R In the circumstances of *LR 5.2.10R*, the *company* must notify the *security holders* that the required 75% has been attained ... accompanying the ~~section 429~~ section 979 notice must state that the notice period has commenced and the anticipated date of cancellation....

Cancellation as a result of schemes of arrangements etc

- 5.2.12 R *LR 5.2.5R*, *LR 5.2.5AR* and *LR 5.2.8R* do not apply to the cancellation of ordinary *equity shares* of an *issuer* as a result of:
- (1) a takeover or restructuring of the *issuer* effected by a scheme of arrangement under Part 13 of the Companies Act 1985 ~~Part 26 of the Companies Act 2006~~; or

...

- 5.3.2 R The *issuer* must also include ...

...

- (3) ... ~~section 899 of the Companies Act 2006 (court sanction for compromise arrangement)~~ section 425 of the Companies Act 1985 ...

- 9.3.12 R *LR 9.3.11R* does not apply if:

- (1) ... authorised by shareholders in accordance with section ~~570, 571 and 573~~ 95 of the Companies Act ~~2006~~ 1985 ...

...

- 9.5.10 R (1) If a *listed company* makes an *open offer*, *placing*, *vendor consideration* *placing*, *offer for subscription* of *equity shares* or an issue out of treasury (other than in respect of an employees' share scheme) of a *class* already *listed*, the price must not be at a discount of more than 10% to the middle market price of those *shares* at the time of announcing the terms of the offer or at the time of agreeing the placing (as the case may be). ...

...

- (3) Paragraph (1) does not apply to an offer or placing at a discount of more than 10% if:

...

- (b) it is an issue of *shares* for cash or the sale of *treasury shares* for cash under a pre-existing general authority to disapply ~~section 561 of the Companies Act 2006 (Existing shareholder's right of pre-emption)~~ section 89 of the Companies Act 1985 (Offers to shareholders to be on a pre-emptive basis).

...

9.6.21 R A *listed company* must prepare and publish a second interim report in accordance with ~~LR 9.9~~ DTR 4.2R if the effect of the change in the accounting reference date is to extend the accounting period to more than 14 months.

9.8.6 R In the case of a *listed company* incorporated in the *United Kingdom*, the following additional items must be included in its annual financial report:

- (1) a statement setting out all the ~~beneficial and non-beneficial~~ interests (in respect of which transactions are notifiable to the company under DTR 3.1.2R) of each *person* who ~~is~~ has been a *director* of the *listed company* ~~during~~ as at the end of the period under review including:
 - (a) all changes in the ~~beneficial and non-beneficial~~ interests ...
 - (b) ... a statement that there have been no changes in the ~~beneficial and non-beneficial~~ interests ...₂

~~stating the date each interest commenced (and the date it came to an end or if ongoing, a statement to that effect)~~. Interests of each *director* include the interests of ~~connected persons as defined in the Companies Act 2006~~ connected persons of which the *listed company* is, or ought upon reasonable enquiry to become, aware.

- (2) a statement showing...:
 - (a) all information disclosed to the *listed company* in accordance with ~~Part 22 of the Companies Act 2006 (Information about interests in a company's shares)~~ or DTR 5; or

...

...

9.8.6A G (1) The effect of LR 9.8.6R(1) is that a *listed company* is required to set out a 'snapshot' of the total interests of a *director* and his or her *connected persons*, as at the end of the period under review (including certain information to update it as at a date not more than a month before the date of the notice of the annual general meeting). The interests that need to be set out are limited to those in respect of which transactions fall to be notified under the notification requirement for *PDMRs* in DTR 3.1.2R. *Persons* who are *directors* during, but not at the end of, the period under review need not be included.

(2) A listed company unable to compile the statement in LR 9.8.6R(1) from information already available to it may need to seek the relevant information, or confirmation, from the director himself, including that in relation to connected persons, but would not be expected to obtain information directly from connected persons.

9.8.13 R Any summary financial statement issued by a *listed company* as permitted under the Companies Act ~~1985 2006~~, must disclose:

...

(2) the information required for summary financial statements set out in the Companies Act ~~2006 1985~~.

10.8.9 G ...

(3) ... Further, if the consideration to be paid is to be determined by reference to the future profitability of the joint venture or an independent valuation at the time of exercise, this consideration will be treated as being uncapped. If this is the case, the initial agreement will be classified in accordance with LR 10 Annex 1 5R (3) and (3A) as a class 1 transaction at the time it is entered into.

11 Annex 1.1R

...

5 (1) A transaction that consists of:

...

(c) a loan or assistance to a *director* by a *listed company* or any of its *subsidiary undertakings* if the terms of the loan or assistance are in accordance with those specifically permitted to be given to a *director* under section 204 or 205 of the Companies Act 2006.

...

13.8.2 R A *circular* relating to a resolution proposing to disapply the statutory pre-emption rights under section ~~561 89~~ of the Companies Act ~~2006 1985~~ (Existing shareholders' right of pre-emption)...

Amend the following definitions in LR Appendix 1 as shown.

App 1

employees' share scheme

has the same meaning as in section ~~466 743~~ of the Companies Act ~~2006 1985~~.

<i>parent undertaking</i>	as defined in section 1162 <u>258</u> of the Companies Act 2006 <u>1985</u> .
<i>share</i>	(in accordance with section 540 <u>744</u> of the Companies Act 2006 <u>1985</u>) ...
<i>subsidiary undertaking</i>	as defined in section 1162 <u>258</u> of the Companies Act 2006 <u>1985</u> .
<i>treasury shares</i>	qualifying shares to which Chapter 6 <u>sections 162A to 162G</u> of the Companies Act 2006 <u>1985</u> <u>applies</u> <u>apply</u> .

LR TR

Transitional Provisions for venture capital trusts

(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
4.	...				

General Transitional Provisions

(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
<u>5.</u>	<u>LR provisions referring to Companies Acts 1985, 2006 or related provisions.</u>	<u>R</u>	(1) <u>To the extent that the whole or part of a provision of the Companies Act 2006 is yet to come into force, any reference to that provision or part of it should be read as a reference to the corresponding provision of the Companies Act 1985 currently in force (subject to the application of any relevant transitional provisions in the Companies Act 2006 or the rules).</u> (2) <u>To the extent that the whole or part of a</u>	<u>6 October 2007</u>	<u>20 January 2007</u>

		<p><u>provision of the Companies Act 1985 is no longer in force it shall be read as a reference to the corresponding provision of the Companies Act 2006 or relevant DTR rule that has superseded it (subject to the application of any relevant transitional provisions).</u></p>		
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Annex S

Amendments to the Prospectus Rules sourcebook (PR)

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

3.1.1 R An *applicant* must submit to the *FSA* the following information:

...

- (8) ~~written confirmation of the number of securities to be allotted or issued (pursuant to a board resolution allotting or issuing the securities); [deleted]~~

...

Supplementary prospectus to be submitted as soon as possible practicable

3.4.3 R ...

PR TR

Transitional Provisions

(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
1.	<u>PR provisions referring to Companies Acts 1985, 2006 or related provisions.</u>	<u>R</u>	<p>(1) <u>To the extent that the whole or part of a provision of the Companies Act 2006 is yet to come into force, any reference to that provision or part of it should be read as a reference to the corresponding provision of the Companies Act 1985 currently in force (subject to the application of any relevant transitional provisions in the Companies Act 2006 or the rules).</u></p> <p>(2) <u>To the extent that the whole or part of a provision of the Companies Act 1985 is no longer in force it shall</u></p>	<u>6 October 2007</u>	<u>20 January 2007</u>

			<u>be read as a reference to the corresponding provision of the Companies Act 2006 or relevant <i>DTR rule</i> that has superseded it (subject to the application of any relevant transitional provisions).</u>		
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Annex T

Amendments to the Disclosure Rules and Transparency Rules sourcebook (DTR)

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

- 3.1.4 R (1) An issuer must notify an *RIS* of any information notified to it in accordance with:
- (a) *DTR* 3.1.2R (Notification of transactions by persons discharging ~~material~~ managerial responsibilities);
 - (b) ~~*LR* 9.8.6 R(1) (Additional information); [deleted]~~ and
 - (c) section 793 of the Companies Act 2006 (Notice requiring information about interests in shares) to the extent that it relates to the interests of a *director* or, as far as the issuer is aware, any *connected person*.
- 3.1.6 R If an *issuer* ~~receives notification of the same dealing under *DTR* 3.1.2R, *LR* 9.8.6R(1) and section 793 of the Companies Act 2006,~~ it must make clear in its notification to the *RIS* that a single transaction in respect of the same *financial instrument* has taken place makes the appropriate notification to the *RIS* under *DTR* 3.1.4R(1)(a), a further notification to an *RIS* is not required in the event of it receiving information regarding the same dealing in a notification under section 793 of the Companies Act 2006.
- 5.1.1 R In this chapter:
- ...
- (2) references to a “non-UK issuer” are to an *issuer* whose *shares* are admitted to trading on a *regulated market* and whose *Home State* is the United Kingdom other than:
 - (a) a public company within the meaning of ~~section 4 of the Companies Act 2006~~ section 1(3) of the Companies Act 1985; and
- ...
- 6.3.3 R (1) ...
- (2) ...
- [**Note:** article 12(1) of the *TD implementing directive*]
- 6.3.4 R ...
- [**Note:** article 12(2) of the *TD implementing directive*]
- 6.3.5 R (1) ...

[**Note:** article 12(3) of the *TD implementing directive*]

...

DTR TP 1 ...
Transitional Provisions

(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
12 ...					
13.	<u>DTR provisions referring to Companies Acts 1985, 2006 or related provisions.</u>	<u>R</u>	<p>(1) <u>To the extent that the whole or part of a provision of the Companies Act 2006 is yet to come into force, any reference to that provision or part of it should be read as a reference to the corresponding provision of the Companies Act 1985 currently in force (subject to the application of any relevant transitional provisions in the Companies Act 2006 or the rules).</u></p> <p>(2) <u>To the extent that the whole or part of a provision of the Companies Act 1985 is no longer in force it shall be read as a reference to the corresponding provision of the Companies Act 2006 or relevant DTR rule that has superseded it (subject to the application of any relevant transitional provisions).</u></p>	<u>6 October 2007</u>	<u>20 January 2007</u>

Annex U

Amendments to the Perimeter Guidance manual (PERG)

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

- 2.2.1 G Under section 23 of the *Act* (Contravention of the general prohibition), a *person* commits a criminal offence if he carries on activities in breach of the *general prohibition* in section 19 of the *Act* (The general prohibition) (~~see *AUTH 1.2.2G*~~).
...
- 2.2.3 G ...:
...
(9) If not, do I benefit from the few provisions of the *Act* that *authorise* me without a *permission* under Part IV of the *Act* (see ~~*AUTH 1.2.4G*~~ *PERG 2.10.9G* (Members of Lloyd's))?
(10) If not, what is the scope of the *Part IV permission* that I need to seek from the *FSA* (see *PERG 2 Annex 2G* and ~~*AUTH 3*~~)?
...
2.2.5 G The process of applying for *Part IV permission* is ~~described in *AUTH 3*~~ available on the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml>. ... The exceptions (which are explained in *AUTH 3.4* and *AUTH 3.5*) ~~involve distinctions being drawn within each of several activities and *investments* so specified.~~ ...
2.11.1 G Any *person* who concludes or is advised that he will need to make an application for *Part IV permission* should look at *PERG 2 Annex 2G* to determine the categories of *specified investment* and *regulated activities* that are relevant to the next step and should then refer to ~~*AUTH 3*~~ the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml> for details of the application process.
- 2 Annex 2G Regulated activities and the permission regime
...

Table 2: Contracts of insurance
...
Notes to Table 2
...
Note 2:

See *IPRU(INS)* 11.8 and the definition of *ancillary risks* in *IPRU(INS)* and *AUTH* 3.12.6G to *AUTH* 3.12.12G for *guidance* on the treatment of supplementary and ancillary provisions in relation to *contracts of insurance*.

- 4.2.1 G ... ~~In order to be authorised, a person must either:~~
- (1) ~~hold a *Part IV permission* given by the *FSA* (see *AUTH* 1.3 (The Authorisation manual) and *AUTH* 3 (Application for Part IV permission));~~
or
 - (2) ~~qualify for *authorisation* (see *SUP* 13A (Qualifying for authorisation under the Act)), for example if the *person* is an *EEA firm* or a *Treaty firm*.~~
- 4.2.3 G ...
- If a *person* gets as far as question (8) and the answer to that question is ‘no’, that *person* requires *authorisation* and should refer to *AUTH* 3 (Applications for Part IV permission) the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml> for details of the application process.
- 4.6.25 G In the scenarios identified in *AUTH PERG* 4.6.23G(3) and *AUTH PERG* 4.6.24G(2), the *FSA* considers that it is necessary to look at the process and outcome of scripted questioning as a whole. ...
- 4.11.11 G ... This is because *arrangements* made with borrowers at the exhibition would be subject to the exclusion in article 28 of the *Regulated Activities Order* (Arranging transactions to which the arranger is a party) (see *AUTH PERG* 4.5.7G). ...
- 5.2.2 G ... ~~To be authorised, a person must either:~~
- (1) ~~hold a *Part IV permission* given by the *FSA* (see *AUTH* 1.3 (The Authorisation manual) and *AUTH* 3 (Application for Part IV permission));~~
or
 - (2) ~~qualify for *authorisation* (see *SUP* 13A (Qualifying for authorisation under the Act)); for example, if the *person* is an *EEA firm* or a *Treaty firm*.~~
- 5.2.3 G ...
- If a *person* gets as far as question (8) and the answer to that question is “no”, that *person* requires *authorisation* and should refer to *AUTH* 3 (Applications for Part IV permission) the *FSA* website “How do I get authorised”: <http://www.fsa.gov.uk/Pages/Doing/how/index.shtml> for details of the application process. ...
- 7.6.5 G The fee for an application for a certificate under article 54 of the *Regulated Activities Order* is £2,000 (see *AUTH* 4 Annex 1R).
- 8.4.21 G ... ~~*AUTH* 1.9.1G explains about *approval*.~~

8.35.1 G ... *AUTH* explains about the *authorisation* process and the procedures for obtaining *Part IV permission* and for the approval of individuals. ...