

MARKET BULLETIN

From	Head Market Finance (extn 5129)
Date	16 January 2007
Reference	Y3949
Subject	Open Year Profits at 31 December 2006 and 2007 Release Test
Subject areas	Transfer of open year profits to member level personal reserve funds. Including transfers from the Lloyd's American Trust Fund and 2007 Release Test
Attachments	Transfer Statement
Action points	
Deadlines	<ul style="list-style-type: none"> i) Submission of open year profit cash transfer statements 2 March 2007 ii) Submission of cash calls for 30 June due date 2 March 2007 iii) Accelerated Release Test – see timetable

Executive Summary

The purpose of this bulletin is to advise of:-

1. The procedure to be followed for the transfer of open year profits determined at 31 December 2006 (including from life syndicates and run-off years) for all syndicates from Sterling premiums trust funds (PTFs) and / or Lloyd's Dollar Trust Funds (LDTFs) and / or Lloyd's American Trust Fund (LATF) to members' personal reserve sub-fund (PRF).
2. Changes to the Release Test calculations for ceased members
3. A timetable to accelerate the release of profits and surplus capital, excluding LATF assets, following the year end results for aligned Direct Corporate Participants across all years of account (including run-offs), which do not participate on non-aligned syndicates. For all other participants the release of profits and surplus capital remains consistent with the timetable applied in 2006.
4. Open year profits retained at the syndicate level will be available for full off set within the solvency calculations and for capital setting purposes within the CIL exercise and the Release Test.

5. The change of dates for the submission of open year profit cash transfer statements and cash calls for 30 June due date.

Open Year Profits at 31 December 2006

Methodology to be utilised

The maximum available for transfer is the syndicate solvency result as per AR5 within the Annual Return ie. cumulative annual accounting result plus cash calls less transfers made to members in previous years less solvency provisions eg. disallowed assets as at 31 December 2006 (ie. AR5 line 7). Where the solvency result has been improved by a positive adjustment to reflect exchange differences on technical provisions for solvency in respect of non monetary items (AR5 line 2) then this element of the result is not available for release. Any retained surplus, including positive adjustments for exchange difference, will be available as full offset within solvency, for the CIL exercise and the Release Test.

Lloyd's American Trust Fund (LATF)

Transfers from open years will also be permitted from the LATF following clarification that the Lloyd's American Trust Deed (LATD) allows open year transfers. Transfers from the LATF will be available for release into members' personal reserve fund (PRF) accounts to meet non LATF liabilities once the member is LATF solvent across all syndicate participations. The LATF solvency exercise is conducted centrally by Market Finance and the MSU. Where members are not LATF solvent the MSU will retain any LATF balances in separate member level LATF accounts.

Transfers from the LATF cannot exceed any surplus reported on AR250 line 28. Managing agents should also be mindful of NYID funding requirements when making a transfer. Any LATF profits (either via DD File results or open year transfers) will not be physically available for release **to any Member** until the dollars are sent from Citibank following completion of the LATF Solvency Test. This is estimated to be completed during the first week of May.

Action required by managing agents by 2 March 2007

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 open year of account. In making the decision to transfer monies from syndicate PTFs, managing agents will be exercising powers conferred on them by clause 14(b)(iv) of the PTD, clause 14(a)(ii) of the Lloyd's American Instrument and Article 4.1(D) of the LATD to direct the managing agent's trustees or the managing agent's dollar trustees to transfer funds from the syndicate PTFs and/or LDTFs and/or LATFs. An agent must therefore act prudently and should ensure that it retains sufficient assets to cover its reasonable estimate of the liabilities. It should therefore be reasonably satisfied in making its decision that the retained assets will allow it to meet all liabilities as they are expected to fall due. In addition, by approving the cash transfer managing agents are providing a negative assurance that no material adverse development has occurred since 31 December 2006.

Where a managing agent proposes to make a transfer it must:

- i) prepare cash flow projections for the business of the syndicate in order to satisfy itself that the transfer of syndicate funds will not cause cash flow difficulties in the future;
- ii) complete and return the attached cash transfer statement to Kevin Nethersell, Market Reporting by 2 March 2007. A nil return is required if no transfer is to be made. NB. Managing agents may e-mail a signed completed version of the cash transfer statement in PDF format to kevin.nethersell@lloyds.com;
- iii) use a rate of exchange of \$1.96 : £1 in order to calculate the sterling equivalent of any cash transfer to be effected in US dollars.

Any cash to be transferred from syndicate PTFs or LDTFs will be included for payment via Central Accounting Settlement for value on 18 April 2007 (same date as the closed year results are collected). Managing agents should ensure that any open year profits transferred are in accordance with the profits in the underlying currency. Agents should not remit funds directly but ensure that their Central Settlement Accounts have sufficient funds to support settlement on 18 April 2007. The usual notifications will be issued.

Effect on solvency, Release Test and CIL

Members will have received the benefit of open year profits within the solvency calculations set out in the solvency statements to be issued during mid March and, therefore, open year profits released to PRFs cannot also be used towards clearing solvency shortfalls.

Open year profits determined at 31 December 2006 and transferred to the PRF that are not applied to meet cash calls and / or loss payments may be used towards meeting members' capital requirements and will be available for release to members subject to the Release Test calculations to be conducted this year. This is in line with the Release Test procedure applied in 2006.

The 31 December 2006 solvency open year profits calculated in accordance with UK GAAP retained at the syndicate level will be available for full off set within the solvency calculations and to meet capital requirements within the CIL exercise and the Release Test. This will enable additional profits and funds at Lloyd's to be made available for release.

Accelerated Release Test

The acceleration of the Release Test for aligned Direct Corporate Participants across all years of account (including run-offs), which do not participate on non-aligned syndicates will require the co-operation of the managing agents supported by aligned forms of capital. In particular the following data will need to be provided earlier than has been the case in previous years.

Timetable

	<u>Dates for Release of funds to non aligned capital</u>	<u>Revised dates for accelerated Release of funds</u>	<u>Recipient</u>
Annual Return	1 March	1 March	Market Reporting
Submission of DD Files	13 March	2 March	MSU
Submission of open year profit cash transfer statements	2 March	2 March	Market Reporting
Submission of cash calls for 30 June due date	2 March	2 March	MSU
Release Test statements	Late May	Early April	Members
Release of funds	June	April	Members

To clarify the timetable has changed for the receipt of open year profit cash transfer statements and 30 June cash calls (outside of DD Files) for all Managing Agents irrespective of the accelerated Release Test.

Achieving the above timetable will require support of managing agents. Files and returns will need to be complete and correct when submitted. Any need to resubmit any file after the deadlines outlined above will result in the accelerated timetable falling away and releases being made in accordance with timetable applied in previous years.

Restrictions

Non aligned capital will continue to receive profits and surplus capital in line with previous years' timetable. The accelerated release test can only apply to Direct Corporate Participants for a variety of reasons. Most notably:-

- Members' Agent expense data is not available until mid April as agents can only produce these files following MAPA apportionment.
- Individual members cannot have their profit released until an SRF transfer has been made (if required). Further, SRF withdrawals for any 30 June cash calls need to be made and loaded into the DAM before final positions can be established.
- All cash needs to be collected from all managing agents before profits can be allocated in the DAM to establish final figures for distribution.

The outcome of accelerating the Release test for Direct Corporate Participants across all years of account (including run-offs), which do not participate on non-aligned syndicates will be reviewed closely with a view to accelerating the Release test for all participants in 2008.

Administrative Issues

The sterling and LDTF profits of aligned Direct Corporate Participants taking advantage of the accelerated profit distribution will not be collected through Central Accounting Settlement but remain within the syndicate trust funds pending the member level release test result.

The collection of cash from managing agents for results and open year profit transfers for all other members is not affected and can remain as per the normal timetable ie. 18 April 2007. Spread syndicates with affected direct corporate participants will need to reflect the non collection of cash for these members and figures adjusted accordingly. This information will be advised via the remittance advice, once the relevant DD File has been processed.

Release Test Changes for ceased members

We have consulted with the FSA with regard to making changes to the Release Test calculations. The changes when determining the net capital requirement within the Release test are:-

	<u>Category of Member</u>
Removal of the Enhanced Capital Requirement	Ceased members
Uplifted Individual Capital Assessment (ICA) to replace RBC (including the 3x multiplier) for run-off syndicates	Ceased members

These changes will bring the ceased members' Release Test (subject to the 10% buffer) more into line with active members and continues to embed the ICA process within capital setting at Lloyd's. The above changes will require amendment to the Regulating Trustee (Release of funds) Requirements and Guidelines for the Partial Release of the Lloyd's Deposit which will be issued in due course.

Further Communication

The managing agents/aligned Direct Corporate Participants eligible for the accelerated profit distribution will be invited to attend a workshop covering the revised timetable and procedures. In this regard arrangements have been made to hold the workshop on Thursday 8 February in the Adam Room, 1986 Building. An e-mail invitation will follow shortly.

Contacts

If you have any general 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).

Any questions relating to the general profit distribution process and submission of DD files should be addressed to Graham Bonner extension 2056 (graham.w.bonner@lloyds.com) or David Stevens extension 2287 (david.i.stevens@lloyds.com). Questions from Direct Corporate Participants concerning the accelerated release test and profit distribution should be addressed to Malcolm Colesworthy extension 2497 (malcolm.j.colesworthy@lloyds.com).

This bulletin is being sent to all managing agents, members agents, direct corporate members, recognised accountants, and market associations for information.

John Parry
Head
Market Finance

CASH TRANSFER STATEMENT
OPEN YEAR PROFITS

SYNDICATE NO. _____(the Syndicate)

MANAGING AGENT _____

YEAR(S) OF ACCOUNT		
1. Cumulative Annual Accounting Result (AR5 line 7)		
2. Any positive adjustment made to reflect exchange difference arising on non monetary items for solvency, on AR5 line 2		
3. Total cumulative Annual Accounting result available to be transferred (Lines 1 minus 2)		
4. Transfer from Sterling Premiums Trust Fund		
5. Transfer from Lloyd's Dollar Trust Fund * (LDTF)		
6. Transfer from Lloyd's American Trust Fund * (LATF) Must not exceed AR250 line 28		
7. Total transfer in sterling (*converted at 1.96) Must not exceed line 3 above		

In accordance with the market bulletin dated 16 January 2007 entitled Open Year Profits at 31 December 2006 and 2007 Release Test ref [.....] the Board of Directors has prepared cash flow projections for the business of the open years of account of the Syndicate and based upon these projections, has decided to transfer the amounts above into the Personal Reserve Sub-Funds of the members who underwrote through the Syndicate for that year of account. These monies will be debited to the Syndicate's respective years of account respectively on **18 April 2007**.

The Board of Directors confirms that on the basis of the information available to it as at the date of this statement, the Board is satisfied that the above transfer is unlikely to result in a cash call on members of the Syndicate for the respective years of account, that sufficient liquid resources exist to fund the transfer and that no material adverse development has occurred since 31 December 2006.

Approved by the Board on _____

Signed _____(Compliance Officer)

_____(Director)

PLEASE RETURN TO KEVIN NETHERSELL BY FAX TO 020 7327 6178 OR E-MAIL COMPLETED PDF VERSION BY 2 MARCH 2007.