

MARKET BULLETIN

From	Head Market Reporting (extn 5129)
Date	12 May 2006
Reference	Y3811
Subject	Coming into Line
Subject areas	June Mid year Coming into Line and November Coming into Line for 2007
Attachments	
Action points	Members agents and direct corporate members to note
Deadlines	various

The purpose of this bulletin is to advise members' agents and direct corporate members of the detailed arrangements relating to Coming into Line (CIL) processes this year.

Mid Year CIL

The introduction of bi annual CIL was announced in the market bulletin (Y3372) issued on 10 August 2004 and reiterated in market bulletin Y3474 issued in December 2004 (both entitled Capital Tests Review). The market bulletin "2007 Year of Account Member Capital Setting" (Y3770) dated 17 March 2006 included details of Lloyd's approach to member level re-capitalisation, including our approach to shortfalls against ICA levels and reaffirmed the requirement for mid year CIL by June 2006.

The MSU is calculating the 2006 mid year CIL position for all active members using data as at 28 April 2006. Members' agents and direct corporate participants will be notified of any shortfalls during week commencing 22 May 2006. Members with a shortfall of less than 10% of their Economic Capital Assessment up to a maximum of £100,000 will not be required to provide additional funds in June. All other members will be required to provide funds in full by 30 June to cover the shortfall.

Given the nature of and the seasonal exposures of much of Lloyd's business, which may translate into losses in the second half year, it would be imprudent if CIL shortfalls were not

made good when known. CIL shortfalls are, therefore, required to be made good by 30 June 2006. Where there is material exposure to the central fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate risks until capital is lodged at Lloyd's.

Additional assets provided after 30 June up to 28 July 2006 will be processed and be subject to specific charges to cover additional work involved in the same way as those provided after the 29 November CIL deadline (i.e. £50 per £5m or part thereof shortfall per day).

Members who are required to make good their shortfall and have not done so by 28 July 2006 will be subject to the more prudent 'non-active' members release test calculation for any future release test calculations up to and including the calculation made in May 2007. These sanctions apply to the 2006 mid-year CIL process only. Consideration is being given to sanctions applicable in future years, including the reduction of a member's capacity in the future underwriting year.

CIL for 2007

The CIL valuation date for the November 2006 Capital Test in respect of the 2007 year of account is 28 July 2006. Member's funds at Lloyd's (FAL) will be re-valued on 29 September 2006. Where a member's FAL has fallen in value by more than 10% compared with 28 July value, the lower value must be used in the CIL calculation.

Half year interim results will be used in the 2007 CIL calculation as advised in Market Bulletin dated 8 May 2006 (ref 3807). The half year interim results will also be used in the 29 September release test calculation for active members (including those ceased members who have made funds interavailable to an active member or where a ceased corporate member is part of an ongoing corporate group and there is a cross deficit clause in place). It is expected that any release request submitted to the MSU takes into consideration the member's 2007 Coming into Line requirement, i.e. a surplus FAL release should not be followed by a provision of additional assets for Coming into Line.

All other aspects of the 2007 CIL process remain unchanged from the 2005 process for 2006 CIL, in particular that shortfalls must be funded **in full** by 29 November. Sanctions will be applied for any failures to do so.

If you have any queries relating to the timetable please contact Kim Harris ext. 2779 (kim.harris@lloyds.com). All other queries should be addressed to Kevin Nethersell ext. 6253 (Kevin.nethersell@lloyds.com). This bulletin is being sent to all members' agents, direct corporate members, recognised accountants and market associations for information.

John Parry
Head
Market Reporting