

MARKET BULLETIN

From	Head Market Reporting (extn 5129)
Date	26 September 2005
Reference	Y3634
Subject	Capital setting: Recognition of syndicate open year profits
Subject areas	Continuous Solvency Adjustments and Continuous solvency transfers
Attachments	None
Action points	Members' agents and Direct Corporate Members for information
Deadlines	

The purpose of this bulletin is to update direct corporate members and members' agents following a number of queries raised in relation to the recognition of syndicate open year surpluses as eligible assets for capital purposes and as amounts for releases to members.

Continuous Solvency Adjustments (CSA)

Members were given a (CSA) credit for capital setting purposes, of "pipeline" profits on the 2003 open year of account for the coming-into-line (CIL) exercise for the 2005 year of account. This followed a similar practice for CIL for the 2003 and 2004 years of account. All such previous CSAs have now been superseded by actual results to December 2004 and continuous solvency transfers made during calendar year 2005.

Lloyd's has considered whether a further CSA credit for the 2006 coming-into-line exercise can be given for profits for the 2003 and 2004 years of account arising during 2005. In view of the overriding requirement that under the PRU interim profits must be subject to external verification, no CSA will be allowed. In this regard the report of the auditors on the 30 June 2005 interim results is not sufficient as it is restricted to a review opinion.

Continuous Solvency Transfers (CSTs)

As part of the transition to the Individual Capital Adequacy (ICA) based capital setting regime CSTs were restricted to 50% of the accumulated 31 December 2004 annual accounting result across the 2003 and 2004 years of account. Clearly the recent losses in relation to Hurricane Katrina, the complexity of the situation and the assessment of the financial impact on syndicates mean that it would be imprudent to extend the recognition of open year surpluses for 2006 capital setting purposes. Similar provisions applied to the 2002 CST which has been included within the distributable 2002 year of account profits.

The agency agreements were amended this year to remove the restriction in the distribution to members of open year surpluses (in the form of CSTs). CSTs on the 2003 and 2004 years of account therefore qualified as capital available for release in May 2005. Previously CSTs had only been available for capital setting purposes within the coming-into-line exercise.

31 December 2005

From 1 January 2005 Lloyd's adopted annual accounting under UK GAAP for syndicate financial reporting, as well as regulatory reporting and for capital setting purposes, which has the effect of restricting profits to an earned premiums basis. The 31 December 2005 solvency results will be prepared on the full annual accounting basis. Managing agents are therefore permitted to transfer, subject to any solvency and liquidity restrictions, audited annually accounted profits from syndicate premiums trust funds (including life syndicates and run-off years of account) into member level personal reserve funds. Such transfers will be subject to managing agent's sign-off that they have no liquidity or other concerns eg. fundamental uncertainty regarding the ultimate outcome of the year of account that would restrict the transfer.

Any transfers into member level personal reserve funds will then be available for capital setting purposes and available for release via the member level Release Test calculations (see market bulletins Y3474 and Y3565).

If you have any queries relating to this bulletin, please address them to Kevin Nethersell extension 6253 (kevin.nethersell@lloyds.com) or Mike Steer extension 5709 (mike.steer@lloyds.com). This bulletin is being sent to all members' agents, direct corporate members, managing agents, recognised accountants, and market associations for information.

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