

FROM: Manager, Overseas Reporting, Market Reporting
LOCATION: 86/G5
EXTENSION: 5490
DATE: 22nd June, 2004
REFERENCE: Y3339
SUBJECT: RESERVES AND NET ASSETS FOR LATF
BUSINESS AS AT 30 JUNE 2004
SUBJECT AREA(S):
ATTACHMENTS: Form 1 and form 2
ACTION POINTS: **Managing agents to complete the attached forms
and fund deficits where applicable**
DEADLINE: **Thursday 22nd July 2004**

Managing agents are asked to complete the attached Lloyd's American Trust Fund (LATF) forms, also sent in excel format, for the quarter ending 30 June 2004 to enable Lloyd's to:

- (i) complete an aggregate LATF filing with the New York Insurance Department (NYID);
- (ii) monitor the overall LATF solvency position; and
- (iii) identify syndicates with solvency deficits and record the manner in which those deficits will be funded.

30 June 2004 Return

The format is the same as that used previously i.e. Form 1, "Estimate of total LATF net reserves and net assets" and Form 2, the managing agent's statement.

Assets

Managing agents will be aware that Lloyd's is required to maintain **admissible** assets in the LATF which are at least equal to their liabilities. In order to assess the LATF position of each syndicate/agency group, we require details of all assets relating to the LATF business as at 30 June 2004.

Form 1 includes an analysis of those syndicate assets which are admissible for NYID purposes and other assets. The assets admissible for inclusion in the LATF return to NYID are:

- (i) cash and investments held by Citibank - capital and accrued income;
- (ii) LOC collateral accounts (held by Citibank but separate from current accounts);
- (iii) Illinois deposits (**only** to the extent that they relate to pre 1 August 1995 business **and restricted** to net Illinois liabilities included in the LATF reserves); and
- (iv) brokers balances - LCA (net of credit balances).

Net reserves for LATF business (line 11)

Managing agents are requested to provide their best estimates of the reserves, net of reinsurance, for US dollar LATF business only, as at 30 June 2004. There is no need for these reserves estimates to be audited. They must however be prepared on the same basis as (or not materially different to) the net reserves which will be included in the December 2003 Schedule P - LATF filings and Form SR16 of the 2003 Syndicate Return.

LATF solvency position on an NYID basis

Line 17 of Form 1 shows the syndicate LATF solvency position on an NYID basis. Agents are reminded that any deficit (i.e. as shown on line 17 of the form) must be funded **before 30 September 2004**. Details of the requirement to fund the LATF and of the remedial action that may be taken in respect of default, are contained in the market bulletin (reference Y683) dated 11 September 1997 with further information contained in the market bulletin dated 17 November 1997 (reference Y734).

The market overall solvency position in the LATF is marginal as the LATF is now in run-off. It is therefore vital that each syndicate ensures that it has sufficient NYID eligible LATF assets to cover its LATF liabilities.

Completion of forms

Please complete electronic versions of the forms, which will be sent to you by the MSU Department via e-mail attachment. The forms should be completed for each of the syndicates that you manage, in accordance with the enclosed instructions, and named, SYNDNO (4 digits) LATFQ22004.xls, e.g. 0002LATFQ22004.xls, (for syndicate 2). Any queries should be addressed to me on extension 5490. Alternatively, please e-mail your query to [Lloyds-](#)

MR-OverseasReporting@lloyds.com, where it will be dealt with accordingly.

Completed forms must be submitted via the Market Returns website **by no later than 4:00pm on Thursday 22nd July 2004**. This tight deadline is unavoidable as Lloyd's is required to send an LATF return to NYID in New York to arrive within 45 days of the quarter end. Thank you in anticipation for your assistance with this exercise.

This bulletin is being sent to the compliance officer of all managing agents for action and to all recognised accountants for information.

Leslie Redmond

Estimate of LATF Net Reserves and Net Assets
30 June 2004

Instructions for completion of forms

1. General

- 1.1 Returns must be submitted electronically.
- 1.2 An estimate of LATF net reserves is required for:
- (i) business incepting before 1 August 1995 for all syndicate years which wrote US dollar denominated business after 31 December 1992 for non-life business including that business which is now reinsured into the 1996 (or later) year of account; and
 - (ii) all open syndicate years for life syndicates.
- 1.3 The estimate of LATF net reserves and net assets is to be completed in **whole \$US**.
- 1.4 The **Managing Agent's statement** (Form 2) must be completed and returned with the estimate of LATF net reserves and net assets form (Form 1)
- 1.5 The forms must be submitted via the Market Returns website **by no later than 4:00pm on Thursday 22nd July 2004**, by a Director or the Compliance Officer of the agency.
- 1.6 Any queries on the forms should be addressed to Leslie Redmond on extension 5490.

2. Form 1 - Estimate of LATF Net Reserves and Net Assets

Relevant years of account

- 2.1 Please provide an estimate of the net reserves **as at 30 June 2004** in respect of all LATF business.
- 2.2 For non-life syndicates this will be:
- (i) the reserves and net assets for 1993 to 2001 years of account which are in run-off; and
 - (ii) the LATF reserves reinsured into the 2002 and later years of account as appropriate together with the relevant net assets.

- 2.3 For life syndicates, the total of assets and reserves relating to the 2004 and prior years of account are required where applicable (i.e. where the syndicate has transacted US \$ denominated business).

Line 3a - LCA balances

- 2.4 For this quarterly return the figure to be included here is the net of LCA debtors and creditors. If that net figure is a creditor it should still be included at Line 3a as a negative balance (see also para 2.12).
- 2.5 It should also be noted that a reconciliation is required between the book value recorded at line 3a and the figure provided by LCA as at the quarter end (lines 18 to 20). This will facilitate the reconciliation of individual syndicate's own figures to global figures produced by LCA. No specific detail is required in this reconciliation, just the overall total of reconciling items which should be reported at line 19.

Line 4a - Citibank current account

- 2.6 A reconciliation is also required for this figure on the same basis as that for LCA balances noted above (see lines 21 to 23).

Line 4c - Illinois deposit

- 2.7 Only that proportion of the deposit which supports pre 1 August 1995 Illinois liabilities is admissible. If this figure is not known at the syndicate level then a value of **not more than 15%** of the fund should be included in Form 2 as this is the proportion of the total funds supporting pre 1 August 1995 liabilities. The balance of the Illinois deposit should be included in line 4e, "Other assets - other".

Line 5a - Accrued income

- 2.8 This line should include accrued income and interest on all cash deposits and investments held by Citibank.

2.9 Lines 7 to 12 - Results information

Lines 7, 8, 9 and 12 were used in Form SR17 on the same basis as in Form SR12 of the 2003 Syndicate Return. For the purposes of the quarterly return however, the requirement for the figures determined as at 30 June 2004 is simply to report the balance due to (or from) members on line 10.

Line 11 - Reserves

- 2.10 Please calculate the reserves in accordance with the market bulletin: '31 December 2001 Solvency Test: Eligible Assets and Valuation of Liabilities Rules' (market bulletin reference Y2653 dated 21 November 2001).
- 2.11 Please note that these reserves as calculated at 30 June 2004 must be prepared on the same basis (or not materially different to) the net reserves which were included in the

December 2003 Schedule P - LATF filings and Form SR16 of the 2003 Syndicate Return.

Line 14a - Creditors LCA balances

- 2.12 This line has been included for the year end reporting when Lloyd's provides LCA balances on a gross basis. In this way the LATF balance sheet in the syndicate return is prepared on a comparable basis with this form. However, for the purposes of the interim quarterly returns, only net LCA balances are provided, and this line will be blanked out. **If a syndicate has an overall creditor LCA balance this should be reported at line 3a as a negative entry.**

3. Form 2 - Managing agent's statement

- 3.1 Where Form 1 indicates that the syndicate has an NYID based solvency surplus then the phrase "together with the table below indicating how the deficit will be funded" and the following word "have" should be deleted. Where Form 1 indicates a deficit then only the word "has" should be deleted and the deficit funding table should be completed.
- 3.2 In completing the deficit funding table that element of the deficit that is to be funded by a transfer from the LDTF should be reported at line 1 of the table together with the actual/proposed date of the transfer. An actual date will show a date in the table prior to the sign off date; a proposed date will show a date in the table later than that of the sign off. Either way a date must be included: it will not be sufficient to state "to be arranged" or anything similar. Lines 2 and 3 should be used to identify other sources of deficit funding. The amount on the total line must be at least equal to the deficit at line 17 on Form 1.

FORM 1**ESTIMATE OF LATF NET RESERVES AND NET ASSETS
AS AT 30 JUNE 2004**

SYNDICATE NO:

BALANCE SHEET

		US\$
Financial investments	*	1
Deposits with ceding undertakings		2
Debtors - LCA balances (see also reconciliation note 4.1 below)	*	3a 0
Debtors - reinsurance accruals		3b
Debtors - all other debtors (note 3)		3c
Other assets - Citibank current account (see also reconciliation note 4.2 below)	*	4a 0
Other assets - LOC collateral account	*	4b
Other assets - LATF element of Illinois deposit (restricted to 15% of the total deposit)	*	4c
Other assets - cash		4d
Other assets- other		4e
Accrued income on NYID eligible assets (i.e. Citibank cash and investments)	*	5a
Prepayments and accrued income on non NYID eligible assets		5b
Total assets (lines 1 to 5)		6 0
Profit/(loss) for the closing year		7
Calendar year result on run-off years		8
Undistributed surplus/(uncalled losses) on run-off years		9
Balance on open years		10
<i>Insurance reserves</i>	*	11
Amounts retained to meet outstanding liabilities of run-off accounts		12
Deposits received from reinsurers		13
Creditors - LCA balances (see also reconciliation below)	*	14a
Creditors - other (note 3)		14b
Accruals and deferred income		15
Total liabilities (lines 7 to 15)	Must equal line 6	16 0
LATF solvency position on an NYID basis (lines 1+3a+4a+4b+4c+5a-11)		17 0

NOTES

1. Please complete line 11 in accordance with the 'Valuation of Liabilities' rules as at 31 December 2001
2. * denotes assets which are eligible for NYID reporting purposes and the reserves to be deducted therefrom
3. Please include the balance on the "exchange or currency conversion" account in other debtors or creditors as appropriate.

4. Reconciliations:

4.1 LCA balances	Book val qtr end i.e. Lines 3a-14a (Report Net on Line 3a)	18	0
	Reconciling items	19	
	Net balance per LCA statement	20	
4.2 Citibank current account:	Book value at quarter end ie = line 4a	21	0
	Reconciling items	22	
	Balance per Citibank statement	23	

ESTIMATE OF LATF NET RESERVES AND NET ASSETS
30 June 2004

Form 2 - Managing agent's statement

Managing agent: _____

Syndicate: _____

Form 1 (Estimate of LATF net reserves and net assets) for the above syndicate/
together with the table below indicating how the deficit* has/have* been prepared
in accordance with the instructions for completion of these forms.

Please submit return/s via the MSU Website

Where Form 1 indicates a deficit at line 17, please advise how that deficit will be funded.

	Source of funds	Amount \$	Date
1	LDTF		
2			
3			

Name of person to whom queries on this form should be addressed

Contact name: _____

Telephone number: _____

*Please delete as appropriate and in accordance with paragraph 3.2 of the instructions