NUCLEAR INSTALLATIONS ACT 1965 – ASSESSMENT AND APPROVAL OF OPERATOR FINANCIAL SECURITY ARRANGEMENTS FOR NUCLEAR THIRD PARTY LIABILITY UNDER SECTION 19(1)

Purpose

1. This document is intended to provide guidance to the licensees of civil nuclear licensed sites and operators of relevant disposal sites (“operators”) on the issues they should consider when making arrangements for:

   a) financial security to cover their nuclear third party liabilities (see paragraphs 7 to 12); and

   b) the evidence to be supplied to support a request for approval of those arrangements by the appropriate authority (the BEIS Secretary of State and/or the Scottish Ministers (if applicable)) - see paragraphs 17 to 19.

2. This guidance (including its Annexes) is not legal advice and the BEIS Secretary of State/Scottish Ministers (or Her Majesty's Government) accepts no duty or responsibility to any party (including for any reliance placed) in respect of this guidance. It does not create or confer any rights, commitments or obligations for or on any person and does not operate to bind the Secretary of State, Her Majesty’s Government, the Scottish Government or the Scottish Ministers.

3. This document is guidance only and does not replace the need for operators to obtain their own professional and legal advice on such matters.

4. This guidance does not apply to military-use nuclear sites, for which the Ministry of Defence is responsible.

Introduction – the nuclear liability regime

5. The UK is a contracting party to the Paris Convention\(^1\) on nuclear third party liability and the Brussels Supplementary Convention\(^2\) (“the Conventions”) which establish a largely western European regime for compensating victims of a nuclear incident. The regime has been in place since the 1960s and is one of the cornerstones of international nuclear liability law. The Conventions are implemented in the UK by the Nuclear Installations Act 1965 (“the 1965 Act”).

6. In 2004, the contracting parties to each of the Conventions agreed ‘Protocols’\(^3\) to upgrade and revise the existing regime so that, in the event of a nuclear incident, an increased amount of compensation will be available to a larger number of claimants in respect of a broader range of damage. The Nuclear Installations (Liability for Damage) Order 2016, (SI 2016/562) (“the 2016 Order”) amended the 1965 Act to implement these revisions. The revised regime will come into force once the Protocol has been ratified by the parties to the Conventions (currently planned for mid-2019).

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Financial liability of operators

7. Under the revised regime operators are required to pay compensation for:
   a) property damage;
   b) personal injury and loss of life ("personal injury");
   c) economic loss arising from (a) or (b);
   d) the costs of measures of reinstatement of the impaired environment;
   e) loss of income deriving from a direct economic interest in any use or enjoyment of the environment; and
   f) the costs of preventive measures and consequential losses.

8. When the revised regime comes into force, operators will be financially liable for certain claim amounts ranging from €70m to €160m to €1200m depending on the type of site or transport as set out in Table 1 below.

Table 1: Operators’ nuclear third party liability

<table>
<thead>
<tr>
<th>Section in 1965 Act</th>
<th>Site type</th>
<th>Liability limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>16(1)(a)</td>
<td>Low risk nuclear licensed sites</td>
<td>€70m</td>
</tr>
<tr>
<td>16(1)(b)</td>
<td>Low risk relevant disposal sites</td>
<td>€70m</td>
</tr>
<tr>
<td>16(1)(c)</td>
<td>Intermediate sites</td>
<td>€160m</td>
</tr>
<tr>
<td>16(1)(d)</td>
<td>Low risk transport from nuclear licensed sites</td>
<td>€80m</td>
</tr>
<tr>
<td>16(1)(e)</td>
<td>Low risk transport from relevant disposal sites</td>
<td>€80m</td>
</tr>
<tr>
<td>16(1)(f)*</td>
<td>Any other case</td>
<td>€700m to €1200m</td>
</tr>
</tbody>
</table>

*Note: The level of liability under section 16(1)(f) is introduced at €700m and increases by €100m annually until it reaches €1200m.

Requirement for and approval of financial security/insurance arrangements

9. Under section 19(1), or 19(6) (as applicable), of the 1965 Act operators are required to maintain insurance or other financial security to cover their financial liabilities as set out in paragraphs 7 to 8 above. The aim of this requirement is to ensure that operators always have sufficient funds to meet claims for compensation.

10. Section 19 also requires the approval by the appropriate authority of an operator’s insurance or other financial security arrangements, which will be given only with the consent of HM Treasury. Section 19(6) extends this financial security and approval requirement to the operators of relevant disposal sites. Annex A sets out the text of sections 19 (1) and 19(6) in full.

11. Where an operator’s sites are located in Scotland, such operators will need to seek approval from the Scottish Ministers. Where the majority of such operator’s sites are
in England and Wales, BEIS officials will take the lead on managing the approval of the arrangements in liaison with Scottish Government colleagues.

12. Section 20(4) requires that operators provide the appropriate authority not less than two months’ notice in writing that they propose to change or cancel the approved arrangements.

13. Requests for approval and notices of change/cancellation should be directed to the appropriate authority at the following addresses:
   - BEIS Secretary of State:
     Address: International Nuclear Liabilities Team, Civil Nuclear and Resilience Directorate, 3rd Floor, 1 Victoria Street, London, SW1H 0ET
     Tel: 030 0068 5645
     Email: parisbrussels@beis.gov.uk
   - Scottish Ministers:
     Address: Resilient Essential Services Team, Resilience Division, Scottish Government, 4th Floor, Atlantic Quay, 150 Broomielaw, Glasgow, G2 8LU
     Tel: 0300 244 1062
     Email: CIRU@gov.scot

Approval of an operator’s financial security / insurance arrangements and timescales

14. In order to be able to come to a decision to approve an operator’s arrangements under section 19(1) or 19(6) (i.e. to decide whether the arrangements comply with the statutory requirements), the appropriate authority will need to consider whether:

   a) the proposed insurance policies cover all of the heads of damage to the extent required under the 1965 Act; and
   b) the financial vehicles that the operator proposes to use to provide the cover will be able to meet claims if and when a successful compensation claim is made.

15. The process of approval by the appropriate authority is an iterative process, i.e. the proposals will be reviewed and further information requested, if necessary, until the appropriate authority is satisfied it has all the necessary information. It will be quicker where operators provide at the outset final policy documents and evidence which is as complete as possible.

16. Where possible, operators should send their request to the appropriate authority for approval a minimum of 12 weeks before the proposed inception date. (This timing is longer than the required notice in section 20(4) and reflects experience of the approval process.)

Information/evidence to be provided by operators

17. Annex B sets out a non-exhaustive list of the information and evidence that an operator should provide when new financial security or insurance arrangements are being made or whenever the operator makes a change in its existing insurance or financial security which means that the existing arrangements will no longer apply.
18. In summary, and by way of a checklist, an operator should provide, as a minimum:

a) the final policy document(s) including schedules and endorsements;

b) the latest accounts - for operator (where financial security is to be provided by way of secured funds/mutual providers) and financial security provider;

c) details of insurance pool members and their credit ratings;

d) details of quota share agreements/reinsurance strategies;

e) exact list and type and location of sites to be covered, and evidence to support lower level of liability where appropriate;

f) details of differences between site and transit policies (if applicable);

g) information on claims handling arrangements (especially where financial security is by shared arrangements in which case which party will be handling claims). This should include if a third party will be handling claims, oversight of the third party and handling arrangements for a large number of claims; and

h) information on handling of 'Certificates of Financial Security' (for transport of nuclear material beyond UK waters) where more than one financial security provider is providing cover.

19. Annex C sets out in more detail the issues operators will wish to consider in relation to their financial security arrangements, but in summary, operators should be able to:

a) demonstrate that the proposed arrangements fully cover the heads of damages to the extent set out in the 1965 Act.

b) satisfy themselves and demonstrate to the appropriate authority that the liabilities are insured with insurance providers regulated for solvency purposes within the EU or in a jurisdiction which applies solvency standards of a similar level to EU standards.

c) demonstrate how they propose to initially assess and subsequently monitor the financial standing of the provider of their security.

d) set out how the rights of third parties will be protected in the event of the operator’s insolvency.

e) where applicable, provide full details of any financial security arrangement used (such as bank guarantees, parent company guarantees or catastrophe bonds) including, without limitation, how these arrangements would operate and provide a copy of the relevant legal documentation along with a summary of their operation.

f) provide a brief explanation of their proposed claims handling procedures, including how a significant number of claims would be managed. Arrangements for claims handling will form an integral part of the assessment for any given financial security arrangement.
ANNEX A

Sections 19(1) and 19(6) of the 1965 Act as amended by the 2016 Order

Section 19(1)

“1) Subject to section 3(11) of this Act and to subsections (2E) and (3) of this section, where a nuclear site licence has been granted in respect of any site, the licensee shall make such provision (either by insurance or by some other means) as the appropriate authority may with the consent of the Treasury approve for sufficient funds to be available at all times to ensure that any claims which have been or may be duly established against the licensee as licensee of that site by virtue of section 7 of this Act or any relevant foreign law made for purposes corresponding to those of section 10 of this Act (excluding, but without prejudice to, any claim in respect of interest or costs) are satisfied up to the required amount appropriate to the category or categories into which any such claims would fall in respect of each severally of the following periods, that is to say—

(a) the current cover period, if any;
(b) any cover period which ended less than 30 years before the time in question;
(c) any earlier cover period in respect of which a claim remains to be disposed of, being a claim made within the limitation period applicable to the claim (as defined for the purposes of section 18(1));

and for the purposes of this section the cover period in respect of which any claim is to be treated as being made shall be that in which the beginning of that limitation period fell.

Section 19(6)

“6) Subsections (1) to (5) apply to operators of relevant disposal sites as they apply to licensees of licensed sites, but with the following modifications—

(a) a reference to a licensed site is to be read as a reference to a relevant disposal site, except in subsection (3);
(b) the reference in subsection (1) to claims established against a licensee as licensee of that site by virtue of section 7 is to be read as a reference to claims established against an operator of a relevant disposal site as operator of that site by virtue of section 7B;
(c) a reference to the period of a licensee’s responsibility is to be read as a reference to the period indicated by section 7B(1)(f);
(d) the time deemed by virtue of subsection (2) to be included in the period of a licensee’s responsibility is to be read as the time, after the expiration of the period indicated by section 7B(1)(f), during which the operator might incur liability—

(i) by virtue of section 7B, so far as relating to section 7(1B)(b), or
(ii) by virtue of any relevant foreign law made for purposes corresponding to those of section 10;
(e) a reference to section 16(1)(a) is to be read as a reference to section 16(1)(b);
(f) a reference to section 16(1)(c) is to be disregarded;
(g) a reference to section 16(1)(d) is to be read as a reference to section 16(1)(e);

(h) subsection (2B) is to be read as if for the words from “on the grant” to the end there were substituted “if an appropriate permit relating to a relevant disposal site is replaced by another appropriate permit relating to the same site (or that site and a further area), and the permit is given to the same person”;

(i) a reference to subsection (3) to a licensed site is to be read to including a reference to a relevant disposal site.”
ANNEX B

This Annex is intended as guidance for operators about the information and evidence that should to be provided by an operator when new financial security or insurance arrangements are being made or whenever the operator makes a change in its existing insurance or financial security arrangements which means that the existing arrangements will no longer apply.

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This guidance does not replace the need for operators to obtain their own professional and legal advice on such matters.

INTERPRETATION

In this Guidance:

"Appropriate authority" means the Secretary of State for Business, Energy and Industrial Strategy (BEIS) and/or Scottish Ministers (if applicable)


"Operator" refers to the licensee of a nuclear site or operator of a relevant disposal site

"Provider" refers to the provider of the financial security

"NIA 1965" refers to the Nuclear Installations Act 1965 as amended by the Order

Explanatory text to the information/evidence required by the operator is set out in italics below. The column entitled response has been left blank in case an operator wishes to use this table as the format for providing its information and evidence.

INFORMATION TO BE PROVIDED BY THE OPERATOR

<table>
<thead>
<tr>
<th>Information/evidence</th>
<th>Response</th>
</tr>
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<tbody>
<tr>
<td>1. Information about the Operator</td>
<td></td>
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<tr>
<td>1.1. Identity of the Operator:</td>
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<tr>
<td>Please provide the Operator's:</td>
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<tr>
<td>a) name,</td>
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<td>b) place of incorporation,</td>
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<tr>
<td>c) registered address; and</td>
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<tr>
<td>d) company number</td>
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</tbody>
</table>
1.2. Financial security of the Operator

Please provide detail of the latest audited net assets/accounts together with any financial rating of the Operator where the intention is to provide security via secured funds.

1.3. Please confirm the number and location of sites operated by Operator.

*Note: the Operator is required to provide cover separately for its liability as an operator of [each] site.*

1.4. Type of Site operated by the Operator

a) Please set out each of the sites to be covered by the financial security, together with a brief description. By example only,
   - is the site a nuclear power plant, a disposal site, or fuel fabrication plant?
   - is the site operational or in the process of being decommissioned?

b) Please explain the structure of relationship between licensee (or permit holder) and policyholder if they are not the same

1.5 Please provide a breakdown of the level of liability for each site to be covered.

*Note: see section 3.5 below.*

2. Information on Provider

2.1. Identity of Provider

Please provide the Provider’s:

a) name,

b) place of incorporation,

c) registered address; and

d) company number.

2.2. Financial security of Provider

Please provide detail of the latest audited accounts/net assets together with any financial rating of the Provider.

2.3. Location, liquidity and accessibility of Provider's funds
<table>
<thead>
<tr>
<th>a) Please explain the capital structure of the Provider and the free assets that are available to meet any claim.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>b) Please confirm that these assets are not subject to any security or other restriction and are invested in short term liquid stocks.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2.4. Please confirm the number of sites protected by the Provider.</th>
<th></th>
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<tbody>
<tr>
<td>Note: <em>this is relevant to BEIS/Scottish Ministers as an occurrence or event in relation to one site may weaken the Operator’s ability to make redress in respect of another site.</em></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>2.5. Constitutional documents of the Provider:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>a) Do the constitutional documents of the Provider allow it to provide the financial security?</td>
<td></td>
</tr>
<tr>
<td>b) Please provide the relevant documentation, together with references to (or excerpts from) the relevant provisions.</td>
<td></td>
</tr>
<tr>
<td>c) Please provide appropriate board or other minutes authorising the issue of the financial security.</td>
<td></td>
</tr>
</tbody>
</table>

| 3. Financial Security – overview |  |
| 3.1. Summary of financial security |  |
| a) Please provide a summary of the key structure and terms of the financial security. |  |
| b) Please state all information that you feel is appropriate and in particular that which is not addressed by the questions below. |  |

<table>
<thead>
<tr>
<th>3.2. Please confirm whether the financial security covers all of the heads of damage set out in the NIA 1965.</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Note: <em>the financial security must cover claims arising from a nuclear incident at the site for:</em></td>
<td></td>
</tr>
<tr>
<td>a) property damage;</td>
<td></td>
</tr>
<tr>
<td>b) personal injury/death;</td>
<td></td>
</tr>
<tr>
<td>c) economic loss arising from property damage or personal injury;</td>
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<tr>
<td>d) cost of measures of reinstatement of impaired environment;</td>
<td></td>
</tr>
<tr>
<td>e) loss of income deriving from a direct economic interest in any use or enjoyment</td>
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</tbody>
</table>
of the environment; and
f) cost of preventive measures.

Note: The financial security must also cover claims arising from nuclear incidents occurring during the transport of nuclear materials to/from the operator.

3.3. Please confirm the geographical scope of the financial security.

Note: The financial security must cover claims which may be established against an Operator:

a) under section 7 and 7A, or 7B, of the NIA 1965, when it incurs liability in the UK; or

b) under the law of a qualifying territory (i.e. another country party to the Paris Convention, a reciprocating territory, or non-nuclear country) should it incur liability in that territory.

3.4. Please confirm the duration of the financial security.

Note: The financial security must be in place for as long as the Operator is licensed in respect of the site, or permitted in the case of relevant disposal operators. The financial security must respond to all claims that are made within the periods set out in section 3.6 below.

3.5. Please confirm the financial limits of the financial security.

Note: the financial security must meet the maximum liability in respect of each site, as follows:

a) Site:

For standard sites – such as power stations and reprocessing plants, the liability level will start at €700 million when the Order comes into force and increase by €100 million each year over 5 years, until it reaches €1200 million.

For prescribed sites as defined by the Nuclear Installations (Prescribed Sites and Transport) Regulations 2018 (2018/425), including relevant disposal sites, the liability level is either €160m (intermediate risk sites) or €70m (low risk sites) from the date the Order comes into force.

into force. For these sites operators must provide evidence that the site(s) meet the criteria.

b) **Transit:**

In the UK the liability level will be €80 million per incident for transport of nuclear substances which are unlikely to cause significant third party damage (low risk transport) as defined by the Nuclear Installations (Prescribed Sites and Transport) Regulations 2018.

Otherwise transport of nuclear substances will be subject to the higher liability level of €1200 million. These limits are within (i.e. they are not additional to) the risk levels for sites set out above.

<table>
<thead>
<tr>
<th>3.6.</th>
<th>Please confirm the period in which claims can be made under the financial security.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Note: the Order requires that a claimant must be able to claim on the financial security at any time within 30 years from the date of the nuclear occurrence or event for loss of life or personal injury. For other types of damage, the limitation period is 10 years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.7.</th>
<th>Are there any exclusions to the financial security?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Note: no exclusion should operate to weaken the effectiveness of the financial security.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.8.</th>
<th>Does the financial security contain any provisions that could easily be triggered which would weaken the effectiveness of the financial security?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Please set out any onerous restrictions or covenants that would (or may) give the Provider an option to terminate or avoid the financial security should it wish to.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>3.9.</th>
<th>What arrangements are in place for the preceding cover period?</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Note: the requirement for financial security applies per &quot;site&quot; and per &quot;cover period&quot;. A cover period is initially the period of the Operator's responsibility. This period begins with the grant of the licence and ends, inter alia, when the level of an Operator's liability is changed. Hence when the Order comes into</td>
</tr>
</tbody>
</table>
force the current cover period will end and a new one starts. Section 19(1)(b) requires financial security in respect of the preceding cover period, as well as the current one.

3.10. Is the Operator subject to claims outstanding from any prior cover period?

Note: section 19(1)(c) requires the Operator to arrange financial security not just for the current cover period but also for any earlier cover period in respect of which a valid claim remains to be disposed of.


4.1. Please confirm the governing law of the financial security.

Note: i.e the law of England and Wales, or Scotland if applicable. To the extent different, BEIS/Scottish Government may require the operator to obtain (and share) appropriate foreign law advice as to the operation of that other governing law.

4.2. What are the dispute resolution provisions in relation to the financial security?

Note: The appropriate authority expects that this would allow for arbitration and/or conventional litigation.

4.3. Enforceability of financial security:

Are there any obstacles to the Operator enforcing the financial security in the UK?

For instance:

a) is the Provider incorporated in a different jurisdiction to the Operator?

b) does the provider maintain assets outside the UK?

4.4. Insolvency of the Operator:

a) What impact would the financial insolvency of the Operator have on the financial security?

b) Does the financial security contain termination provisions related to the
### 4.5. Insolvency of the Provider:

- **a)** What impact would the financial insolvency of the Provider have on the effectiveness of the financial security?

- **b)** Does the financial security set out any relevant provisions over and above the position under general insolvency law?

### 4.6. To what extent are the rights of the Operator under the financial security subordinated to the rights of the other creditors of the Provider (e.g. by virtue of security arrangements)?

*Note: other creditors may have improved their ranking upon the insolvency of the Provider by means of security or other arrangements.*

### 4.7. Where an Operator operates two or more sites, to what extent does the Provider provide financial security for all of them?

*Note: the financial security should apply in full and without deduction or subsidy to each site. A claim in respect of one site should not diminish a claim on another.*

## 5. Financial Security – Insurance-specific issues

### 5.1. Which are the subscribing insurers/syndicates, and in what proportions?

*Note: in many cases large or long-tail risks are written by a syndicate of subscribing insurers (or Lloyd's syndicates), acting behind (or alongside) a lead insurer (or Lloyd's syndicate). In the case section 3 should be completed for each subscribing insurer (or Lloyd's syndicate).*

### 5.2. Please confirm that the financial security does not provide for any deduction in favour of insurer?

*Note: BEIS/Scottish Ministers would not consider a deduction to be consistent with the requirements of section 19 of NIA 1965.*

### 5.3. Does the financial security take the form of single/separate policies for transit and site?
Note: see paragraphs 2.5 and 4.2 above. Some Providers distinguish between these two risks, and provide differing contracts accordingly. If separate, the appropriate authority will need to be satisfied that there are no gaps between the two.

5.4. Claims handling:

a) What are the claims-handling arrangements for the financial security

b) Would the Provider handle claims itself, or would it outsource this to a third party? If the latter, what controls would the Provider have on the third party?

c) What arrangements are in place to manage a significant number of claims?

6. Financial Security – "other means"

6.1. Where the financial security takes the form of "other means" (i.e. not insurance), has the Operator taken advantage of section 19(3) NIA 1965?

Note: where financial security is achieved by "other means" (i.e. other than insurance) and where an Operator has three or more sites, an Operator may discharge its obligations by providing for financial security in respect of the two sites where the requirements are highest. For example, the Operator of sites A, B, C and D (each with a liability of €1200 million) and sites E, F, G (liability €70 million each) would only need to have €2400 million available.

7. Certificates of Financial Security

7.1. What are the signing arrangements for Certificates of Financial Security (COFSs) where there is more than one provider?

Note: an explanation of the responsibility and signature arrangements for COFSs where the certificate is being issued by or on behalf of more than one provider for the same transit.
ANNEX C

Issues for operators to consider in relation to financial security/insurance arrangements

The following sets out in more detail issues that operators will wish to consider with regard to their financial security or insurance arrangements.

(a) Insurance or financial security provided by third parties

1. Where the operator proposes to cover all or part of its liability via a third party (such as an insurer) or through some other financial security arrangement (such as bank guarantees), the operator should provide full details of how these arrangements would operate and provide a copy of the proposed relevant legal documentation along with a summary of their operation.

2. The operator should consider the following in assessing the suitability of an insurance product:
   - Operators should be able to satisfy themselves and demonstrate to the appropriate authority that its relevant liabilities are insured with insurance providers regulated for solvency purposes within the EU or in a jurisdiction which applies solvency standards of a similar level to EU standards.
   - Operators should be able to demonstrate how they propose to initially assess and subsequently monitor the financial standing of the provider of their security.

Some specific requirements for policy wording

- Operators must demonstrate to the appropriate authority how the insurance policy satisfies the requirements of section 19 of the 1965 Act and that compensation will be available to the required extent when a successful third party liability claim is made.

- The insurance policy must not have any exclusions or other conditions that would significantly weaken the protection e.g. onerous claim reporting requirements.

- The definition of “event” and "accumulation of risks" should normally be such that the insurance policy cover is maintained even where the insured event happens. Where this is not the case, the company needs to explain how it has ensured that it remains covered in the event of a claim.

- A claim on one site should not reduce the cover available for other sites for which the operator is the licensee.

Currency risk

- Operators are required under section 19 to have cover up to their liability limit(s) for both claims brought in the UK and claims brought in other Paris Convention countries (under the Paris Convention rules on jurisdiction). The liability limits in the 1965 Act are stated to be an amount in Sterling equivalent to a set amount in Euros and claims in the UK will be paid in Sterling. The conversion rate for euros to Sterling is the London closing rate on the first day of the incident for which the
claims are being made. However, where claims are brought in another Paris Convention signatory country, they are likely to need to be paid in the currency of that country.

- Operators will need to ensure that the insurance policy has the facility to be able to make the necessary conversions without diminution in the overall level of financial cover.

**Consequences of insolvency of the operator**

- Operators must set out how the rights of third parties will be protected in the event of the operator's insolvency. This will apply to claims immediately upon a major incident and also claims that are reported in up to 30 years’ time.

**3. The Operator's own insurance or use of assets as financial security**

If the operator puts aside specific assets as financial security, to cover potential future claims then:

- If the assets are invested with a third party, operators should be able to demonstrate that their provider has an appropriate level of creditworthiness. In addition, the operator must demonstrate appropriate diversification so that the financial security arrangements are not overly exposed to the credit risk of any one institution.

- As with an insurance policy any such assets should be legally ring-fenced so that, for example, if the company becomes insolvent they cannot be used for any other purpose unless it is clear that they will not be required to pay claims.

- These assets need to be readily realisable e.g. not tied up in property or plant and machinery.

- The assets need to cover the liabilities and not be unduly exposed to the risk of this cover ceasing to be the case, for example not being exposed to market risk as a result of being invested in equities.

- These assets ought to be held in an appropriate jurisdiction, e.g. the EU, so that they can be easily realisable when required.