ReAssure

ReAssure Limited
Policies invested in the unit linked funds of ReAssure Limited (which were formerly with Guardian Assurance Limited)
31 December 2016

Principles and Practices of Financial Management

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Appendix

1. Purpose

1.1 Introduction

This document is for customers with policies invested in the unit linked funds of ReAssure Limited (which were formerly with Guardian Assurance Limited).

This document has been prepared in accordance with the ABI "Guide of Good Practice for Unit-Linked Funds" (first published 1 June 2006, revised 2nd edition in 2012 and current edition published in May 2014 and henceforth referred to as the "Guide") and details the Principles & Practices currently adopted by ReAssure Group Limited (RG) in the operation of unit-linked funds for policies formerly within Guardian Assurance Limited.

The purpose of the document is to help further the understanding of how ReAssure Limited manages its unit-linked business and provides details on the governance procedures for such business. In particular, the document is intended to describe Company practices and illustrate that these are consistent with the concept of Treating Customers Fairly (TCF) and conduct risk.

1.2 Scope

The ABI consulted with the Financial Conduct Authority (FCA) in developing the guidelines contained in the Guide. Where Firms do not meet the guidelines it is incumbent upon them to explain the reasons to the FCA. However, the Guide does not constitute guidance from the FCA and the FCA Handbook text takes precedence should there be areas of conflict.

This document relates to the practices of the principal insurance entity of ReAssure Group Limited, namely ReAssure Limited (for policies formerly within Guardian Assurance Limited).

Guardian was bought by Swiss Re in early 2016. Swiss Re is a major global financial services firm that specialises in managing policies through its UK-based life company, ReAssure. Guardian Assurance Limited changed to ReAssure Life Limited on 27 June 2016.

On 31 December 2016 the assets and liabilities of ReAssure Life Limited were transferred to ReAssure Limited under the terms of the High Court approved Scheme in accordance with Part VII of the Financial Services and Markets Act 2000.

This guide relates to Policies invested in the unit linked funds of ReAssure Limited (which were formerly with Guardian Assurance Limited).

To understand the operation of our unit-linked funds, it is necessary to read the document as a whole. However, the document is not a complete description of the unit-linked fund operations and is not intended to be used by advisers for customers as a basis for recommendation of our unit-linked funds.

It is important to note that this document does not replace or supersede the content of policy terms and conditions. Should there be any areas of

difference then the policy terms and conditions take precedence.

We operate our unit-linked funds in accordance with policy conditions, applicable legislation, regulation and guidance. This document is intended to reflect the current governance and operating standards for ReAssure Limited unit-linked funds (for policies formerly within Guardian Assurance Limited) and may be subject to changes from time to time.

Explanations of words and phrases are given in the Glossary at the end of the document.

1.3 Implementation

A review of unit-linked practices against the standards set out in the Guide has been conducted and ReAssure Limited is satisfied that it meets the relevant standards of the Guide with due consideration to points 1.10[1] and 1.14[2] of the May 2014 edition i.e. ReAssure Limited is a consolidator of closed life assurance books.

1.4 Review and Update of the Good Practice Guide

ReAssure Limited unit-linked practices will be reviewed annually against the Guide to confirm they continue to meet the set standards where applicable.

Where changes are made to existing practices such as fund governance, use of discretion or operating standards as a result of business change these will be updated in the Guide to reflect current practice as part of the annual review process.

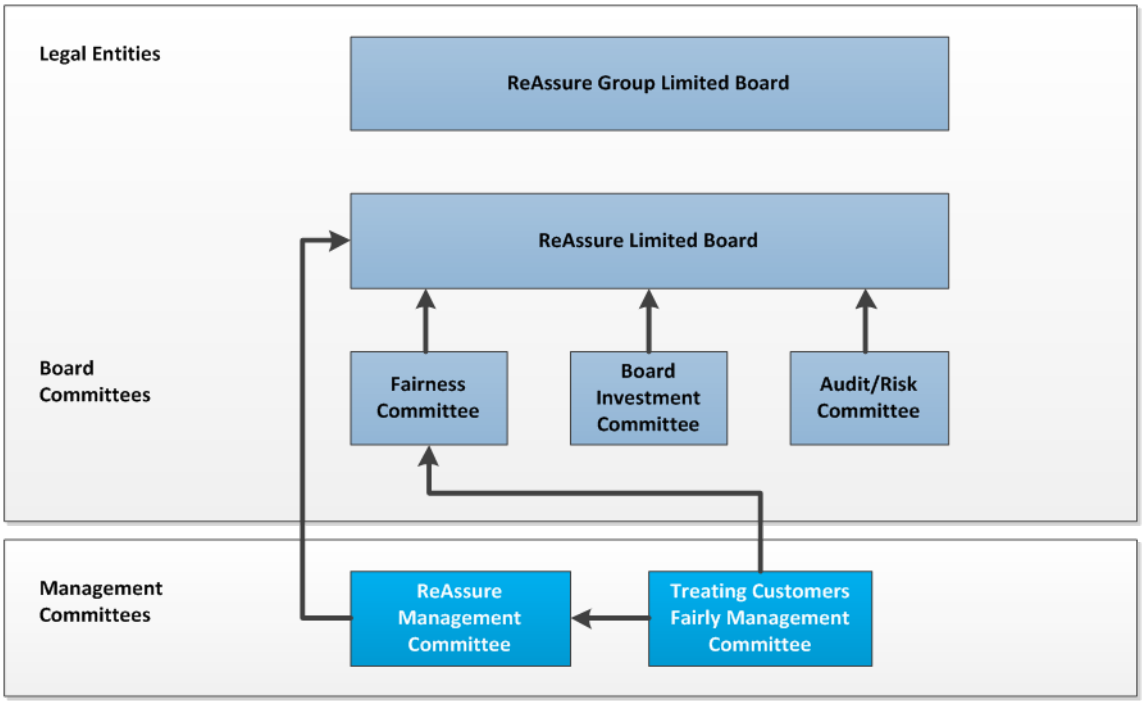
2. Fund Governance

2.1 Outline of the Governance Structure

ReAssure operates a governance structure such that the Board(s) has overall responsibility for the oversight and management of the unit-linked funds, with delegated authority being exercised by the Board Investment Committee (BIC), the Fairness Committee (FC) and the Chief Actuary. The committees are themselves supported by management committees such as the Unit Pricing Committee (UPC).

2.2 Governance Structure Diagram

Below the Boards are the various committees, which undertake the day-to- day oversight of the unit-linked funds, amongst other things.



2.3 ReAssure Group Limited Board and ReAssure Limited Board

ReAssure Group Limited Board (RG) operates as the holding company for all the regulated entities in the ReAssure group

ReAssure Limited (RL) is the UK life insurance entity within the ReAssure Group and is authorised by Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA). The RL Board consists of a majority of non-executive directors.

The RL Board, as led by the Chairman, is responsible for the following key roles amongst others:

- To discharge the obligations of the Board of Directors under the Companies Act and to deal with all statutory matters determined by, or reserved to, the Board.
- To provide strategic input to the direction and management of the relevant company, including approving their individual business plan and operational budgets.

- To ensure governance arrangements (e.g. reports in relation to financial, solvency and capital adequacy of the Group and its operating Companies), systems of internal control and compliance are fit for purpose.

The RL Board is supported by the Audit Committee (AC) & Risk Committee (RC), in addition to the ReAssure Management Committee (RMC), the Board Investment Committee (BIC) and Fairness Committee (FC).

The RL Board has overall responsibility for the operation of our unit-linked funds, and in particular monitoring the exercise of discretion.

2.4 ReAssure Management Committee

The RMC (previously known as the Life Management Committee) is governed by its Terms of Reference, which include the oversight and management of all aspects of the life businesses of RL, including that of the unit-linked funds. The RMC, led by the CEO of RL, has overall responsibility for carrying out the strategic plans and policies as set by the relevant Boards. It receives reports and updates, and has sight of various papers and reports prepared for the attention of the BIC, Fairness Committee and the Boards.

The CEO and members of the RMC have direct responsibilities for managing the affairs of the business across ReAssure and are accountable to the Board, and are therefore "Controlled Function" holders as defined by the Financial Services and Markets Act 2000.

The RMC supports the RL Board by providing it with the resources and information required by the Board to enable the effective discharge of its duties. Whilst the RMC itself has responsibility for the oversight of the unit-linked funds, it is also supported in this by the Board Investment Committee (BIC).

2.5 Board Investment Committee

The BIC comprises a number of non-executive directors/members. The BIC's activities are governed by its Terms of Reference, which include the oversight and management of investment management activities, including those for the unit-linked funds. It receives reports and updates from the investment managers, and from Swiss Re Life Capital Asset Management, and has sight of various papers and reports to enable it to discharge its duties in accordance with its terms of reference. It provides reports and updates to the Board in this respect on a regular basis.

2.6 Unit Pricing Committee

The Unit Pricing Committee (UPC) reviews all issues relating to unit pricing and reports relevant issues to the Treating Customers Fairly (TCF) and Fairness Committees. The UPC provides oversight, review and challenge of the unit pricing principles and practices (including the monitoring of the exercise of discretion) and also oversees the remediation approach for any pricing errors.

2.7 Fairness Committee

The Fairness Committee provides the RL Board with advice and recommendations on the management of the with profits businesses. The duties of the FC include independent monitoring of compliance with the relevant Principles and Practices of Financial Management (PPFM) and consideration of proposals for the exercise of discretion in respect of non-profit policies and ReAssure's overall approach to treating customers fairly. The FC also monitors that processes followed are consistent with the PPFM and that decisions taken by the RL Board have followed due process and are consistent themselves with the PPFM. The FC considers the main areas of Solvency, Investment, Fund Management, Bonus Decisions and Customer Communications relating to changes to the PPFM (including such matters as use of the estate and payments to shareholders).

2.8 Chief Actuary

The Chief Actuary is the delegated Executive individual responsible in ReAssure for ensuring that the unit-linked funds have appropriate oversight and management. Their responsibilities are to ensure that the relevant committees receive the information on a regular basis, to challenge that information, and to ensure that there are appropriate controls in place and operating to ensure the effective oversight and management of the ex-Guardian unit-linked funds.

The Chief Actuary is a member of the RMC, attends the BIC and FC and provides actuarial input to all of these committees.

2.9 Three Lines of Defence

ReAssure operates a three lines of defence model as part of the Risk Management framework. To facilitate clarity of committee and individual responsibilities based on appropriate segregation of duties, a definition of the three lines of defence and supporting responsibilities are outlined below:

- First line of Defence - day to day management, control and reporting of risk exposures in accordance with the strategies, policies and risk appetite set by the Board.

- Second line of Defence – Control functions have responsibility for the oversight and challenge of the day to day management, control, and reporting of risks (this is covered within section 2.9.1 Risk and Compliance).

- Third line of Defence – Independent assurance on the overall system of internal control, including risk management and compliance (this is covered within section 2.9.2 Internal Audit).

2.9.1 Risk and Compliance

The ReAssure Risk and Compliance functions comprise the control advisory and oversight monitoring functions of risk management and compliance that ReAssure has in place. They own the ReAssure Risk Management and

Compliance frameworks and provide assurance and oversight of the operation of ReAssure's internal control framework, and that within ReAssure's outsourced service providers (OSPs), and the effectiveness of Line 1 functions in managing risk within risk appetite, as determined by the Board.

Risk and Compliance management defines and prescribes the financial and non-financial risk assessment processes for the business; undertakes regular reviews of these risks in conjunction with line management; advises on all areas of regulatory principles, rules and guidance, including leading on regulatory changes; and undertakes monitoring activity on key areas of risk.

The Risk function report to the ReAssure Chief Risk Officer (CRO), who reports directly to the ReAssure Chief Executive Officer (CEO) and Life Capital CRO, to maintain a strong independence.

The Compliance function reports to the Head of Compliance, who reports directly to the ReAssure Chief Executive Officer (CEO), to maintain a strong independence

The Risk and Compliance functions report into the Audit Committee (AC) and Risk Committee (RC), who then report to the Boards, providing appropriate levels of independent challenge and maintaining independence from the business.

The AC and RC have responsibility for providing challenge and maintaining independence from the business.

2.9.2 Group Internal Audit

The objective of Group Internal Audit (GIA) is to provide independent assurance and advisory services designed to add value and improve the organisation's operations, support the ReAssure Group management accomplish its business goals and objectives, and protect the assets, reputation and sustainability of the organisation. This is achieved by bringing a systematic, disciplined and balanced approach to evaluate and improve the effectiveness of governance, internal controls and risk management processes.

The role of GIA is to assist the Boards, the Audit & Risk Committee, and the Executive management teams in the effective discharge of their responsibilities by providing them with analysis, advice and recommendations concerning the internal control environment, by promoting effective and efficient controls, and by ensuring corrective management actions. The findings from GIA activities are reported to the Audit and Risk Committee and Management team and subsequent actions are tracked through the relevant Committees.

GIA's evaluation provides information to appraise the overall effectiveness of management control processes. All business systems, processes, operations, functions, and activities within the organisation are subject to evaluation by GIA through an annual cycle of reviews which focuses on priority and high risk areas.

GIA reports to the Chair of the Audit Committee and Swiss Re Group Internal Audit Function.

2.10 Outsourced Third Party Partners

A third party fund manager is used to manage and administer the ex-Guardian unit-linked funds. This arrangement is formalised by way of an Investment Management Agreement, between the outsourcer and ReAssure.

As part of those arrangements, the third party fund manager themselves employ third party administration companies to manage all back office fund administration functions, such as fund accounting and custodian services. The third party fund manager monitors its investment administration relationships using a consistent governance arrangement, and ReAssure retains sufficient oversight of the whole chain of service provision.

The RL Board has overall responsibility for the operation of our unit-linked funds and delegates oversight of the relationship to the RMC (which is supported by the BIC). ReAssure remains fully responsible for all outsourced service provider (OSP) activities and has a process for overseeing, monitoring and reviewing the performance of OSPs and any risks associated with their use as defined in the Outsourcing Risk Policy.

The mandatory operating standards detailed in the Outsourcing Risk Policy cover a wide range of risks including business continuity, audit rights and dispute resolution.

The controls applied to manage these risks reflect the importance of the outsourcing arrangement, taking into account the overall risk presented by the outsource activity.

The third party fund manager is responsible for monitoring their service against key performance indicators agreed with ReAssure and linked to the service level agreements. The third party fund manager provides regular reporting packs based around these key performance indicators to ReAssure and also provides external validation reports as required.

ReAssure and its third party fund manager have monthly service review meetings to discuss on-going issues and any proposed changes to services. Quarterly strategy meetings are held with senior representatives from both ReAssure and its third party fund manager. In addition, there is a quarterly Joint Assurance Forum held by ReAssure and its third party fund manager including representatives from Operations, Risk & Compliance and Internal Audit (TBC).

Within ReAssure, the operational oversight of the outsource arrangement including service provision is managed at its regular BIC meetings.

2.11 Conflicts of Interest

ReAssure has an Investment Management Policy which contains mandatory operating standards detailing the controls in place to manage the conflict of interest risk in order that policyholders or other stakeholders are not unfairly disadvantaged to the benefit of others. The controls include:

- The use of investment mandates to reduce the scope for investment manager conflicts.
- The management of assets via segregated mandates to protect policyholder guarantees and facilitate investment consistent with the with-profit and unit-linked PPFM's.
- The Fairness Committee oversees investment of with-profits assets on behalf of with-profits policyholders. It reviews the investment mandates of the with-profits assets for consistency with the PPFM on an annual basis.
- The Board Investment Committee provides oversight of the Unit-Linked arrangements. It reviews investment mandates for consistency with the PPFM on an ongoing basis.
- Before selecting an OSP, due diligence must be performed to identify whether there are any potential conflicts of interest

2.12 Documentation

This Principles and Practices of Financial Management document for our unit-linked funds is only one component of the range of documentation available.

2.12.1 Individual Policy Conditions

It is important to note that this document does not replace or supersede the content of policy terms and conditions issued historically by the Guardian group of companies. Should there be any areas of difference then the policy terms and conditions take precedence.

2.12.2 Further Customer Communication

Information was provided at the point of sale, including marketing literature, personal illustrations and policy schedules. Illustrations continue to be provided when requested. In addition to policy conditions, we may provide further information to policyholders within their regular statements and/or inserts. Information may also be provided on our company website. However, additional information provided on our websites does not form part of policy terms and conditions.

2.12.3 Information available to Customers

Policy conditions will normally contain all the information describing the key elements of our unit-linked funds. In addition to the information described in 2.12.2 above, customers may be advised of variations to policy conditions in the form of a contract endorsement or by an alternative method of notification. Contract endorsements form part of the terms and conditions of a policy, whereas information provided by alternative methods will not normally alter contract terms and conditions.

Fund information is covered in section 4.8 of this document. In particular references to our documents "Unit-Linked Funds: A Guide" and "Guide to how our unit-linked funds work". Both these documents are available on our website or by contacting us.

3. Fund Launches, Mergers and Closures

3.1 Overview and Treating Customers Fairly

We have discretion over a number of aspects of the management of unit-linked funds' including whether to launch, merge or close funds. When discretion is exercised in these areas, we ensure that we follow the key principle of Treating Customers Fairly (TCF) and pro-actively consider conduct risk (i.e. the risk that a business might act against the customers' best interests in pursuit of its own).

3.2 Ability to Merge, Close or Wind Up a fund

'Closing' a fund means stopping further payments from being made into the fund and preventing subsequent switches into the fund.

'Winding Up' a fund means cancelling all units within a fund and realising all the fund's investments and assets.

'Merging' a fund is where a fund is combined with another existing fund (typically larger fund).

We reserve the right to close, wind up or merge funds, and details are contained within the Unit-Linked Fund Closure and Merger Policy, and any changes are subject to Fairness Committee approval.

A unit-linked fund will be considered for closure, merger or winding up if the fund size reaches an amount where ReAssure considers that to continue running such fund would not be in the interests of the remaining unit holders.

The rationale for the decision is based on there being a disproportionate level of fixed costs and/or overheads involved in managing such a fund, or in the event that the trading impact of switches and liquidity requirements could become prejudicial to the remaining unit holders.

As a minimum the following considerations must be taken into account and addressed in any proposals for fund mergers or closures:

• Economic viability of running the fund – including the cost considerations

• Fairness considerations for policyholders including reasonable expectations

• Consistency with existing policyholder literature and communications

• Charges to policyholders before and after the change

• Whether there are any other appropriate funds with similar mandates that the earmarked fund can be merged with

• The potential impact on the remaining unit holders in a closed fund from large liquidity requirements requiring substantial disinvestments.

• The risk profile of the funds before and after the proposed merger or closure, and the consequential impact on policyholder assets invested in these funds

• Consider options to merge the fund with a similar fund within the existing range; or if this is not possible, wind-up the fund directly

When merging, closing or winding up a fund we take reasonable steps to inform the policyholders who hold units in impacted funds. Our aim is to give three months' notice to policyholders, where this is practicable. However, in some circumstances, this may not be possible but we will endeavour to give as much notice as we can.

On a fund closure, winding up or merger, if we have not done so already, then we would move to a bid basis for pricing the fund. Where possible we aim to allow policyholders invested in the fund to choose which of the other funds within the available range they wish their future premiums to be invested (where policyholders do not advise us of their choice, a default option will be used consistent with the approach being taken for the fund being closed). We will remove the ability and option for further switches into the fund once its closure has been announced.

4. Fund Operations

4.1 Operating Standards

In line with the principle of TCF, we aim to operate our unit-linked funds in an open and transparent manner. To reflect this, our processes and decisions are documented, and relevant details are made available to our regulator and our policyholders, according to their respective needs and requirements.

ReAssure has the appropriate capabilities in respect of the unit-linked operation including the appropriate skill base capable of understanding the overall unit-linked operation.

4.2 Scope and Limits of the Manager's Discretion

When discretion is exercised we ensure that Treating Customers Fairly (TCF) is a key principle that is followed. Specifically this includes our fundamental principle of unit pricing: to minimise the impact that leavers and joiners have on unit prices.

Policy terms and conditions provide details of how discretion may be applied. They set out the scope and limits of our discretion in managing our unit-linked funds. We aim to operate our unit-linked funds according to these published criteria and standards as far as possible.

We may also issue supporting documentation as described in section 2.11.

4.3 Decision and Communication where Discretion is Exercised

This document aims to summarise the various areas where discretion may be exercised in running our unit-linked funds. In addition, there is a customer friendly (simplified and shortened) version of this document published on our website ("Guide to how our unit-linked funds work") and available on request. These will act as a point of reference against which we will review any decisions taken.

4.4 Review of Discretion and Scope

A review of the scope of discretion will be carried out at least annually in line with section 1.4 and a more significant review every (3-5) years, or upon a significant change to the fund or the policyholder base.

4.5 Reporting Structures

Robust and effective reporting structures are in place to allow the Board to monitor the exercise of discretion on an ongoing basis to ensure that policyholder interests are safeguarded. This monitoring is delegated in the first instance to the RMC.

4.6 Listing of Discretionary Areas

Areas where discretion may be applied are further detailed in section 5 of this document and include:

- Allowing for dealing costs
- Unit price rounding
- Applications of Annual Management Charges (AMC)
- Tax
- Pricing framework (switching between bid and offer bases)
- Internal deals
- Ability to defer disinvestments
- Valuation of assets (including those not quoted on a recognised stock exchange)

- Adjustments to valuation of assets quoted on a recognised stock exchange
- Choice of valuation point, frequency and timing of pricing

4.7 Dispute Resolution and Breaches of Policy Conditions

When a customer makes a complaint, we follow our formal complaint handling procedure. Our current process is to issue a letter of acknowledgement within 5 working days of receipt of a complaint.

Our aim is to resolve the complaint within 4 weeks of receipt, or provide an update of progress with an expected completion date. Full details of this procedure can be found on our website.

Where we become aware of a breach of policy conditions or other customer commitments, we will assess the materiality, including financial impact and customer expectations. We will then take appropriate management actions considering both the prospective and retrospective implications.

4.8 Fund Information

Customer information is covered in section 2.11 of this document.

Our document "Unit-Linked Funds: A Guide" contains more detailed information on our unit-linked funds. The guide contains various details including fund description, structure and risk ratings.

Our document "Guide to how our unit-linked funds work" explains how our unit-linked funds work and our current approach to managing them. It also describes how we make sure we treat all customers fairly.

Both these documents are available on our website or by contacting us.

4.9 Investment Mandates

ReAssure has an Investment Management Policy as indicated in section 2.10. Some of the high level outcomes that this Policy is designed to achieve include:

- Asset portfolios are constructed and managed to ensure an appropriate level of security, quality, liquidity, profitability and availability
- Individuals with appropriate skills and experience are responsible for investment making decisions
- Investments are made in line with policyholders' best interests
- The composition of the ex-Guardian Fund's asset portfolios is monitored, managed and reported in line with risk appetite limits
- The performance of the ex-Guardian Fund's asset portfolios is monitored and reported against investment mandate benchmarks

A third party fund manager is used to manage and administer the ex-Guardian unit-linked funds. This arrangement is formalised by way of an Investment Mandate Agreements, between the outsourcer and ReAssure. The outsourced fund manager has discretion to manage each unit-linked fund in accordance with the investment mandates.

The Investment Mandates include:

- Fund objectives and performance measures
- Allowable assets, restrictions and tolerance levels
- Investment performance and operational performance benchmarks
- Use of derivatives and
- Stock lending

4.10 Stock Lending

Stock lending may be used, which, whilst collateralised, does expose the unit-linked funds to some risk of default on the part of the borrower.

5. Valuations and unit pricing

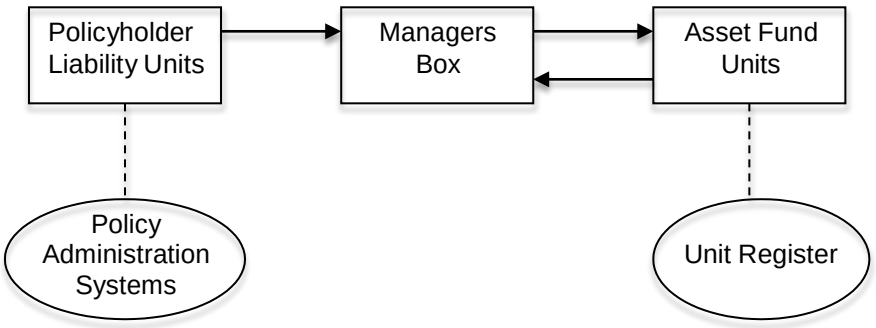
5.1 Unit Price Calculation

The unit price at the “asset fund” level is calculated for each fund based on its Net Asset Value (NAV) divided by the number of units in creation. The asset fund unit price is based on the value of each of its underlying assets at the valuation point and includes allowances for all income, fund expenses and taxation with the exception of the Annual Management Charge (AMC). Each component of the NAV takes account of the net cash flow position of the fund to minimise the impact of leavers and joiners on the asset fund unit price.

We operate a Box that acts as an intermediate step between policyholder transactions (involving policyholder liability units) and dealing with the fund (involving asset units). See section 5.5.10 for further details on Box Management.

The following diagram gives a high level overview of how asset units and liability units are matched.

High level box structure



5.2 Pricing Policy and Treating Customers Fairly (TCF)

Our overriding principle in calculating unit prices is to ensure that all policyholders are treated fairly. This principle can be broken down to the following statements:

Principle	Practice
The price is based on the fair valuation of all assets in the fund.	Assets are valued using market prices provided by an independent vendor using data from recognised exchanges. Those assets whose values are not available through recognised exchanges (e.g. OTC derivatives and unquoted assets) have values supplied from a range of alternative sources, as considered most appropriate by the fund management company. Examples of sources include independent brokers / counterparties or via recognised price and market data providers. Valuation methods include matching asset characteristics against Gilts.
Charges and expenses are applied to the fund on a consistent basis.	Charges and expenses are applied to the funds in a standard, consistent basis. The charges and expenses applied to the fund are indicated in policyholder communications.
The method of valuation is fair and transparent to all parties.	Valuation and current transactions are monitored to allow the unit price to be set at a consistent bid or offer basis based on the net inflows / outflows of cash to the fund thus providing a fair price to investors / dis-investors and keeps dilution of the existing policyholders' value to a minimum.
Avoidance of any cross-subsidies between the policyholders of individual funds.	Each fund is separately priced, thus avoiding cross-subsidies.
The purchase and sale of units treats purchaser and seller policyholders fairly.	Achieved by setting purchase and sale prices, which incorporate dealing costs, thus preserving value to all policyholders on a fair and equitable basis.
The same bid price is applied to all units bought and sold on each working day for a fund.	Follows principle of "equitable treatment" for all investors.
No unit holder is provided with fund cash flow information which would allow them to make selective investment decisions. In particular, we do not permit client instructions which link a unit purchase or sale to the net activities of other investors in the fund.	Follows principle of "equitable treatment" for all investors.

We engage with our third party asset manager to ensure that these Principles are adhered to through the Practices undertaken.

5.3 Expenses

Our unit-linked policy documents outline various items that may be deducted from a fund, including taxes, charges and expenses. (See section 5.7 for details of charges)

In general, the following expenses, income and taxation charges are applied to the asset fund:

Asset / Expense Report	Expense / Income / Taxation Treatment	Frequency
Expenses		
Custodian charge	Reflects actual cost based on safekeeping ad valorum charge and associated transaction charges.	On receipt
Dealing costs & Commission	Included in underlying security's book value.	As transacted
Other expenses	Reflects actual cost.	On receipt
Income		
Equity	Recorded as if received from the ex-dividend date.	From the ex-dividend date
Bonds / Gilts	Accrued.	Daily
Unit Trusts & Open Ended Investment Companies (OEICs)	Unit Trust & OEICs income built into respective prices.	Daily – included in published price
Accumulation units	Reflects actual value.	On receipt
Cash at bank	Interest posted.	On receipt
Cash – Money Markets	Accrued.	Daily
Property income	Rental income accrued in Pooled Property Fund price.	Daily – included in property price
Other income	Income posted.	On receipt
Taxation		
Tax	See section 5.7.4 for details.	

5.3.1 Expense Projections

Additional yearly fund expenses are updated each year following a review of disclosable expenses. We ensure that any subsequent literature or statement produced shows up-to-date charges. The level of disclosable expenses is rounded up to the nearest 0.05%.

5.4 Pricing Models

From a policyholder perspective, we currently price all unit-linked fund transactions on a historic pricing basis. The actual creation and cancellation of units within the underlying unit-linked fund is done by the Box on a future pricing basis; this protects the unit-linked fund from being adversely affected by transactions (premiums, claims and switches). The company mitigates the risk against being adversely affected by transactions by the rules outlined in section 5.5.9 below.

5.5 Pricing Frequency and Unit Transaction Activity

The following sections detail our practice regarding the timing of unit transactions and unit allocations / deal locations to policyholders.

5.5.1 Liquidity

There is no formal policy or target for liquidity, as our approach will adapt to circumstances such as levels of positive or negative cash flow and potential dilution of returns from holding cash.

Policyholder claims are paid by non-linked funds to avoid delays in settling claims. The non-linked funds are made good by the funds when unit movements are processed under the Box Management.

5.5.2 Gearing

There is no gearing of the ex-Guardian unit-linked funds.

Through the box process, ReAssure invests a small amount of shareholder capital for the efficient management of the ex-Guardian funds. This is not material to the valuation of the funds.

5.5.3 Tracker Funds

ReAssure adopts a passive approach for a number of the ex-Guardian unit linked funds. Passive funds track a market or benchmark index. This means that the investment managers invest in funds that track the benchmark for the relevant fund sector. Details of the type of tracker fund and benchmark for the ex-Guardian range of unit linked funds are shown in the document “Guardian Unit-Linked Funds: A Guide”. This document is available on our website or by contacting us.

The actual fund performance of the passive fund will not be identical to that of the benchmark; this difference is referred to as tracking error. There are many causes of tracking error, for example trading costs incurred as a result of the requirement for the passive fund to rebalance its underlying investments to be consistent with the constituent asset holdings of the index. The impact can be either positive or negative depending on the underlying circumstances of the tracking error.

Additionally, the performance of a fund that invests in more than one tracker fund will not be identical to that of the benchmark index. This difference can arise because the rebalancing of the benchmark fund and the underlying passive funds may not occur at the same time. The tracker funds we offer are currently all managed and monitored by external investment partners. Within the investment partner, an anticipated annual tracking error target range is set. The performance of the tracker funds against their benchmark is regularly monitored and reported to the Investment Committee.

Any remediation required as a result of a pricing error within a Tracker Fund is covered within section 6. It should be noted that tracking errors, or differences in performance compared to benchmark, are not ordinarily pricing errors that would lead to remediation but are functions of investing in Tracker Funds

5.5.4 Pricing Frequency

All unit-linked asset funds are normally priced daily at the same time (currently 12:00 noon). The unit prices for the fund hierarchy structure based on these asset funds are calculated on the valuation prices of these funds. Our policy conditions give us the ability to value at a time other than the normal daily time, providing flexibility to meet exceptional circumstances.

Where market or system issues affect our ability to price at the normal daily time, unit prices may be calculated in a different way or at a different valuation point depending on the circumstances. In general, any divergence from the normal valuation point will only occur in exceptional circumstances. (See section 7).

The normal daily time may change in the future subject to approval from the governance structure (see section 2).

5.5.5 Pricing Basis

The pricing basis for a unit-linked fund is set depending on whether the fund is expected to be expanding or contracting (based on net cash flow). For an expanding fund, the NAV will generally be calculated based on the market prices and associated costs that would apply on notionally purchasing the assets of the fund as at the valuation point. This is called an “offer pricing basis”. Conversely, for a contracting fund, the NAV will generally be calculated based on the market prices and associated costs that would apply on notionally selling the assets of the fund as at the valuation point. This is called a “bid-pricing basis”.

The unit price derived from either of these pricing bases is called the “bid price”. Where there is an initial charge reflected within the “bid-offer spread”, then the policyholder purchases units at the “offer price”. The offer price is derived from the bid price to reflect the level of initial charge within the insurance contract. For example, where the company charges a 5% bid-offer spread, the offer price is calculated as the bid price divided by 0.95.

In summary:

Type of Fund	Expanding / Contracting	Pricing Basis
Unit-linked	Expanding	Offer basis
Unit-linked	Contracting	Bid basis
Managed Funds		Based on underlying unit-linked funds

5.5.6 Switching between Bid and Offer Bases

The ReAssure pricing basis approach for the ex-Guardian funds is documented and is subject to regular review.

The internal pricing basis for the ex-Guardian unit-linked funds is based on whether the fund is generally expanding or contracting taking into account the net cash flows into or out of the fund. Normally the pricing is on a bid basis as the funds, over a period of time, have been contracting.

5.5.7 Historic Pricing Model

Underlying assets are predominantly valued using current recognised market prices/values. Assets that are valued infrequently will be based on the last known value, suitably adjusted to the present. This valuation of assets derives the Net Asset Value (NAV) for the underlying funds, which leads directly to the published unit prices to be made available to policyholders. The published unit price is valued on an historic basis, which means that the published price used for policyholder transactions (e.g. premiums, maturities, surrenders) on any given working day is calculated as at the normal daily time (currently 12:00 noon) on the previous working day (specific rules apply for fund switches, as detailed in 5.5.9). In exceptional circumstances, for example a stock market crash, the transaction date and price used may be deferred as described above.

Unit-linked funds that are priced on an historic basis carry the risk of mis-match between the quoted price and the underlying value of the units. Any mis-match risk for unit pricing is borne by the Company.

5.5.8 Market Timing

To mitigate the effects of market timing and safeguard policyholders' interests, we employ the following processes:

• Use of historic pricing mechanisms

• Monitoring of policyholder investment activities

In addition, we reserve the right to defer disinvestments. (See section 5.5.9)

5.5.9 Transaction Processing

Investments

Direct debits and standing (banker's) orders for individual customers and some group arrangements are set up to automatically collect money and apply the unit transaction on a specified date each month or year (normally in relation to regular premiums).

Some group pension arrangements have direct debit mandates by instruction where there is additional flexibility whereby the amount and payment date may be varied at the client's discretion from period to period.

The ex-Guardian unit-linked policies are closed to new business, except where specific options within existing policies require it. To the extent that additional new funds can be applied to existing or replacement policies, then the application should be accompanied by a valid investment instruction, whether it be via telegraphic transfer or BACS payments received. If there is not a valid investment instruction, then we will inform the relevant party that we are unable to invest their money until we have received a valid investment instruction.

Units will normally be purchased at the valuation point immediately following receipt of the valid payment.

We operate a system whereby money that has not yet been allocated to policy records is held in a "suspense" account. This is so that we can match investment fund exposures at the earliest opportunity, generally at the point of receipt of investments.

There are three scenarios where money is held in suspense:

- It is known which policy the money relates to, and the investment choice is known, but is awaiting allocation.
- It is known which policy the money relates to, but the investment choice is not known.
- It is not known which policy the money relates to (and hence the investment choice is also unknown) - "unidentified suspense".

We aim to clear all money from suspense within a defined period. Where this is not possible due to incomplete supporting documentation, money will normally be returned.

Timeliness of Transaction Processing

All areas of our Customer Services operate measurable service standards that aim to turn around premium application, switches, claims etc. within defined timescales.

The Box (as described in section 5.5.10 below) bears the risk of (and any profit or loss resulting from) any delays in processing unit transactions.

Switch Instructions

A switch instruction is a request to sell liability units in one or more funds and purchase liability units in one or more alternative funds available for investment. Switch instructions must be made in writing, which includes facsimile. They must be made by a suitably authorised person (which varies according to the contract type e.g. trustees, policyholder or authorised financial adviser) and must be clear and complete.

In accordance with policy conditions, the fund price date for a switch is again dependent on the date and time of day the instructions are received by ReAssure. The current procedure is as follows:

- If the request is received before 11.30 am then the switch will receive the fund prices as at 12 noon on the same working day. Where an instruction is received by post, it is deemed to have been received before 11.30 am.

- For instructions received after 11.30 am, the fund switch will receive fund prices as at 12 noon on the next working day following the request.

- Instructions received over a weekend will be treated as having been received on Monday morning; i.e. the switch will be processed on the fund prices for Monday, midday.

The current procedure may change in the future, for example if the normal daily pricing time changes.

An instruction received from an unauthorised person will not be acted on. Similarly, an instruction that is not clear and complete will not be acted on. In both of these circumstances we would seek an acceptable instruction as soon as practicable. The date and time of receiving the clear and complete and/or suitably authorised instruction will be used to determine the price date of the switch. A switch instruction, once received, is irrevocable. A request to cancel a switch instruction will be treated as a subsequent switch instruction. For policies with a bid-offer spread the switch will be carried out on a “bid-to-bid” basis. That is, the liability units in the existing fund(s) will be sold at bid price and the liability units in the new fund(s) will be purchased at bid price. We may apply a charge for carrying out a switch (where this is in line with policy conditions).

Deferring Disinvestments

We reserve the right to defer liability unit sales (e.g. for claim settlement or switches out of a fund) for a period typically up to one month, or in the case of property investments, for typically up to six months. The price used for the liability unit sale would be the price at the end of the deferral period.

Claim Payments

The following table summarises various claim payments for unit-linked transactions with the corresponding price used and the price date applied.

Note that the table represents our understanding of the most common

provisions in our policy conditions – there may be some variation in policy conditions between contracts which lead to different practices for certain contracts compared to those shown in the table below.

Transaction / Payment Type	Money or Instruction Received / Claim Made	Price Used	Price Date (date money applied)	Exceptions
Regular withdrawal	Withdrawal date	Bid price	Withdrawal date	May be deferred up to 1 month. For property disinvestment, may be deferred up to 6 months
Maturity, surrender, partial / irregular withdrawal, Vesting, Transfers	Claim date		Date when all relevant documentation / information received	
Death claim	Date of notification (in writing)		Date of death	
Contract charges	N/A	Whether bid or offer price is used depends on the type of charge. Policy conditions will specify which is to be used	Effective date of charge	N/A

5.5.10 Box Management

For the purposes of fund expense and matching efficiency, the Company operates a "Box" whereby units are bought and sold between the policyholder and company rather than directly between the policyholder and the underlying asset fund.

The Box is defined as being the difference between the total value of asset units (the units created in the fund) less the value of liability units (the policyholder units reflected on the policy administration systems).

The process of dealing through a Box allows the Company to aggregate individual trade instructions into a single net instruction to be transacted between the Company and each asset fund.

Policyholders are not affected by the operation of the Box.

Liability Units

Liability units are determined from ReAssure's policy administration systems and will include manual activity from the previous day (e.g. surrenders). The current position is adjusted for expected movements that day such as regular premium unit allocations or maturing policies. Known system deficiencies can also be factored in at this stage consistent with the way the liabilities are valued.

Mirror and Synthetic Asset Units

Asset units are monitored at 2 levels within ReAssure for the ex-Guardian funds: mirror units and synthetic units. Within a particular fund there may be a number of unit series. The asset units for each series are represented by mirror units, the price for which will take account of the Annual Management Charge for the series. The mirror units are aggregated into a single synthetic fund.

Box Position

ReAssure compares the value of the liability units to the value of the synthetic units for each fund on a daily basis. Where the value of liability units is greater than the value of synthetic asset units (a negative box) more asset units are required. Where the value of liability units is less than the value of the synthetic asset units (a positive box) fewer asset units are required.

Instructions

For each synthetic fund, an instruction is given to the third party unit-linked fund manager with regard to the box position in terms of cash flow. Where the box position is negative, the cash flow is to the unit-linked fund from ReAssure's non-linked funds. Where there is a positive box position the cash flow is from the unit-linked fund to ReAssure non-linked funds. However, to minimize dealing, there is a threshold amount for positive box positions below which no instruction is given.

Consequently, negative box positions are eliminated as soon as possible while small positive box positions are tolerated.

5.5.11 Cash Transaction Timing

Deduction of AMCs

AMCs are deducted daily at mirror fund level by selling synthetic fund holdings and thus reducing the mirror fund price. This creates "free units" at synthetic level. When these are cancelled, this then creates free units at sector level. These free units are cleared [cancelled] at synthetic and sector level periodically [currently every other working day]. As free units are cleared at the same time at both synthetic and sector level, there are effectively never any free units at sector level. Free units are netted with cash flows when they are cancelled.

Although the charge is removed daily from the mirror funds the actual cancellation of the higher level units (i.e. synthetic, sector and asset fund units) does not necessarily occur daily. Any time delay between the selling of mirror fund holdings to meet the (daily) AMC (release of "free units" into the synthetic and sector levels of the unit register) and the cancellation of the underlying asset units carries market exposure for the shareholder and not the fund. The performance on the policyholders' funds is therefore protected from the timing around the AMC cash transaction.

Sector and asset fund units are maintained within the third party fund manager for their efficient management of the funds.

Payment of tax

Tax payments on life unit-linked funds are accrued and therefore the effect of tax payments is limited to adjustments between the accrued figure and the actual amount.

5.6 Valuations

As far as possible, valuations are based on accurate current prices from a recognised exchange or a recognised external independent valuer, and are carried out by the third party unit-linked fund manager.

In the case of unquoted securities and OTC derivatives, although the bulk of the prices come from independent counterparties, some prices are extracted from a recognised market data provider or valued by comparison to Gilt edged securities with similar duration.

5.6.1 Asset Pricing Guidelines

The following table outlines the methods of valuation by asset class. In general, we seek to use current market data at the valuation point. Where this is not available we will use fair value pricing principles.

Asset Type	Frequency	Valuation details	Source of Price
Quoted investments i.e. ordinary shares, bonds etc.	Daily	Quoted bid, mid and offer price at the valuation point Quoted single price – External Fund Manager will have determined bid / offer status	Recognised market data providers
Unquoted investments	Monthly	Fair market value	Should unquoted investments be held within our unit-linked funds, then the price would be sourced independently from brokers or, for some unquoted bonds would be priced based around a spread of same duration Gilts. The Fund Manager has to sign-off prices but cannot set the price
Internal Fund – UT / OEIC	Daily	Pricing is based on price calculated for internal asset fund. Allowance is made to remove any double charging of AMC.	Manager

Quoted derivatives	Daily	Mark to market price	Recognised market data provider
OTC derivatives	Monthly	OTC and Swap prices sourced from counterparty and collated	Exposure Reporting Team based on the following:- Interest Rate **Swaps** – via a recognised market data provider. Other derivatives are priced via Counterparties. Coreplus fund **OTC** prices are sourced at noon via a recognised market data provider. The valuation obtained is then extrapolated back to a price. Where there is user price input, this price is verified by another administrator
	Daily	Coreplus	
Internal unit-linked fund	Daily	Pricing is based on price calculated for internal asset fund	Based on type of fund and look through details
Property	Monthly	Currently direct property fund managed by external property fund management – valuation based on open market value using hardcore valuation method	Independent qualified valuer
Cash & deposits (sterling)	Daily	Nominal value	Accounting records
Cash & deposits (foreign currency)	Daily	Fund currency equivalent	Accounting records with exchange rates via recognized market data provider

5.6.2 Internal Deals between two Unit-Linked Funds

The over-riding principle is that internal deals should be carried out in the interests of all parties.

All deals (both internal and external) will be carried out on the same pricing basis. Consequently, all cash flows (both internal and external) will be taken into account when determining the pricing basis of a fund.

Internal deals involving the transfer of assets (rather than the creation or cancellation of units) will normally be carried out at mid value. This ensures that both the buying fund and the selling fund share the benefits of any market spreads.

5.6.3 Unit Pricing and Unit Rounding

Within the investment administration and Box Management systems, calculations are made with an accuracy in pence to between two and six decimal places; equivalent to a minimum accuracy of at least four significant figures. Rounding follows the normal mathematical rounding to the nearer digit.

Published unit prices (at which policyholders may transact) are set to one decimal place.

Units allocated for ex-GLLA and ex-GPM policies are rounded down to the lower second decimal place. However, the calculation of the allocation amount is rounded to the higher second decimal place.

Freedom unit allocations are rounded to the nearer second decimal place whilst Choices unit allocations are rounded to the nearer third decimal place.

Units sold to meet charges are rounded up to the higher second decimal place.

5.7 Charges

The nature and description of contract charges (which are not implicit in fund prices) are outlined in policy terms and conditions and other published material provided to policyholders. Examples of such contract charges include, but are not restricted to, initial charge, establishment charge, bid-offer spread, regular policy charge, paid-up and surrender charge.

However, AMCs are implicit within our unit prices and are described below. The applicable level of AMC is disclosed to policyholders at point of sale. Our ability to vary the amount of AMC is detailed within policy terms and conditions along with any upper limit (should this apply). If we change the AMC we will give you notice of the changes and explain why we are changing the charges. The Unit Pricing Committee has the authority to reduce an AMC but the AMC can only be increased with both Unit Pricing Committee and Fairness Committee approval.

5.7.1 Annual Management Charges

Annual Management Charges (AMCs) are not included within asset fund unit prices. Instead, the unit register applies AMCs at the mirror fund level, which reduces the mirror fund unit price only. It should be noted that AMCs are applied as a percentage of the NAV of the fund (before that day's charge deduction but after net daily cash-flow).

The mirror fund unit prices, after deduction of AMC, are then published. These are then distributed both internally and to outside price publishers and used by us in the processing of policyholder transactions.

Since AMCs are applied at the mirror fund level, the hierarchy and matrix of relationships within the synthetic fund structure will not introduce double-charging as a result of the mechanism. However, allowance is made for management charges when an asset fund invests in an internal Unit Trust or OEIC.

In some of our older contracts, we used "initial units" as part of the product charging structure. These units were typically purchased with part, or all, of the first two year's regular premium (or two years following any increment) and attracted an additional AMC for a fixed period of time (e.g. an additional 3% p.a. for certain ex-GPM polices). Whilst this charge is deducted it is done so implicitly within the unit pricing as for all other AMCs.

The impact of AMCs is illustrated in reduction-in-yield calculations on client-specific key features (personal illustrations).

5.7.2 Dealing Costs

Investment dealing charges based on notional dealing charges across the appropriate investment markets contained in the unit-linked asset fund valuation reflect the expected cost of investing in, or disinvesting out of, the unit-linked fund. These investment notional dealing costs are built into the NAV calculation to reflect fairness to both new and existing customers of the fund.

These notional dealing charges are reviewed and changes made on a quarterly basis and the underlying systems are updated to reflect the authorised changes. Valuations run from this point on will reflect the new authorised notional dealing charges.

5.7.3 Other Charges

As per the table in 5.3, Expenses, where allowable under the relevant policy conditions, are based on the actual costs incurred and are applied at the point the cost is incurred and not accrued or accounted for in any other way.

5.7.4 Tax

For life funds, the over-riding principle is that tax is charged to funds to approximate the tax that would have been borne had the fund been taxed as a standalone life company, although this policy is modified in cases where the funds have capital losses (see below). These charges are reflected through tax provisions made within fund valuations. Our practice is to extract from life fund provisions a total tax charge which, in aggregate, is equal to the tax paid to HMRC in respect of that business. There is no tax credit applied in respect of AMCs charged to the life funds.

The following is a summary of current practice within our unit pricing, but is subject to change over time:

Taxable Element	Investment Type	Tax Treatment
Income	UK equity dividends	Not taxable
	Overseas equity dividends	Not subject to UK tax but in some cases will have had overseas withholding tax deducted from them by overseas tax authorities
	Corporate and Government Debt (UK)	Policyholder tax rate applied (currently 20%), but subject to credit for any overseas withholding taxes or UK tax deductions
	Corporate and Government Debt (Overseas)	
	Property rental income	
	Bank interest	
Capital Gains	Equities / Property / Equity derivatives	Charge for Capital Gains Tax (CGT) applied at policyholder tax rate on realised and unrealised capital gains after allowance for indexation and, in the case of unrealised gains, after appropriate allowance for discounting.
	Corporate and Government Debt / Bond derivatives	Charge for Corporate and Government Debt (CGD) applied at policyholder tax rate on realised and unrealised gains (without indexation allowance)
Capital Losses	Equities / Property / Equity derivatives	Under CGT, capital losses are relieved to the extent of realised and unrealised gains only. However if a fund has capital losses which exceed its own realised or unrealised gains, then the fund will be given full or partial credit for its excess capital losses if there would be scope for its these losses to be offset against realised or unrealised gains in certain other funds.
	Corporate and Government Debt / Bond derivatives	CGD losses are relieved against realised and unrealised gains plus taxable income. However if a fund has CGD losses which exceed its own realised or unrealised gains, then the fund will be given full or partial credit for its excess capital losses if there would be scope for its these losses to be offset against realised or unrealised gains in certain other funds.

Deemed Disposals	Unit Trusts and OEICs	For holdings in collective investment schemes there is a deemed disposal of that holding at the end of each calendar year. Any deemed capital gain is assessed and spread over 7 years consistent with tax rules. Where deemed losses arise these may be used to offset deemed gains within that fund with any unused losses carried forward. Policyholder tax rate applies to deemed gains subject to discounting to reflect the deferment of those gains.

In general there is no tax charge applied to our linked pension funds, although some pension funds may have overseas tax deducted by the overseas authority. Where there are sums of tax deducted which may be reclaimed under double taxation treaties, these are reclaimed and credited to the funds which suffered the tax.

In addition to taxes payable on income and capital gains, Stamp Duty Reserve Tax (SDRT) is payable on all UK Equity purchases, currently at the rate of 0.5% of the purchase cost. Allowance is made for SDRT within daily unit pricing for funds priced on an offer basis (an expanding fund).

6. Breaches, errors and material incidents

A pricing error is any error that has affected the calculation of the unit price.

6.1 Overview

Pricing errors typically arise from the incorrect application of data (or the provision of incorrect data) from market data providers, administration or processing failures or controls that have failed to identify the error at an early enough stage in the pricing process.

Price errors are normally identified by the third party fund manager or by the pricing checks undertaken within ReAssure. Client based enquiries can also sometimes result in the identification of an error. Various reconciliations take place and can be instrumental in identifying pricing errors.

Pricing errors are normally found within one day of the error occurring, although certain errors can remain hidden for longer. If a pricing error breaches the de minimis level then the error is traced back to the point in time when it occurred and an impact assessment is performed.

ReAssure has a documented approach to remediation. The specific approach to any remediation exercise depends upon the scale and materiality of the error. The Unit Pricing Committee provide oversight of any remediation exercise which typically involves the establishment of a cross functional operational team. Suitable resources are allocated to ensure remediation is calculated and settled in a prompt and timely manner and that suitable controls are in place.

The impact on both past and present customers is considered during any remediation exercise and reasonable steps are taken to contact any gone away customers, consistent with our usual operational procedures.

The documented remediation approach includes notification of Regulators as appropriate including keeping them informed of progress of the remediation exercise.

6.2 Pricing Errors

Correcting fund prices

In the event of a pricing error being discovered by the third party fund manager, they forward the details via email to the Investment Office (Life Capital Asset Management) and Actuarial team who manage the day-to-day contact with the third party provider.

ReAssure then records and investigates the error. If, on investigation, the error is a reportable pricing error (above 0.5% or change to 4th significant figure) then an internal breach entry is recorded and reported to Risk and Compliance with back-up documentation detailing the error being attached.

Following investigation of price errors information is provided to the Actuarial team (Box Management function) for consideration and co-ordination of corrective actions and reporting to the RMC.

Correcting policyholder records

We follow the guidelines laid out by the ABI for analysing price errors, their impact on policyholders and for correction and compensation payments as follows:

Error Type	Threshold	
	Fund error %	**Value impact on Policyholder**
Not systemic or widespread	0.5%	£10.00
Systemic and widespread	Between 0.1% & 0.5%	£50.00

The type of error determines which fund error % threshold applies. If this threshold is not breached, then (in general) there is no further investigation and hence no policies are corrected. If this threshold is breached, then further investigation is carried out, including root cause analysis, and (in general) only policies affected by more than the value impact threshold will be corrected.

Compensation may be made by direct credit into the customers' bank account or by allocating additional units etc. The method used depends on the status of a policy (e.g. whether the policy is live or exited).

If compensation is deemed to apply, then our compensation arrangements based on de minimis criteria are linked to whether the amount due is greater than the threshold amounts shown in the table in section 6.2.

Discretion may be applied in accordance with RMC guidance when correcting policies invested in funds where there has been a pricing error. For example, we may vary the thresholds or we may correct a subset of policies impacted by less than the thresholds shown above. Whether we seek to amend the policy records of a policyholder who has been advantaged by the error will be considered by management under guidance from RMC.

Oversight of the error remediation process is provided by the Unit Pricing Committee (UPC).

6.3 Reporting to the Regulator

Operational areas identifying a pricing error record and report the detail and circumstances behind the error. A first pass analysis will classify the error as a breach if the new price diverges 0.5% or above from the original price or one where the 4th significant digit of the price is affected.

Each potential breach identified is recorded and reported to Group Risk. The price error is assessed in the following way by Actuarial:

- Effect of the price error (non-significant or significant)
- The level of rectification cost
- Number of policyholders affected
- Reasons for the error identified from any root cause analysis
- Whether or not it is systemic and widespread and a recommendation is passed to Group Risk to consider.

Within the insurance entities, all errors are reported to the RMC. Group Risk provides a recommendation to the RC as to whether the event should be notified to the FCA/PRA.

6.4 Speed of Correction

Any pricing errors identified have the source of error rectified as soon as practicable. The resulting impact in the unit price is not usually smoothed / phased over a period of time or pricing points. Information is provided to Box Management identifying the error and the price correction.

The number of policyholders and the monetary effect the pricing error has on their policies takes longer to quantify. However, this is fully documented and completed as soon as is practicable.

6.5 Fund Correction

In general, we aim to correct transactions made between the Fund and the Box Manager at the earliest opportunity. This may be achieved either through an adjustment to the number of asset units held, a cash compensation payment into the asset fund or an adjustment to the number of asset units in creation, or a combination of these. Fund correction may be conducted in advance of policyholder compensation.

7 Emergency Situations and Disaster Recovery

We and our third party partners have documented disaster recovery plans, which can be invoked in the event of a serious loss of processing capability or premises. The timescales to recover systems or relocate to a dedicated recovery site may take several hours and as such various mitigating actions are available to us when pricing unit-linked funds on the day.

These may include some or all of the following:

- Trading suspension
- Suspending pricing
- Indexation
- Divergence from stated investment strategy

The action or actions taken will depend on the nature of the disaster, which sites have been compromised and the part that the impacted site plays in the overall unit pricing process.

There are other extreme events that can impact the unit pricing and valuation process, which may require some forms of intervention which are different from the norm. For example the extreme volatility of market prices around a significant global or national event would require clear communications between all parties involved in producing unit prices with a clearly defined decision making process.

The following table illustrates some scenarios and potential actions that could be implemented:

Scenario	Potential Action
An exchange has system problems – no security prices available.	The components of unit-linked funds for that exchange are indexed – all other markets allow pricing to proceed as normal.
Major terrorist incident creates worldwide market turmoil.	Trading & pricing suspended.
Major political event e.g. military coup in a strategic market de-stabilising the investment market in that country.	Indexation for that market & divergence from stated investment strategy.
Major foreign exchange event.	Divergence from stated investment strategy e.g. leave cash in a safe haven and do not fully invest.

The above table is not exhaustive and is used purely to illustrate the type of response which may be appropriate following a significant event in order to treat existing and prospective customers fairly during periods of market / global turmoil.

In the event of market disruption or other emergency situations, decisions would be referred to a management team constituted from representatives of the Board, RMC and BIC for consideration. Typically, this management team would be formed following instruction from the chairman of the RMC or the Chief Financial Officer.

Appendix A – Glossary

Acronym / Term	Description
Ad Valorum Charge	A charge that is dependent on the size of the fund.
Annual Management Charge (AMC)	A charge that is deducted daily from liability units to meet the costs of managing the fund. Different charge variants at mirror fund level can have different AMCs.
Asset Fund	An asset fund is a fund, which deals in (buys and sells) the underlying assets. These underlying assets may be direct holding of investments such as equities, property and bonds (for internally managed funds) Asset funds are used by the third party fund manager for the efficient management of the funds.
Asset Unit	A unit of an asset fund. These are ***not*** directly bought and sold by policyholders. These units are not priced on the unit register.
Bid-Offer Spread	This is an initial charge that applies to dual priced funds. One minus the ratio of bid price to offer price gives the bid-offer spread. So if the bid price is equal to 95% of the offer price, then the bid-offer spread is 5%.
Bid Price	For a dual priced fund, the bid price is the price at which units are sold by the policyholder. The bid price also equals the corresponding mirror fund unit price.
Bid Pricing Basis	A pricing basis generally used when a fund is contracting i.e. has negative cash flow. Prices will be based on the amount the estimated market price at which assets might be sold (less a provision for the estimated expenses of disposal).
Book Value	The value at which an asset was originally purchased by the fund.
Box	Running a Box is a mechanism for managing the creation and cancellation of asset units by decoupling with the buying and selling of liability units by policyholders. If the value of asset units held is greater than the value of liability units, then this is called a “positive Box” position. Conversely, if the value of asset units held is less than the value of liability units, then this is called a “negative Box” position. The Box creates or cancels liability units to match policyholder transactions as closely as possible (within given thresholds). Hence, liability units may be created or cancelled for relatively small transaction amounts. However, instructions to buy or sell asset units will generally be carried out for larger amounts to increase the efficiency of making such transactions (by reducing dealing expenses).

Charge Error	In the context of unit pricing, a “charge error” relates to a pricing error caused by incorrect application of charges (including deduction of investment expenses) to the fund.
Corporate and Government Debt (CDG)	Broadly speaking, CGD tax is assessed on the difference between the current market value and the original cost of the investment.
Cancellation (of units)	Units of a fund are “cancelled” when unit holders sell their holdings. Cancellation of asset units results in the sale of an equivalent value of underlying assets. The sale of liability units by a policyholder generates a box position, which may in turn trigger the cancellation of asset units.
Capital Gains Tax (CGT)	Broadly speaking, CGT is assessed on the difference between the current market value and the original cost of the investment, where the original cost is (currently) subject to indexation over the period the asset has been held.
Conduct Risk	The risk that a business might act against the customer’s best interest in pursuit of its own.
Creation (of units)	Units of a fund are “created” when unit holders buy holdings. Creation of asset units results in the purchase of an equivalent value of underlying assets. The purchase of liability units by a policyholder generates a box position, which may in turn trigger the creation of asset units.
Default Fund	In relation to fund closures or wind-ups, a “default fund” is a fund chosen by ReAssure into which future payments and / or existing funds are to be redirected in the event that no alternative instruction is received. ReAssure’s choice of default fund is selected as follows: We firstly try to identify the most similar fund available. • If there is more than one similar fund, then we look at the aims & objectives of these funds and select the fund, which most closely matches the aims & objectives of the closing fund. • We aim to select a fund, which is more passive than the closing fund. • We also make sure that the fund selected is not from a higher risk classification. • If no similar fund exists, then the cash fund is chosen as the default fund.
Dilution	In the context of fund valuations, “dilution” occurs when the unit price is not calculated consistently with the basis of the underlying fund transactions. For example, a mid-priced fund will experience dilution whenever assets of the fund are bought or sold as these trades, and corresponding dealing costs, will not be conducted on mid-valuation.
Dual Priced Fund	A fund that operates a bid-offer spread. Units are bought at the offer price and sold at the bid price. Bid prices are lower than offer prices.

EEA	European Economic Area.
Ex-dividend Date	For a specified period prior to a dividend being paid, the dividend falls due to the current stockholder. The start date of this period is called the ex-dividend date. Should the stock be sold after the ex-dividend date, then the purchaser would not receive the dividend due, and the stock will be priced accordingly.
Fair Value Pricing	Fair Value Pricing (FVP) can be defined as the application of a Manager's best estimate of the amount an investment fund might receive on a sale, or expect to pay on a purchase, of one or more securities, or even an entire portfolio of securities, at the time of the fund's valuation point, with the intention of producing a "fairer" dealing price thereby protecting ongoing, incoming and outgoing investors.
Free Unit	"Free units" represent an excess of liability units within the unit register fund structure. For example, when AMCs are deducted at mirror fund level, some of the mirror fund's holdings in the synthetic fund are sold. However, this is not immediately reflected by deletion of units in the synthetic fund, resulting in an excess of synthetic fund units i.e. free units are generated in the synthetic fund (It is also possible to have negative free units where there is a shortfall of liability units).
Hardcore Valuation	The following is an extract from Property Valuation – The 5 Methods by Douglas Scarrett:- The hardcore model was developed in the 1950's and described in detail by White. It is clear that it was intended to deal with a particular tax situation. The model separates the income horizontally and capitalizes the separate income flows at different yields, the yield from the layer stream being calculated from the market yield. It is claimed that the approach should be used because future increases are uncertain both in terms of market movements and of possible legal restrictions such as were introduced by the Counter Inflation Act 1973 under which a rent freeze was imposed. But even where a property is let at full rental value a substantial proportion of any capital value is in anticipation of regular rent increases. A hardcore valuation would not change the result in such a case, since the whole of the income is treated as hardcore. A further danger of the approach is that market yields are of no assistance in determining a yield for the marginal element yet valuers will make a judgement of such a yield, typically adding 2% to the yield used for the hardcore component.
Liability Unit	A unit, which is priced on the unit register. At mirror fund level, these units are bought and sold by policyholders.
Managed Funds	A term often applied to refer to a fund created using a selection of asset fund units as selected by a fund manager in accordance with the fund's aims and objectives.
Management Charge Rebate	A form of negative charge whereby a proportion of charges deducted via the AMC is paid back into the fund.

Mid Price	A calculated unit price based on asset valuations that are mid-way between buying and selling values.
Mirror Fund	A fund at the lowest level of the unit register. Units of these funds are bought and sold by policyholders. AMCs are deducted directly from these funds, reducing the price. There may be many different charge variants at mirror fund level.
Net asset Value (NAV)	The value of an investment fund at the valuation point allowing for the value of all investments less all fund liabilities and provisions.
Offer Price	For a dual priced fund, the offer price is the price at which units are bought by the policyholder.
Offer Pricing Basis	A pricing basis generally used when a fund is expanding i.e. has positive cash flow. Prices will be based on the estimated market price at which assets might be bought (adding a provision for estimated costs of acquisition).
Open Ended Investment Company (OEIC)	A type of company or fund in the UK that is structured to invest in other companies with the ability to adjust constantly its investment criteria and fund size. The price of the shares is based largely on the underlying assets of the fund. These are open ended, which means that they can adjust the amount of shares in the fund by either issuing or eliminating shares. When shares are issued, the fund receives money and invests it. When eliminating shares, the fund pays out money from the fund. These funds can mix different types of investment strategies such as income and growth, and small cap and large cap.
Over the Counter (OTC) Derivatives	Derivatives are financial instruments whose value is derived from the value of an underlying asset or index. "Over-the-counter" means that these derivatives are traded privately between two parties rather than through an exchange or intermediary.
RMC	ReAssure's Management Committee with the responsibilities, inter alia, for the management of the unit-linked business.
Sector Fund	A fund at the highest level of the unit register. These funds buy and sell units of the asset fund. Policyholders do ***not*** buy or sell units in these funds. Sector funds are used by the third party fund manager for the efficient management of the funds
Shareholder-Owned Funds	The shareholders' funds of the insurance entities and other companies of ReAssure.
Single Priced Fund	A fund that does not operate a bid-offer spread. Units are bought at the same price that they are sold. Note, however, that there may be other charges associated with investment into or out of the fund (such as an initial charge or application of a dilution levy).
Synthetic Fund	A fund in the middle layers of the unit register. Policyholders do ***not*** buy or sell units in these funds. Synthetic funds are used as a way of allowing individual mirror funds to invest in a mixture of sector funds. Thus a policyholder can gain exposure to more than one sector fund whilst investing in only a single mirror fund.

Treating Customers Fairly (TCF)	An initiative which aims to achieve six main outcomes: 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture. 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly. 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale. 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances. 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect. 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.
Unit Register	This is the platform used by the third party fund manager to price its asset units (at sector, synthetic and mirror level) and hence its liability units. AMCs are also deducted on the unit register. The mirror fund prices output from this system are then uploaded into various administration systems. ReAssure use the Unit Register in the Box Management process.
Unit Trust (UT)	An unincorporated mutual fund structure that allows funds to hold assets and pass profits through to the individual owners, rather than reinvesting them back into the fund. The investment fund is set up under a trust deed. The investor is effectively the beneficiary under the trust.
Valuation Point	The valuation point is the point in time when an asset fund's assets and investments are valued for the purposes of calculating the unit price of the fund.