

MARKET BULLETIN

From	Head Market Reporting (extn 5129)
Date	31 October 2005
Reference	Y3656
Subject	31 December 2005 Solvency Test: Eligible Asset Rules and PTF Investment Requirements
Subject areas	
Attachments	Annex 1: Eligible Asset Rules Annex 2: PTF Investment Requirements
Action points	Rules for the 31 December 2005 solvency exercise
Deadlines	For immediate attention

Eligible Asset Rules

The Eligible Asset Rules (EARs), attached at Annex 1, form part of the 'Conditions and Requirements Relating to Solvency and Reporting' (the Solvency Requirements).

Lloyd's Sourcebook and Integrated Prudential Sourcebook

<http://fsahandbook.info/FSA/html/handbook/PRU>

As a result of significant amendments to the Lloyd's Sourcebook (LLD), most of the provisions of the Integrated Prudential Sourcebook (PRU) which applies to UK insurers, now apply to both the Society and managing agents in accordance with LLD 16.3, subject to certain necessary modifications to take account of Lloyd's structure.

In the light of the changes to the LLD and to avoid unnecessary duplication between Lloyd's requirements and those of the FSA, the EARs have been redrafted. The EARs do however need to be read in conjunction with PRU.

Citibank Institutional Cash Reserve (CICR)

The PRU rules set the counterparty exposure limit to one company. In this respect a number of syndicates may have an excessive exposure to Citibank through the CICR individually or when combined with other Citibank assets. Managing Agents should ensure they meet the asset concentration and counterparty limits as expressed in PRU 3.2.22 and may need to reduce their exposure to Citibank through a reduction either in their participation of the CICR or other Citibank assets.

Please note that the CILF "Dublin sweep fund" is not affected by this change as it qualifies as a UCIT and is therefore allowable up to 100% of syndicate assets.

Additional Securities Ltd (ASL)

In previous years Lloyd's has obtained a waiver from the current regulatory rules in order that debts due from ASL are allowed as 100% acceptable. The current waiver ceases on 31 December 2005. After this date the concentration allowance will default to the PRU asset concentration level of 1%.

An application has been made to the FSA requesting an extension to the current waiver. However, it is unclear whether this will be granted post 31 December 2005. Discussions are underway with the FSA and the LMA on this matter and further details will follow in due course.

Acceptable Asset Review

A gap analysis has been undertaken to determine where Lloyd's rules are more restrictive than the PRU permits. This shows that generally the EARs are in line with the PRU and permit similar investment flexibility, including the same concentration limits for asset and counterparty exposures. The main exceptions are the current exclusion of land and buildings, tax recoveries, unlisted shares and unregulated collective investment schemes. It is considered appropriate to continue to exclude land and buildings, tax recoveries and unlisted shares since they do not meet one or more of the overriding investment criteria i.e. that assets supporting underwriting at Lloyd's be prudent, diversified, readily realisable and capable of objective valuation. Tax recoveries are in any event not relevant to syndicates and, as regards land and buildings, there are a number of complicated legal, tax and other issues that make them an inappropriate syndicate investment which is also why they are not authorised investments under the premiums trust deed.

Unregulated Collective Investment Schemes

The Franchise Board have agreed to extend the EARs to permit syndicate assets to be invested in unregulated collective investment schemes. This change enables hedge funds and investment trusts structured as unregulated collective investment schemes to be acceptable as a syndicate investment provided the schemes invest only in admissible assets, in accordance with the PRU requirements. The concentration limit applied to such schemes are 1% per issuer and 10% for the aggregate exposure.

PTF Investment Requirements

The PTF Investment Requirements have been reviewed and updated in line with the current regulatory rules. These are attached as Annex 2 to this Bulletin.

The changes to PTF investment requirements are essentially technical. However, their scope is now extended so as to apply to the exercise of the investment powers under (a) the Lloyd's American Instrument which governs the Lloyd's Dollar Trust Fund, (b) the Lloyd's Asia (Offshore Policies) Instrument which governs the Offshore Policies Trust Fund, and (c) the Lloyd's Asia (Singapore Policies) Instrument which governs the Singapore Policies Trust Fund. They do not extend to the exercise of the investment powers under the LATD or Lloyd's Canadian Trust Deed as there are separate investment requirements in relation to the LATF and LCTF in view of the more restrictive local investment rules that apply to these trust funds.

Investment Criteria

Managing agents are reminded that they are not permitted to invest syndicate PTFs in assets other than those specified in the EARs, subject always to the overriding requirement that any investment must be prudent and to the limitations and conditions set out in the EARs, including the permitted asset exposure and counterparty credit limits. In order to satisfy the requirement for prudence and the requirements specified in the EARs, PTFs may only be invested in assets that are readily realisable, capable of objective and verifiable valuation and that do not give rise to unacceptable custody risk or onerous holding duties. Thus, managing agents must avoid speculative or hazardous investments. If any investment carries undue credit, market or liquidity risk or presents particular valuation difficulties, it will not be an appropriate investment even if it falls within a category of eligible assets.

Any queries on these 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
Market Reporting

**CONDITIONS AND REQUIREMENTS RELATING TO
SOLVENCY AND REPORTING**

1. These conditions and requirements are made under paragraph 9 of the Solvency and Reporting Byelaw (No. 13 of 1990) and may be cited as the Eligible Assets Rules.

INTERPRETATION

2. The provisions of Appendix 1 hereto shall have effect.

ELIGIBLE ASSETS

3.
 - (1) The assets listed in Appendix 2 hereto are eligible to be taken into account for the purposes of paragraphs 2, 4, 4A, 4B, 6, 7, 7A and 8 of the byelaw in the manner, to the extent and subject to the conditions provided in these requirements.
 - (2) Except where otherwise expressly provided in these requirements, an asset shall only be eligible to be taken into account where it is held in accordance with any conditions and requirements for the time being made under the provisions of the trust deed governing the trust fund of which it forms (or purports to form) a part.
 - (3) PRU 1.3 shall apply to the recognition and valuation of any asset referred to in Appendix 2, other than a letter of credit, guarantee or life assurance policy, in relation to which LLD 18.3.7R shall apply.
 - (4) Except where otherwise expressly provided in these requirements, the assets listed in Appendix 2 hereto shall be taken into account at their respective values determined, in the case of assets to be included in any syndicate return, as at the solvency test date to which the return relates.

COMMENCEMENT

4. These conditions and requirements shall come into force on 27 October 2005 and shall apply in relation to the solvency test date of 31 December 2005 and each subsequent solvency test date.

INTERPRETATION

1. Except where otherwise provided the words and expressions used in these requirements shall have the meaning given to them in the byelaw or, where shown in italics, the FSA Glossary.

2. In these requirements, unless the context otherwise requires -

references to "Agent" shall include the managing agent, any delegate of the managing agent and any other person who may hold premiums trust fund assets subject to the direction of the managing agent (or its delegate);

"approved charge" has the meaning given in Appendix 1 to the M&UR (FAL);

"approved covenant" has the meaning given in Appendix 1 to the M&UR (FAL);

"approved credit institution" means in relation to any of the following purposes -

- (a) holding sums forming the whole or part of a premiums trust fund held under a premiums trust deed,
- (b) holding sums comprised (or to be comprised) in a member's funds at Lloyd's,
- (c) providing guarantees and issuing or confirming letters of credit comprised (or to be comprised) in a member's means or funds at Lloyd's,
- (d) issuing certificates of deposit comprised (or to be comprised) in a member's funds at Lloyd's, or
- (e) issuing or guaranteeing loan notes comprised (or to be comprised) in a member's funds at Lloyd's,

a *credit institution* approved by or on behalf of the Council for those purposes;

"authorised insurer" means an insurer authorised to carry on insurance business in any country in the European Union, Switzerland, the USA, Canada, Australia, Norway, Japan or South Africa;

"the byelaw" means the Solvency and Reporting Byelaw (No. 13 of 1990) as amended;

"corporate member" has the meaning given in the Schedule to the Membership Byelaw (No.17 of 1993);

"Derivative Requirements" means the Premiums Trust Fund (Investment) Requirements (Derivatives) made by Resolution of the Council of Lloyd's on 8 September 1999;

"eligible asset" means an asset that may be taken into account for the purposes set out in paragraph 3(1) of these conditions and requirements;

"estate reinsurance contract" means a contract of reinsurance whereby the reinsurer agrees to indemnify the other party to the contract in accordance with the terms thereof in respect of or in connection with losses arising from an underwriting member's insurance business at Lloyd's and for which the estate of the underwriting member (whether or not a party to the contract) is, or may become, liable;

"individual member" has the meaning given in the Schedule to the Membership Byelaw (No.17 of 1993);

"Lloyd's American Trust Deed" means the instrument so entitled and dated 3 September 1996;

"Lloyd's American Trust Deed for Long-Term Business" means the instrument so entitled and dated 9 December 1993;

"Lloyd's deposit" and "Lloyd's life deposit" have the meanings respectively given to them in paragraph 5 of the Membership Byelaw (No. 17 of 1993);

"M&UR (FAL)" means the conditions and requirements made under the Membership Byelaw (No. 17 of 1993) on 25 July 2005 entitled "Membership and Underwriting Conditions and Requirements (Funds at Lloyd's), as amended from time to time];

"Overseas Business Regulatory Deposit" has the meaning given in Schedule 1 to the premiums trust deed;

"personal reserve fund" means all monies and other assets paid to or retained by the Regulating Trustee and subject to the trusts of a premiums trust deed;

"personal stop loss contract" means a contract of reinsurance whereby the reinsurer agrees to indemnify in accordance with the terms thereof the other party to the contract in respect of or in connection with the overall net loss or part thereof of an underwriting member (whether or not he is a party to the contract) in a particular year or years of account but does not include -

- (a) an estate reinsurance contract; and
- (b) a resigning member's open year reinsurance contract

and references to "personal stop loss business" shall be construed accordingly;

"premiums trust deed" means a trust deed, in the form for the time being required by the Council, constituting a premiums trust fund;

"premiums trust funds" means a fund of premiums and other monies held from time to time by or under the control of trustees upon the trusts of a premiums trust deed or any Special Trust Direction made thereunder;

"qualifying successor member" has the meaning given in Appendix 1 to the M&UR (FAL);

"recognised accountant" has the meaning given in Schedule 1 to the Audit Arrangements Byelaw (No. 7 of 1998);

"Regulating Trustee" means Lloyd's or such other person as the Council may under any premiums trust deed appoint to act as Regulating Trustee (as defined in that deed) acting in its capacity as Regulating Trustee;

“resigning member” has the meaning given in Schedule 1 to the Membership Byelaw (No. 17 of 1993);

“resigning member’s open year reinsurance contract” means a contract of reinsurance whereby the reinsurer agrees to indemnify in accordance with the terms thereof the other party to the contract in respect of or in connection with a resigning member’s liabilities (whether or not he is a party to the contract) for losses arising from the resigning member’s participation on a syndicate as respects a year of account of that syndicate which has not been closed in accordance with the Lloyd’s syndicate accounting rules and which contract of reinsurance is effected in a year subsequent to that in which the resigning member gave notice of his resignation;

"special reserve funds" means the funds set up in accordance with the arrangements referred to in section 175(1) of the Finance Act 1993;

“Special Trust Direction” has the meaning given in Schedule 1 to the premiums trust deed.

3. In these requirements, reference to a person includes any natural person, firm, partnership, corporation, association or other body of persons (whether corporate or unincorporate).
4. In relation to a corporate member which has provided its Lloyd's deposit by way of approved covenant and approved charge, references to the provision of further eligible assets shall be treated as including the procuring of an increase in the value of the mortgaged assets attributable to that corporate member or in the nominal value of the approved covenant provided in respect of that corporate member, or in both, to the extent that such increase extinguishes or reduces any solvency shortfall or currency shortfall, as the case may be, which they may have.

ELIGIBLE ASSETS**PART I**

1. Save as otherwise specified herein, only readily realisable assets, held free of any charge, lien or encumbrance (except where given or made for the purpose of the member's underwriting) may be brought into account for the purposes set out in paragraph 3(1) of these conditions and requirements.
2. In relation to syndicates and members, subject to paragraphs 6 and 7 below, assets comprised in premiums trust funds are eligible assets.
- 3.1 In relation to syndicates and members, and subject to paragraphs 6 and 7 below, assets comprised in any Overseas Business Regulatory Deposit are also eligible assets.
- 3.2 In relation to members, and subject to paragraphs 6 and 7 below, the following are also eligible assets -
 - (a) any special reserve fund of the member;
 - (b) any Lloyd's deposit of the member;
 - (c) in relation to long-term business, any Lloyd's life deposit of the member.
- 4.1 Where any of the funds or deposits referred to in paragraph 3.2(b) and (c) above includes any bank guarantee provided, or letter of credit issued or confirmed, by the UK branch of an approved credit institution which since providing such bank guarantee or issuing or confirming such letter of credit has ceased to be an approved credit institution, such bank guarantee or letter of credit may be included as an eligible asset at its market value at the relevant time only if so permitted in writing by the Director, Operations or any one of the Managers, Members' Services Unit.
- 4.2 In deciding the eligibility and value of any bank guarantee or letter of credit for the purposes of paragraph 4.1 above, the Director, Operations or any one of the Managers, Members' Services Unit shall have regard to the following matters -
 - (a) whether the net tangible assets of the institution that provided the bank guarantee or issued or confirmed the letter of credit exceed £100 million;
 - (b) whether all encashments of other bank guarantees provided, or letters of credit issued or confirmed, by such institution in respect of or in relation to other members for funds at Lloyd's purposes have been met in full; and
 - (c) whether, in the opinion of a member of the Legal and Compliance Department who is a barrister or solicitor, legal problems may arise as a result of the encashment of the bank guarantee or letter of credit concerned in the jurisdiction in which the head office of the institution concerned usually trades.

5. **PERSONAL STOP LOSS CONTRACTS, ESTATE REINSURANCE CONTRACTS AND RESIGNING MEMBER'S OPEN YEAR REINSURANCE CONTRACTS**

Contracts underwritten at Lloyd's

5.1 Anticipated recoveries under any personal stop loss contract, estate reinsurance contract, or (in relation to a resigning member) resigning member's open year reinsurance contract, underwritten in each case at Lloyd's, are eligible assets to the extent that the conditions set out in paragraph 5.2, 5.3 or 5.4 below are satisfied.

5.2 The following are the conditions referred to in paragraph 5.1 above -

(a) in relation to the contract -

(i) save where the member has executed a premiums trust deed in the form prescribed by the Council on 2 October 1998 (as amended from time to time), the contract must contain an assignment of any recovery to the trustees of the member's premiums trust deed;

(ii) the contract must provide for the payment of cash on account before determination of the final outcome of an underwriting account where it can be demonstrated that such payment is required to meet the member's underwriting liabilities (e.g. to pay claims and expenses or to fund a currency shortfall where there is an overall estimated loss which would give rise to a claim under the contract);

(iii) the terms of the contract must be such that the amount of any recovery (or anticipated recovery) can be ascertained with reasonable certainty at any stage of the underwriting account; and

(iv) the contract must be non-cancellable; and

(b) that it can be established to the satisfaction of –

(i) in the case of corporate member which has no members' agent, the recognised accountant appointed by that corporate member; or

(ii) in any other case, both the recognised accountant appointed by the members' agent and the members' agent;

that the recovery is due.

5.3 Where a personal stop loss contract or resigning member's open year reinsurance contract does not meet the conditions set out in paragraph 5.2(a) above, the amount of any anticipated recovery may nonetheless be taken into account if it can be established to the satisfaction of the recognised accountant appointed by the members' agent or the corporate member which has no members' agent, as the case may be, that -

(a) a recovery is due under a personal stop loss contract;

(b) the amount of such recovery can be ascertained with reasonable certainty;

(c) the recovery will or is likely to be collected; and

- (d) save where the member has executed a premiums trust deed in the form prescribed by the Council on 2 October 1998 (as amended from time to time), either:-
- (i) the personal stop loss contract or resigning member's open year reinsurance contract is the subject of a letter which is substantially in the form and terms of either letter A or letter B which appear in Appendix 3 hereto; or
 - (ii) the member has signed a letter which is substantially in the form and terms of letter C, or in the case of a corporate member which has no members' agent, letter D, which appear in Appendix 3 hereto; or
 - (iii) the rights to the recovery have been otherwise assigned to the trustees of the member's premiums trust deed.

5.4 Where a personal stop loss pool contract which is underwritten at Lloyd's does not meet the condition referred to in paragraph 5.2(a)(iii) above because of any uncertainty in ascertaining the amount of funds remaining (after discharging to each member of the pool the minimum guaranteed recovery that is payable to him) for pro rata distribution to the members in accordance with the terms of the policy, the minimum guaranteed recovery shall constitute an eligible asset in relation to that member.

5.5 For the purposes of this paragraph 5, a contract underwritten at Lloyd's includes a contract underwritten by Centrewrite Limited.

Non-Lloyd's Personal Stop Loss Contracts

5.6 Anticipated recoveries under a personal stop loss contract not underwritten at Lloyd's and taken out with an authorised insurer are eligible assets provided that:

- (a) the conditions set out in paragraph 5.2 or 5.3 are satisfied; and
- (b) either –
 - (i) the best financial strength rating for the time being ascribed to the authorised insurer by any one or more of the Acceptable Rating Agencies is equivalent to or better than the best financial strength rating for the time being ascribed to the member's of Lloyd's taken together by any one or more of the Acceptable Rating Agencies, in which case -
 - (aa) 75 percent of such anticipated recoveries; and
 - (bb) the amount of such anticipated recoveries in excess of the amount referred to in sub-paragraph (aa) in so far as and to the extent that such excess amount is supported by a guarantee or letter of credit issued by an approved credit institution in favour of the trustees of the member's premiums trust deed;may be included as eligible assets; or
 - (ii) where the best financial strength rating for the time being ascribed to

the authorised insurer by any one or more of the Acceptable Rating Agencies is less than the best financial strength rating for the time being ascribed to the member's of Lloyd's taken together by any one or more of the Acceptable Rating Agencies, the amount of any anticipated recoveries from non-Lloyd's sources in excess of £25,000 in the aggregate must be supported by a guarantee or letter of credit, issued by an approved credit institution, in favour of the trustees of the member's premiums trust deed.

5.7 For the purpose of paragraph 5.6(b) -

- (a) an "Acceptable Rating Agency" means any of A.M. Best, Standard & Poor's, Moody's or such other rating agency as the Head, Market Reporting, or any one of the Managers, Market Reporting, may from time to time specify; and
- (b) the financial strength ratings referred to in:
 - (i) Row 1 of the table below are deemed to be the equivalent of each other and better than those referred to in Rows 2, 3 and 4 of the table below;
 - (ii) Row 2 of the table below are deemed to be the equivalent of each other and better than those referred to in Rows 3 and 4 of the table below;
 - (iii) Row 3 of the table below are deemed to be the equivalent of each other and better than those referred to in Row 4 of the table below; and
 - (iv) Row 4 of the table below are deemed to be the equivalent of each other.

	A.M. Best	Standard & Poor's	Moody's
Row 1	A++	AAA	Aaa
Row 2	A+	AA+, AA or AA-	Aa1, Aa2 or Aa3
Row 3	A or A-	A+, A or A-	A1, A2 or A3
Row 4	B++ or B+	BBB+, BBB or BBB-	Baa1, Baa2 or Baa3

5.8 Anticipated recoveries under non-Lloyd's personal stop loss contracts taken out with an insurer that is not an authorised insurer are eligible assets provided that:

- (a) the conditions set out in paragraph 5.2 or 5.3 are satisfied; and

- (b) the full amount of any anticipated recoveries from non-Lloyd's sources must be supported by a guarantee or letter of credit issued by an approved credit institution in favour of the trustees of the member's premiums trust deed.

6. PERMITTED ASSETS

An asset shall only be eligible to be taken into account for the purposes set out in paragraph 3(1) of these conditions and requirements if it falls within one or more of the categories of permitted assets set out in Part II of this Appendix.

7. MARKET RISK AND COUNTERPARTY LIMITS

7.1 Subject to the following provisions of this paragraph 7, an asset specified in Part II of this Appendix shall only be eligible to be brought into account for the purposes set out in paragraph 3(1) of these conditions and requirements to the extent that it does not exceed the limits set out in PRU3.2.22(R)(3) for assets of that description, expressed as a percentage of -

- (a) if it is a *syndicate asset*, the aggregate *syndicate assets* of that syndicate; and
- (b) if it is an asset held as a member's funds at Lloyd's, the aggregate value of the member's funds at Lloyd's.

7.2 In addition to the limitations on admissibility applying under paragraph 7.1, the aggregate value of assets eligible to be taken into account for the purposes set out in paragraph 3(1) of these conditions and requirements shall be reduced by the amount of exposure to a counterparty in excess of the *counterparty* limits set out in PRU 3.3.22(R)(3), expressed as a percentage of the aggregate *syndicate assets* or member's funds at Lloyd's, as the case may be.

7.3 The following assets are permitted without limit -

- (a) reinsurance debts;
- (b) rights of salvage or subrogation;
- (c) *premium* debts;
- (d) *deferred acquisition costs*;
- (e) *approved securities*;
- (f) moneys due from, or guaranteed by, the government of any *Zone A* country;
- (g) holdings in a *UCITS scheme*;
- (h) guarantees and letters of credit issued by an approved credit institution or authorised insurer; and
- (i) verifiable sums arising out of life insurance policies.

8. US DOLLAR SOLVENCY TEST - OLD AMERICAN BUSINESS

8.1 The amount of an member's US dollar surplus in relation to his Old American Business shall be treated for the purposes of Article 4.1(D) of the Lloyd's American Trust Deed as being in excess of the amount required to be held in his Lloyd's

American Trust Fund for the purposes set out in paragraph 3(1) of these conditions and requirements.

8.2 For the purposes of this paragraph -

- (a) "Lloyd's American Trust Fund" has the meaning given in the Lloyd's American Trust Deed;
- (b) "Old American Business" means "American business" as that term is defined in the Lloyd's American Trust Deed;
- (c) "relevant year of account" means any of the 1992 and subsequent years of account in which the member conducted insurance business at Lloyd's;
- (d) "US dollar surplus" means, in relation to a member, the aggregate amount, where positive, of his US dollar results for the relevant year of account; and
- (e) "US dollar result" means, in relation to a member and a syndicate -
 - (i) in relation to every relevant year of account later than the 1992 year of account, other than any year of account which has been closed by a reinsurance to close, the member's proportion of the amount described as "Dollar Solvency result for UK purposes" set out in the relevant column of the syndicate return entitled "LATF Business Balance Sheet"; and
 - (ii) in relation to any 1993 or subsequent year of account which has been closed, the amount of any cash balances and investments held in the member's Lloyd's American Trust Fund in relation to that year of account, after payment of any reinsurance to close premium in respect of the business concerned (whether payable in respect of that syndicate or any other syndicate).

8.3 In determining whether a member has a US dollar surplus regard shall be had to the guidance notes at Appendix 4.

9. **US DOLLAR SOLVENCY TEST - AMERICAN LONG-TERM BUSINESS**

9.1 The amount of an member's US dollar life surplus in relation to his American Long-Term Business shall be treated for the purposes of FIFTH (C) of the Lloyd's American Trust Deed for Long-Term Business as being in excess of the amount required to be held in his American Trust Fund.

9.2 For the purposes of this paragraph -

- (a) "American Long-Term Business" has the meaning given in the Lloyd's American Trust Deed for Long-Term Business;
- (b) "American Trust Fund" has the meaning given in the Lloyd's American Trust Deed for Long-Term Business;
- (c) "relevant year of account" means the 1991 year of account or any later year of account in which the member conducted insurance business at Lloyd's;
- (d) "US dollar life surplus" means, in relation to a member, the aggregate amount, where positive, of his US dollar life results for the relevant year of

account; and

- (e) "US dollar life result" means, in relation to a member and a syndicate -
- (i) in relation to every relevant year of account later than the 1991 year of account, other than any year of account which has been closed by a reinsurance to close, the member's proportion of the amount described as "Dollar Solvency result for UK purposes" set out in the relevant column of the syndicate return entitled "LATF Business Balance Sheet"; and
 - (ii) in relation to any 1991 or subsequent year of account which has been closed, the amount of any cash balances and investments held in the member's American Trust Fund in relation to that year of account, after payment of any reinsurance to close premium in respect of the business concerned (whether payable in respect of that syndicate or any other syndicate).

9.3 In determining whether a member has a US dollar life surplus regard shall be had to the guidance notes at Appendix 4 *mutatis mutandis*.

PART II

CATEGORIES OF PERMITTED ASSETS

- (a) *listed debt securities*;
- (b) loans
- (c) *listed shares* ;
- (d) *units in UCITS schemes, non-UCITS retail schemes, recognised schemes* and, for syndicates only, *units in any other collective investment scheme that invests only in admissible assets*;
- (e) debts owed by *reinsurers*, including *reinsurers' shares of technical provisions*;
- (f) *deposits with and debts owed by ceding undertakings*;
- (g) debts owed by *policyholders* and *intermediaries* arising out of direct and *reinsurance* operations (except where overdue for more than 3 months and other than *commission* prepaid to agents or *intermediaries*);
- (h) for *general insurance business* only, claims arising out of salvage rights and subrogation;
- (i) claims against *compensation funds*;
- (j) cash at bank and in hand, *deposits* with approved credit institutions and any other bodies permitted to receive *deposits*;
- (k) for *general insurance business* only, *deferred acquisition costs*;
- (l) accrued interest and other accrued income and prepayments;
- (m) letters of credit, guarantees, and verifiable sums arising out of life insurance policies, held as funds at Lloyd's.
- (n) *derivatives* which satisfy clauses 4 to 7 of the Derivatives Requirements;
- (o) unlisted commercial paper that has an investment grade rating of not less than P1 (Moody's), A1 (S&P) or F1 (Fitch).

**FORM OF LETTER RELATING TO PERSONAL STOP LOSS CONTRACTS REFERRED
TO IN PARAGRAPH 7 OF APPENDIX 2A**

THIS APPENDIX IS NOT AVAILABLE IN ELECTRONIC FORM

GUIDANCE NOTES FOR THE LATD ARTICLE 4(1)(D) AND LATD (LIFE) ARTICLE FIFTH (C) SOLVENCY TEST**A Calculation of each member's solvency position**

1. The open year solvency results shown in line 20 of the SR17 (LATF) will be apportioned to each member.
2. Where applicable members will be credited with any US dollar balances still held at the solvency test date.

B Calculation of dollars available for transfer

1. Managing agents will submit the SR17 (LATF) with their annual syndicate return data.
2. MSU will ensure that the total US\$ net result advised in DD files agrees to the relevant SR17 LATF result.
3. MSU will aggregate DD files to establish each member's profits available for transfer.
4. Any distributable LATF dollars still held in the LATF PRF as at the solvency test date will be aggregated with members' balances determined in paragraph B3 above to produce a gross profit available for transfer.
5. Any uncleared debts/losses in US dollars of a member will be covered by the gross profit from paragraph B4 to leave a net profit available for transfer.
6. A listing of members and their net profits available for transfer from paragraph B5 will then be produced.

C Potential restriction on releases

1. MR to calculate total LATF surplus for 1993 and post years of account as disclosed in the year end NYID filing.
2. Where the surplus in C1 is less than the aggregate amount to be transferred (B6) a restriction may be applied to ensure that any potential LATF deficit does not occur.
3. In the first instance, non-admissible assets will be identified on a syndicate basis and apportioned across the Names on the relevant syndicate to reduce the amounts transferable to those Names.
4. If the restriction in C3 is insufficient to avoid the potential deficit, the difference will be applied across all members, pro rata to their amount to be transferred as amended by C3.

THE PREMIUMS TRUST FUND (INVESTMENT) REQUIREMENTS

1. These conditions and requirements are prescribed under paragraphs 2 and 3 of the Premiums Trust Fund and Regulating Trustee Byelaw (No. 22 of 1998), clause 17 of each of the Lloyd's Asia (Singapore Policies) Instrument and the Lloyd's Asia (Offshore Policies) Instrument, clause 21 of the Lloyd's American Instrument and clause 21 of each relevant premiums trust deed in relation to all relevant premiums trust funds and so as to apply to the Regulating Trustee, any person to whom the Regulating Trustee has delegated any power of investment under a relevant premiums trust deed and any Managing Agent or delegate of any Managing Agent with power to exercise any power of investment under a relevant premiums trust deed or a relevant Special Trust Direction.
2. The powers of investment in clause 17 of each of the Lloyd's Asia (Singapore Policies) Instrument and the Lloyd's Asia (Offshore Policies) Instrument, clause 21 of the Lloyd's American Instrument and clause 21 of each relevant premiums trust deed for general business may only be exercised to invest in assets falling with any of articles 21(1)(a) to (d) (inclusive) and (m) of European Council Directive 92/49/EEC of 18 June 1992 (the third non-life insurance Directive), subject always to the limitations in paragraph 1(i) to (ix) inclusive of that article (so far as relevant) and provided that the further limitations set out in paragraphs 4 and 5 of these requirements shall also be complied with.
3. The powers of investment in clause 21 of each relevant premiums trust deed for long term business may only be exercised to invest in assets falling with any of articles 23(1)(a) to (d) (inclusive) and (m) of European Council Directive 2002/83/EC of 5 November 2005 (the life assurance Directive), subject always to the limitations in paragraph 3(i) to (ix) inclusive of that article (so far as relevant) and provided that the further limitations set out in paragraphs 4 and 5 of these requirements shall also be complied with.
4. Assets held in any Personal Reserve Sub-Fund held under any relevant premiums trust deed must, at all times comply with the requirements set out in paragraphs 1 to 4 (inclusive) and paragraph 8 of Part 1, and the general principles in introductory paragraphs 1 to 3, of Appendix 3 to the Funds at Lloyd's Requirements.
- 5.1 Subject to paragraph 5.3, no Managing Agent may exercise any power under –
 - (a) clause 17 of the Lloyd's Asia (Singapore Policies) Instrument in respect of assets held in any Managing Agent's Singapore Policies Sub-Fund held under that Instrument;
 - (b) clause 17 of the Lloyd's Asia (Offshore Policies) Instrument in respect of assets held in any Managing Agent's Offshore Policies Sub-Fund held under that Instrument;
 - (c) clause 21 of the Lloyd's American Instrument in respect of assets held in any Managing Agent's Dollar Sub-Fund held under that Instrument; or
 - (d) clause 21 of any other relevant premiums trust deed in respect of assets held in any Managing Agent's Sub-Fund held under that trust deed,

unless -

- (i) the investment is in an asset falling within any of paragraphs (a) to (d) inclusive, (j), (n) or (o) of Part II of Appendix 2 to the Solvency Requirements; and
 - (ii) following that exercise and taking all Managing Agent's Sub-Funds managed by a particular Managing Agent (in so far as they relate to a particular syndicate) as a whole, the requirements of paragraph 7 of Part I of Appendix 2 to the Solvency Requirements will be complied with.
- 5.2 Subject to paragraph 5.3, each Managing Agent shall procure that, in so far as the assets held in any Managing Agent's Sub-Fund held under any relevant premiums trust deed or any Special Trust Direction are invested, those assets shall at all times comply with -
 - (a) the requirements set out in paragraphs (a) to (d) inclusive, (j), (n) or (o) of Part II of Appendix 2 to the Solvency Requirements; and
 - (b) taking all Managing Agent's Sub-Funds managed by a particular Managing Agent (in so far as they relate to a particular syndicate) as a whole, the requirements of paragraph 7 of Part I of Appendix 2 to the Solvency Requirements.
- 5.3 Neither paragraph 5.1 nor paragraph 5.2 permit the making of an investment falling within paragraph (j) of Part II of Appendix 2 to the Solvency Requirements unless the cash is held in an account with, or deposited with, an approved credit institution.
- 5.4 For the purposes of paragraphs 5.1 and 5.2, the expression "Managing Agent's Sub-Fund" shall be taken to include any part of a premiums trust fund managed by a Managing Agent which relates to a particular syndicate and which is held either under any premiums trust deed or under any Special Trust Direction.
- 6.1 In these conditions and requirements -
 - (a) "approved credit institution" means a person who is an "approved bank" (as defined in any applicable relevant premiums trust deed);
 - (b) "Funds at Lloyd's Requirements" means the Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) made under the Membership Byelaw (No.17 of 1993) on 25 July 2005, as amended from time to time;
 - (c) "Lloyd's American Instrument" means Lloyd's American Instrument 1995 (General Business of Individual members or as the case may be Corporate Members) as for the time being modified which Instrument governs the Dollar Trust Fund (as therein defined) but if or to the extent that such Instrument is replaced then the replacing instrument for the time being in force (as for the time being modified);
 - (d) "Lloyd's American Trust Deed" means the instrument governing Lloyd's American Trust Fund for general business or for long term business (as the case may be) as for the time being in force (including any modification or replacement of the same);

- (e) "Lloyd's Asia (Offshore Policies) Instrument" means Lloyd's Asia (Offshore Policies) Instrument 2002 (General Business of All Underwriting Members) as for the time being in force (including any modification or replacement of the same);
 - (f) "Lloyd's Asia (Singapore Policies) Instrument" means Lloyd's Asia (Singapore Policies) Instrument 2002 (General Business of All Underwriting Members) as for the time being in force (including any modification or replacement of the same);
 - (g) "Lloyd's Canadian Trust Deed" means the instrument governing Lloyd's Canadian Trust Fund as for the time being in force (including any modification or replacement of the same);
 - (h) "premiums trust deed" means a trust deed, in the form for the time being required by the Council, constituting a premiums trust fund;
 - (i) "premiums trust fund" means a fund of premiums and other monies held from time to time by or under the control of trustees upon the trusts of a premiums trust deed or any Special Trust Direction made thereunder;
 - (j) "relevant premiums trust deed" means any premiums trust deed (whether for general business or for long term business) in one of the forms prescribed by the Council on 2 October or 10 December 1998 (including any amendments which the Council may from time to time make to those forms);
 - (k) "relevant premiums trust fund" means the trust fund held under a relevant premiums trust deed or any Special Trust Direction made thereunder, other than the Lloyd's American Trust Deed and the Lloyd's Canadian Trust Deed;
 - (l) "relevant Special Trust Direction" means the Lloyd's American Instrument, the Lloyd's Asia (Offshore Policies) Instrument or the Lloyd's Asia (Singapore Policies) Instrument;
 - (m) "Solvency Requirements" means the Conditions and Requirements relating to Solvency and Reporting made under the Solvency and Reporting Byelaw (No. 13 of 1990) on 27 October 2005, as amended from time to time;
 - (n) "Special Trust Direction" has the meaning given in Schedule 1 to the premiums trust deed.
- 6.2 In these conditions and requirements, terms defined in a relevant premiums trust deed or in a Special Trust Direction, as the case may be, have, in their application to that relevant premiums trust deed or Special Trust Direction, the meaning given in it.
7. These conditions and requirements shall come into force on 28 October 2005.