

FROM: Head, Market Reporting EXTN: 5129
DATE: 25 November 2004 REF: Y3436
SUBJECT: **31 DECEMBER 2004 SOLVENCY TEST: ELIGIBLE ASSET RULES**
SUBJECT AREA(S):
ATTACHMENTS:

ACTION POINTS: **Rules for the 31 December 2004 solvency exercise**
DEADLINE(S): **For immediate attention**

Eligible Asset Rules

The Eligible Asset Rules (EARs) form part of the 'Conditions and Requirements Relating to Solvency and Reporting' (the Solvency Requirements).

This Bulletin has been issued in order to advise the Market of the changes that are being applied with effect from 31 December 2004. The Annex and Appendices are being drafted and will follow containing the changes mentioned below. To view the Annex and Appendices that applied last year please follow the attached link:

[http://www.bulletins.loydsfondon.com/bulletins/mktdcirc.nsf/mktBulletins/Y3172/\\$file/Y3172.pdf](http://www.bulletins.loydsfondon.com/bulletins/mktdcirc.nsf/mktBulletins/Y3172/$file/Y3172.pdf)

Waivers

Under the EARs, reflecting the requirements of the LLD, the permitted asset exposure limit in relation to unsecured debts (other than those arising under the terms of listed debt securities or debts from a regulated institution) which have or are to become due from any one company is 1%. Additional Securities Limited (ASL) is not a "regulated institution" as defined in the EARs. Nevertheless, the FSA has agreed a waiver in respect of debts due from ASL. These assets are therefore acceptable without limit until 31 December 2005.

Commercial Paper

The Franchise Board has authorised unlisted Commercial Paper (CP) as an eligible asset for solvency. Accordingly, managing agents are now permitted in accordance with the Premiums Trust Fund (Investment) Requirements to invest syndicate PTF in such assets, subject to their having an investment grade rating of "1" from one of the major ratings agencies (Moody's – P1, S&P – A1 or Fitch – F1).

Securities traded on a regulated market

The Franchise Board have agreed to broaden the definition of “listed” to include securities that are traded on a regulated market. For the purpose of the EARs, in relation to a security, “listed” will now mean the security is of a class quoted or listed on an approved stock exchange or is dealt with on a regulated market.

A “regulated market” is defined as “a market which is characterised by:

- (a) regular operation;
- (b) the fact that regulations issued or approved by the appropriate authority of the state where the market is situated –
 - (i) define the conditions for the operation of and access to the market,
 - (ii) define the conditions to be satisfied by a financial instrument in order for it to be effectively dealt in on a market, and
 - (iii) require compliance with reporting and transparency requirements comparable to those laid down in articles 20 and 21 of the Investment Services Directive, and
- (c) in the case of a market situated outside the EEA States, the financial instruments dealt in are of a quality comparable to those traded in a regulated market in the United Kingdom”.

A list of regulated markets situated in the EEA is set out in Annex 5G to SUP 17 (the FSA’s Supervision Manual).

Managing agents are reminded that syndicate PTFs may only be invested in assets that are prudent, readily realisable, capable of objective and verifiable valuation and do not give rise to unacceptable custody risk or onerous holding duties.

Any queries on the eligible asset rules should be referred to Mike Steer via e-mail at mike.steer@lloyds.com or Kevin Nethersell at kevin.nethersell@lloyds.com

This bulletin has been sent to the compliance officer of all underwriting agents and recognised accountants and for information to all market associations.

John Parry

Head of Market Reporting