Financial Services Authority

Insurance Standing Group:

Meeting on 05/06/2006

Subject:	**Reinsurance Directive (RID) Implementation**
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Department:	**Prudential and Accounting Standards**
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Purpose:	**To invite the Insurance Standing Group's views on the aspects of our proposed RID implementation in relation to the development of a fit-for-purpose regime for Insurance Special Purpose Vehicles (ISPVs) and the introduction of risk transfer principles for financial reinsurance and ISPV transactions prior to our public consultation in June 2006.**

Executive Summary

Background: The RID is intended as an interim measure introducing EU minimum standards for reinsurance ahead of Solvency 2. The RID largely adopts the non-life insurance directive requirements for both life and non-life reinsurance business.

Purpose: The RID introduces minimum requirements for reinsurance businesses conducted in the EU, covering capital requirements, technical provisions and assets covering technical provisions. With the exception of the proposals set out below, the overall effect is limited for most UK firms as they are already required to meet similar rules.

Timescales: We plan to publish a CP (2 star) in June 2006 with a 2 month consultation period, enabling us to issue a Policy Statement in November 2006, giving firms immediate benefit from the changes we are proposing for the 2006 year-end. The EU deadline for implementation is 10 December 2007.

Purpose: Previous RID related papers and discussions at the ISG have focused on our proposals in relation to Pillar 1 solvency requirements and technical provisions. This paper sets out some more detail regarding our plans to introduce a fit-for-purpose regime for Insurance Special Purpose Vehicles (ISPVs) and to introduce a risk transfer principle for financial reinsurance transactions and ISPVs.

Summary of our proposals:

Insurance Special Purpose Vehicles – the RID requires Member States that wish to introduce an ISPV market to establish a new regime, of defined scope, for their authorisation and regulation. We propose to introduce a fit-for-purpose regime for ISPVs with reduced authorisation requirements compared with those required for insurance companies. We believe that our proposals would encourage greater

participation in the ISPV market, as an ISPV would no longer have to go through the full authorisation process that generally applies to reinsurers.

Principles for financial reinsurance – to ensure that appropriate standards are maintained, we propose that any reduction in regulatory Pillar 1 capital under a financial reinsurance contract be no greater than is justified by the reduction in risk. Effective risk transfer would be required. We believe that this approach will encourage innovative transactions that truly transfer risks to the capital markets and propose that these principles should also apply to ISPVs.

Detailed Paper

1. We have set out below the proposals that we intend to consult on in the June RID CP in relation to the introduction of a fit-for-purpose regime for ISPVs and a risk transfer principle for financial reinsurance. We would like to invite the ISG to consider the following questions:

Insurance Special Purpose Vehicles (Page 3)

- Do you have any comments regarding our proposed approach to the authorisation of ISPVs?

- Do you have any comments regarding our proposals for the supervision of ISPVs?

Introducing a principle-based approach for risk transfer (Page 10)

- Do you have any comments regarding our proposal to introduce a principle-based approach for risk transfer to ISPVs and financial reinsurance arrangements?

- Do you have any comments on whether we should apply the risk transfer principle we are proposing to all reinsurance contracts? How would this widening of scope affect other reinsurance arrangements?

Insurance Special Purpose Vehicles

2. The RID gives Member States that want to encourage the development of a market for ISPVs in their jurisdiction, the option to introduce a separate fit-for-purpose authorisation and supervisory regime covering:

- authorisation and solvency requirements;

- when amounts due from the ISPV can be counted as admissible assets; and

- when amounts due from the ISPV can be counted as reinsurance or retrocession for the purposes of reducing the ceding firm's solvency requirements.

Options

3. Currently in the UK ISPVs must apply for authorisation as a reinsurer and are regulated as such. The RID allows us to either maintain this arrangement or to create a fit-for-purpose regime for the authorisation and regulation of ISPVs.

4. Over the last few years we have seen a number of insurance securitisations. Pre-consultation discussions with the industry have indicated that there are two main factors determining the location of these innovative vehicles, namely the regulatory and fiscal regimes in the jurisdiction.

Proposal

5. With those points in mind, we propose the introduction of a fit-for-purpose regime for ISPVs with authorisation and prudential requirements that are proportionate to the risks. This would require less

information to be provided than under the existing requirements for authorisation of insurers and reinsurers and our supervision would be focussed on the ceding firm's risk management and how that is reflected in its ICA. If we introduce a regime for ISPVs the RID requires us to introduce a number of rules in respect of ISPVs. These requirements are outlined in the extract from RID Article 46 below.

RID Article 46 – Special purpose vehicles

1. Where a Member State decides to allow the establishment within its territory of special purpose vehicles within the meaning of this directive, it shall require prior official authorisation thereof.

2. The Member State where the special purpose vehicle is established shall lay down the conditions under which the activities of such an undertaking shall be carried on. In particular, that Member State shall lay down rules regarding:

- scope of authorisation;
- mandatory conditions for inclusion in all contracts issued;
- the good repute and appropriate professional qualifications of persons running the special purpose vehicle;
- fit and proper requirements for shareholders or members having a qualifying holding in the special purpose vehicle;
- sound administrative and accounting procedures, adequate internal control mechanisms and risk management requirements;
- accounting, prudential and statistical information requirements; and
- the solvency requirements of special purpose vehicles.

6. Any ISPV regime that we propose must meet these requirements. We now outline our proposal to establish a fit-for-purpose regime for ISPVs in the UK.

Defining an ISPV

7. An ISPV must meet the RID definition which states that an ISPV is:
"any undertaking, whether incorporated or not, other than an existing insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the reinsurance obligations of such a vehicle;"[1]

8. We believe fully funded means that the ISPV's reinsurance liabilities must be capped at the value of the assets available to fund those liabilities. The assets of the ISPV will be subject to the prudent person investment principles set out in the RID and must be valued according to GAAP conventions. The assets must be held by or on behalf of the ISPV or the ceding firm to ensure adequate security of the assets, and the repayment rights of the finance providers must be subordinated to the reinsurance obligations of the ISPV.

Minimal authorisation requirements

9. In order to comply with the RID, an ISPV established in the UK must be authorised. We propose to facilitate the development of a UK market for ISPVs by ensuring the authorisation requirements are proportionate to the risks, with less information expected from an ISPV than from a traditional insurer or reinsurer, with greater emphasis on self-certification. We intend to ensure that appropriate safeguards to protect insurance company policyholders are maintained. This will be achieved by placing the onus on the ceding firm to provide further information on the impact of the ISPV on its

1 RID Article 2(1)(p) – Definitions, 'special purpose vehicle'.

ICA before the amounts recoverable from an ISPV can count towards its technical provisions or its capital requirements. This is consistent with our risk-based approach to authorisation and reflects the low risk of failure that should arise from a properly structured ISPV. The ceding firm must ensure the arrangement is legally sound and that all associated risks, including insurance, credit, market, liquidity and operational risks, are assessed and included in its ICA.

10. We propose developing a fit-for-purpose authorisation regime within the existing scope of FSMA by authorising an ISPV as a reinsurer with a limitation to the activities of an ISPV. We propose to adapt the existing application form for insurance firms to require the following information from ISPVs. This will provide evidence of compliance with the rules which give effect to the RID requirement to lay down rules regarding "*sound administrative and accounting procedures, adequate internal control mechanisms and risk management requirements*". The authorisation would require a:

- Core details form, including: contact details (e.g. solicitor, auditor, legal adviser); legal status (FSMA requires an insurer to be a body corporate – the shares of which may be held by a trust, registered friendly society or a member of Lloyds); group structure; governing body; and business profile (including a limitation to the activities of an ISPV).

- Business plan, including:

  a) a description of the purpose of the ISPV, the risks to be covered and its structure and accountabilities;

  b) financial projections which should demonstrate that the ISPV will be fully-funded so that assets (on a GAAP basis) are equal to or greater than liabilities under all reasonably foreseeable scenarios, taking into account operating costs (adequacy of the opening balance sheet position to be confirmed by management and auditors following completion of the transaction);

  c) independent legal confirmation that the agreements surrounding the operation of the ISPV are legally effective. In particular, the agreements must ensure that the repayment rights of debt holders are subordinated to the ISPVs reinsurance obligations;

  d) evidence of adequate systems and internal controls (apportionment of management responsibilities, details of arrangements for core functions, compliance monitoring arrangements and claims-handling). We expect that these functions will generally be outsourced by the ISPV and the ISPV's application should include related third party agreements;

  e) where future new business is to be included in an ISPV, the extent of the commitment must be set out transparently at the time of seeking authorisation. We would expect full details of the types of risks the ISPV would receive in the future together with an indication of expected volumes and timescales and information about the limits that would apply;

- Controllers form, requiring information about the persons controlling the ISPV. Where the ISPV is owned by a trust this would include the trustees and the trust notification form should be completed. This is intended to evidence that the ISPV meets the RID requirement regarding "*fit and proper requirements for shareholders or members having a qualifying holding in the ISPV*".

- Approved Persons application to be completed which outlines the controlled functions under the approved person's regime. We expect ISPVs to require a small number of controlled functions, including a CEO and Director, who will need to be approved. This requirement should not be too onerous, especially as the ceding firm will be familiar with the existing approved persons regime. This is intended to evidence that the ISPV meets the RID requirement regarding "*the good repute and appropriate professional qualifications of the persons running the ISPV*".

11. We propose to be relatively flexible regarding the ownership structure of an ISPV as we consider ICAS should be able to identify any related increases in counterparty, credit or contagion risks, allowing any potential detriment to policyholders to be identified. For example, where an ISPV is a subsidiary within the ceding firm's group, any additional risk this poses to the group would be reflected in ICAS.

12. Once all of the required information has been provided we would expect the authorisation process to be relatively short as we intend to rely principally on the opinions provided by the auditors (adequacy of opening balance sheet) and legal advisers (legally effective) before authorising the ISPV. Further validation is envisaged where a UK-authorised insurer or reinsurer (the ceding firm) wants to take credit for an ISPV against its capital requirements or on its balance sheet.

13. Standard one-off application fees are currently charged at three levels for straightforward applications (£1,000), moderately complex applications (£5,000) and complex applications (£25,000). For application fees, we determine 'complexity' according to the fee-block to which a firm would be allocated if the application were successful. Application fees are non-refundable regardless of the outcome. We intend charging an authorisation fee for an ISPV on the basis that an ISPV represents a 'moderately complex' application (£5,000). This fee is lower than for an insurance firm (which is classified, for application fees, as complex and therefore pays a fee of £25,000) as we expect the application process for an ISPV to be less complex. We intend to consult on the substantive rule changes to implement this proposal in the July 2006 Quarterly CP (QCP). In addition, the July QCP will cover periodic fees issues outlined in the next paragraph.

Annual periodic fees for ISPVs:

14. We also need to develop a suitable periodic fee regime for ISPVs. This would cover:

- the allocation of ISPVs to appropriate fee-blocks;
- a suitable tariff base for measuring ISPVs' contributions to the Annual Funding Requirement we must recover from the fee-block(s); and
- the amount they may be expected to contribute towards periodic fees once they become authorised.

15. Our initial view is to combine ISPVs with general and life insurers in the relevant existing fee-blocks (A.3 for general insurers and A.4 for life insurers)[2]. This would accord with our principle of grouping together fee payers with similar permissions.

16. The tariff bases for the A.3 and A.4 fee-blocks are based on premiums written and total technical provisions, so we would need to find a suitable fee metric for ISPVs. One possibility could be to relate the annual fee to the amount of capital raised by the ISPV in any one year. This would mean an ISPV taking on new business, and consequently requiring more supervisory effort, would be charged a higher annual fee. In common with proposed Handbook changes for a suitable application fee, we intend to consult on the substantive rule changes for ISPV fee-blocks and the periodic fee tariff base together with some other fees issues, in the July 2006 QCP. Proposed fee rates for the 2007/08 financial year will be set out in our annual fees consultation, which we expect to publish in Q1 2007.

A simple solvency rule

17. The RID requires us to lay down rules regarding "*the solvency requirements of ISPVs*". We propose the introduction of a simple solvency rule for ISPVs, requiring that assets must always be greater than or equal to liabilities. In addition, we propose that the assets of the ISPV must either be retained within the ISPV or the ceding firm. We consider that a more substantial solvency margin requirement (similar to those for direct insurers in INSPRU) is not required as the ISPV's liabilities are, by nature, limited to its total assets with any residual risk retained by the ceding firm as evidenced through its ICA. We propose that only this simple solvency rule, and associated asset and liability valuation requirements will apply to ISPVs.

18. The notification requirements in our existing supervision manual (SUP) will ensure that ISPVs have to notify us if the solvency rule is breached, in which case our rules require the reduced coverage to be reflected in the ceding firm's regulatory balance sheet and ICA, and we would also be able to take supervisory action. The ISPV's statutory accounts will allow us to assess continuing compliance and our proposal is that no additional reporting, with the exception of standing data (name and address

2 FEES 4, Annex 1R, Activity groups, tariff bases and valuation dates.

type information) updates, will normally be required (i.e. IPRU(INS) will not apply). This will also enable us to meet the RID requirement to lay down rules regarding "*accounting, prudential and statistical information requirements*".

Who will supervise ISPVs and how?

19. In order to avoid unnecessary burden on firms and our supervisors and to minimise duplication of effort, we propose that the continuing monitoring of ISPVs will be covered through the supervision of the ceding insurer and all residual risks reflected through its ICA. The authorisation process will treat ISPVs being set up in the UK by entities supervised outside the UK in the same way as ISPVs accepting risks from UK-supervised cedants. Under the RID, where the cedant is a non-UK insurer, the home state supervisor will be responsible for supervising the effect of the ISPV on the ceding firm. If a UK-regulated firm establishes an ISPV in another Member State and wishes to take credit for that ISPV in its regulatory balance sheet, while we will not have to re-authorise the ISPV, it will nonetheless be required to meet the same conditions that we are applying to UK-based ISPVs.

Other handbook requirements

20. In addition to our proposals for prudential regulation, we propose that ISPVs should be subject to relevant provisions of our 'systems and controls sourcebook' (SYSC), the 'fit and proper test for approved persons' (FIT) and the 'statement of principle and code of practice for approved persons' (APER). This will ensure that ISPVs continue to meet the relevant RID requirements as set out in the box above.

Rules applied to the 'ceding' insurer – taking credit for ISPVs

21. To enable a ceding firm to benefit from a transaction with an ISPV we have proposed more detailed rules so that upon application, with supporting evidence and our agreement:

- amounts recoverable from ISPVs may be considered as reinsurance or retrocession, in calculating the ceding firm's solvency margin requirement; and

- amounts outstanding from an ISPV may be treated as reducing or, included as assets covering, technical provisions.

22. We propose to operate the application and approval process envisaged by the RID by requiring a ceding firm to apply for a waiver setting out the impact that the arrangement will have on their ICA. This will be required in respect of ISPVs authorised in the UK or any other Member State. Once a waiver has been granted the ceding firm will be required to disclose it in the usual way, including through the FSA website and the FSA returns. We would expect the following to be addressed as part of the firm's ICA documentation, in support of the waiver application:

- analysis of the extent to which risk transfer takes place, including under stress scenario analyses, taking account of both the economic analysis and the legal robustness of the structure; and

- the potential for risk to revert to the firm or its related companies under foreseeable adverse scenarios, or for unprovided liabilities to arise, in respect of the risks transferred.

Taking credit for an ISPV on the regulatory balance sheet

23. Under our proposals, a key test that will need to be met by all ISPVs before credit can be taken on the regulatory balance sheet will be compliance with the risk transfer principle. We are proposing to apply the test to all financial reinsurance transactions and more details of our proposals in this area are set out in paragraph 28 below.

24. When the ceding firm's supervisor is content that the supporting documentation provided with the waiver application is adequate, and following a review of the effectiveness of the ISPV as a risk

mitigator for the ceding firm, we will consider granting the waiver. If the waiver is granted, the ceding firm will be allowed:

- in the case of a non-life insurer or reinsurer, to include the ISPV as a reinsurance asset; or
- in the case of a life insurer or reinsurer, to deduct any liabilities covered by the ISPV from its gross liabilities.

Counting ISPVs towards technical provisions and solvency requirements:

25. We propose to give reinsurance credit for an ISPV to the extent that risk transfer takes place. In the risk transfer principle section below we set out our proposal that any reduction in regulatory Pillar 1 capital must not be greater than the reduction in risk.

Using ISPVs for monetisation – creating an ISPV asset:

26. We propose that a waiver application will also be required where an ISPV is used for a transaction that is not intended to affect a firms' solvency margin requirement or technical provisions, but to create an asset, such as a life embedded value monetisation. The waiver application will enable us to ensure that, in the absence of minimum European standards, UK firms can take credit for an ISPV only where the ISPV meets our requirements. The risk transfer principle may have little impact in this area, as a reduction in the solvency margin is not generally a primary objective of this type of arrangement.

27. Where the ceding firm itself has invested in bonds issued by the ISPV, we would expect the amount of the ISPV asset to be reduced, on a pound for pound basis, by the amount of finance provided by the ceding firm. In the case of an insurance group where another group entity holds some of the bonds in a monetisation ISPV, we would expect the amount of the ISPV asset reflected in the group regulatory balance sheet to be reduced accordingly.

Introducing a principle-based approach for risk transfer

Introduction

28. Increasingly we have seen significant interest from insurance firms wishing to enter into innovative risk transfer transactions. Such transactions have used securitisations, financial reinsurance, contingent loans and other financial instruments to affect the risk transfer.

29. FSMA makes clear that we should recognise the desirability of both competition and innovation, and that in discharging its powers, we should also seek to minimise competitive distortions caused by over regulation. In this paper we propose a high-level, principle-based rule to assess the extent to which there has been a transfer of risk in relation to the benefit taken in the regulatory balance sheet.

Options considered

30. In determining our policy approach, we considered two main options:

- define the types of transactions that do not fit well with our current rules and prescribe a new set of detailed rules for those transactions; or
- adopt a principle-based approach for ISPVs, financial reinsurance and other similar transactions.

31. Our proposed policy is to take the latter option. It is our view that, in an innovative environment, trying to differentiate types of transactions through prescriptive rules can be inefficient and cause competitive distortions, rendering a rule-based framework ineffective and quickly outdated. Applying a single principle-based policy to ISPVs and financial reinsurance arrangements should increase competition amongst the wholesale providers of risk transfer transactions and minimise the market distortions that regulation creates.

32. The proposals discussed in this paper are in addition to our proposals in CP05/14 (Quarterly Consultation 06, October 2005), which use additional disclosure as a tool for dealing with non-life financial reinsurance contracts.

Developing a high-level principle for risk transfer

33. Our starting point in developing our approach has been to look at our Principles for Business and in particular, our Principle that a firm should have adequate financial resources. For a firm to demonstrate that it has adequate financial resources it must not understate the risks to which it is exposed or overstate its capital position. If a risk transfer transaction results in an understatement of risk or an overstatement of capital, a firm cannot demonstrate compliance with the high-level principle.

Proposed high-level risk transfer principle

34. Transactions must be effective at transferring the risk that they purport to transfer. This may be on a full or partial basis and will be determined by the documentation of the specific transaction, which will determine the level of risk transferred. We have set out some guidance on factors that firms should consider when drawing up the terms and conditions of the contract that brings about the risk transfer, such as commitments to provide additional support to a transaction.

35. In developing our policy we have also considered the differences between legal entity and group risks. We propose to apply the policy consistently on both a solo legal entity basis and a group basis. It is not our intention that the introduction of the risk transfer principle should prevent over collateralisation of an embedded value transaction.

36. In some circumstances a firm may undertake to give support to the counterparty which is not reflected in its overall assessment of the risk transferred. We call this implicit support. Providing implicit support might be motivated by a desire to reduce potential losses to its counterparty or prevent damage to its reputation. It is not our intention to restrict a firm's future discretion, but we do not consider it appropriate that a firm should commit to provide implicit support while obtaining benefits in the regulatory balance sheet that do not take the implicit support into consideration.

Applying the risk transfer principle

37. To assist firms in understanding how the risk transfer principle could be applied in practice, we have included some guidance with the rule setting out the risk transfer principle which is set out in annex 1 of this paper. Broadly we envisage a two-step process:

Step 1: Assessing the level of effective risk transfer

38. To assess the level of risk transfer arising from a transaction, a firm would need to ensure that the legal documentation associated with the transaction identifies the level of risk actually being transferred and reflects the economic substance of the transaction. This should include ensuring the risks being transferred are incontrovertible and there are no conditions the fulfilment of which are outside the control of the firm (INSPRU 1.1.19E).

Step 2: Application of the risk transfer principle to…

… the ICA

39. The amount of credit taken by a firm though its ICA calculation will be referenced to the level of risk that has been effectively transferred as determined in Step 1. We would expect a firm to use its existing ICA methodology to determine the benefit derived on an economic basis.

… the regulatory balance sheet

40. The amount of credit taken by a firm for risks that have been effectively transferred should be measured by applying the standard methods for determining the regulatory balance sheet set out in INSPRU. For example, where credit is being taken so as to reduce technical provisions, the amount of that credit should reflect the difference in technical provisions that arises from changing the assumptions used to reflect the risk transferred (INSPRU 1.1.19D).

Extension of the risk transfer principle to all other reinsurance contracts

41. The principle set out above has been developed in the context of ISPVs and financial reinsurance arrangements. These principles are not too dissimilar to the overall objectives of traditional reinsurance arrangements which are aimed at effective risk transfer to the reinsurer. We are therefore considering whether we need to extend the scope of our risk transfer principle to all reinsurance contracts and are interested in participants views.

Annex 1: Draft rules introducing a risk transfer principle

	Financial reinsurance and analogous non-reinsurance financing agreements: risk transfer principle			
1.1.19A	R	(1)	A *firm* may only take credit for financial *reinsurance* if and to the extent that there has been an effective transfer of risk from the *firm* to a third party.	
		(2)	In *INSPRU* 1.1.19AR to *INSPRU* 1.1.19FG, references to financial *reinsurance* and contracts of financial *reinsurance* include:	
			(a)	contracts of *reinsurance* which have the characteristics of financial *reinsurance*;
			(b)	all contracts of *reinsurance* with an *ISPV;* and
			(c)	analogous non-*reinsurance* financing agreements.
1.1.19B	G	For the purposes of *INSPRU* 1.1.19AR(2)(c), analogous non-*reinsurance* financing agreements include contingent loans, *securitisations*, and certain financial instruments.		
1.1.19C	G	There are a number of ways in which a *firm* may be able to take credit for financial *reinsurance* under the *rules* in *GENPRU* and *INSPRU*. Examples include:		
		(1)	treating the *reinsurer's* share of *technical provisions* as an *admissible asset* in accordance with *GENPRU* 2 Ann 1R; or	
		(2)	reducing its solvency requirements in accordance with the deduction for *reinsurance* allowed in the calculation of the *general insurance capital requirement* or the *long-term insurance capital requirement* under *INSPRU* 1.1; or	
		(3)	bringing into account amounts receivable under the contract when valuing cash flows for the purpose of a prospective valuation of *mathematical reserves* under *INSPRU* 1.2. In particular, a contingent loan or other analogous non-*reinsurance* financing agreements may then give rise to an addition to *capital resources* as a positive valuation difference in accordance with *GENPRU* 2.2.75R.	

1.1.19D	G	The amount of credit taken by a *firm* for a risk transferred should be measured by applying the standard methods for determining the regulatory balance sheet set out in *INSPRU*. For example, where credit is being taken so as to reduce *technical provisions*, the amount of that credit should reflect the difference in *technical provisions* that arises from changing the assumptions used to reflect the risk transferred.		
1.1.19E	G	For the purposes of *INSPRU* 1.1.19AR(1), the transfer of risk from the *firm* to the third party should be effective in all circumstances in which the *firm* may wish to rely upon the transfer. Examples of factors which the *firm* should take into account in assessing whether the transaction effectively transfers risk and the extent of that transfer include:		
		(1)	whether the documentation associated with the financial *reinsurance* reflects the economic substance of the transaction;	
		(2)	whether the extent of the risk transfer is clearly defined and incontrovertible;	
		(3)	whether the transaction contains any terms or conditions, the fulfilment of which is outside the direct control of the *firm*. Such terms or conditions may include those which:	
			(a)	would allow the third party unilaterally to cancel the transaction, except for the non-payment of monies due from the *firm* to the third party under the contract; or
			(b)	would increase the effective cost of the transaction to the *firm* in response to an increased likelihood of the third party experiencing losses under the transaction; or
			(c)	would oblige the *firm* to alter the risk that had been transferred with the purpose of reducing the likelihood of the third party experiencing losses under the transaction; or
			(d)	would allow for the termination of the transaction due to an increased likelihood of the third party experiencing losses under the transaction; or
			(e)	could prevent the third party from being obliged to pay out in a timely manner any monies due under the transaction; or
			(f)	could allow the maturity of the transaction to be reduced;
		(4)	whether the transaction is legally effective and enforceable in all relevant jurisdictions.	

1.1.19F	G	A *firm* should also take into account circumstances in which the benefit to the *firm* of the transfer of risk could be undermined. For instance, where the *firm*, with a view to reducing potential or actual losses to third parties, provides support to the transaction, including support beyond its contractual obligations (implicit support). Another example of a situation where the *firm* should consider whether it should take reduced credit for a transaction is where it has invested in the bonds issued by an *ISPV* with which it has reinsured risks.