

MARKET BULLETIN

REF: Y4118

Title	US Trading Regulatory Reporting
Purpose	To advise the market that the US Reporting packs are available for completion and to provide a timetable and instructions
Type	Scheduled
From	Leslie Redmond, Manager, Overseas Reporting, Market Reporting Direct Tel No: 020 7327 5490 Email: leslie.remond@lloyds.com
Date	18 January 2008
Deadline	For immediate attention
Related links	Appendices 1-6 Instructions Checklists

Please copy this bulletin and its attachments to those within your organisation who are responsible for reviewing and completing the US packs.

There are two main changes to the reporting structure effective from this quarter.

- **There is no longer a requirement to report CAT 01G data so the cells to report this data have been removed from RI/SL 2, 6 and 6a.**
 - **The calculation for the TFMA on the Surplus Lines Trust Fund is now on a tiered basis dependent on the amount of your Gross Reserves. This change was advised to Finance Directors in a letter dated 8 January 2008 from Sean McGovern, Director & General Counsel. Please see paragraph 5 below for more details.**
1. Further to the Market Bulletin of 7 December 2007, I now confirm that electronic preliminary US reporting packs for the year ended 31 December 2007, together with the relevant working schedules and checklists for your managed syndicate(s), have been sent to your agency, via the Market Returns web-site, together with the "agent electronic front end system" software. Detailed instructions on how to use the electronic system are also enclosed with this letter.
 2. You are reminded that, whilst the reporting packs have been prepared centrally, the

ultimate responsibility for submission of correct data rests with the managing agent of each syndicate and, as such, you must satisfy yourself that you have reviewed the whole return. Completed packs should be returned to this department (Market Reporting) by the due dates as set out in the timetable attached to this letter at Appendix 1.

3. Appendices 2, 3, 4 and 5 to this letter provide general information and instructions concerning Xchanging underwriting transactions, reserving and trust fund assets, respectively. Appendix 6 relates to schedule F and P reporting.
4. A separate spreadsheet (HurricaneReserves.xls) to collect reserving and paid loss data in respect of Hurricanes Katrina, Rita and Wilma has been included with the downloaded software instructions. This data will be used to provide the New York Insurance Regulators with additional information that they have requested for each syndicate. Please complete this form by entering the actual reserves and cumulative paid losses as at 31 December 2007 for each of these hurricanes, at syndicate and **reserving** year of account level, as well as your overall reserve for each open syndicate year of account (as per form SL/RI 2 line 1). Please do not provide a breakdown at closed year of account level as this should be included in the accepting year of account's data. Please e-mail one completed form (named *HurResAgentName.xls*) per Managing Agent by 14 February 2008 to mailbox Lloyds-MR-OverseasReporting@lloyds.com.
5. The TFMA calculation for the Surplus Lines Trust Fund is now tiered based on the level of a syndicate's Gross Reserves, rather than as a set percentage of 30% (although syndicates that have had a higher reserving level imposed on them by the NAIC will continue to fund on that basis). There are four bands;
 - Up to \$200 million 30%
 - \$200 – 500 million 25%
 - \$500 – 1,000 million 20%
 - Over \$1,000 million 15%

The reporting software will calculate the TFMA for each syndicate year of account and where the syndicate's reserves exceed \$200 million, will report an aggregate TFMA. When completing your Surplus Lines pack enter the reserves on form SL 6 and calculate the pack before completing form SL 2 so that the software calculates the TFMA before you reconcile this form and calculate the funding requirement. This must be done by all syndicates regardless of whether they qualify for the lower reserving levels detailed above.

6. Once you have completed and finalised the electronic version using the agents' system, you must lock the packs and create the electronic download to return to Market Reporting. You are reminded that at the same time as the electronic downloads to the main US packs are due to be returned to Market Reporting you must also submit your schedule F and P data electronically for both the US Situs packs and the LATF where appropriate. **Please note that in order to create the annual return it is essential that the agent schedule F and P system can locate the agent front-end data file (please refer to Appendix 6).** Once you have locked the pack to create the electronic version for submission you will not be able to unlock it to make further amendments without contacting Market Reporting.

7. You must also provide **two original** signed copies of the statements of **actuarial opinions** of gross reserves on 14 February 2008 for both the Surplus Lines Trust Fund and Credit for Reinsurance Trust Fund. Do not submit extra copies for the NAIC/IID filing at this time. Please also note that the actuarial reports supporting the US trust fund opinions must be submitted to the Lloyd's Actuary by 18 April 2008.
8. Final packs (which must agree to the electronic versions you submit – see paragraph 6 above, and include integrated schedules F & P) must be signed, dated and notarised as indicated on the Jurat page (SL/RI 0). Notarisation of the US packs may be performed by a solicitor (other than an in-house solicitor) who holds a practising certificate under section 81(1) of the Solicitors Act 1974, which allows them to administer oaths and affidavits in the UK. Where your Finance Director is unavailable another director may sign in his or her place, and the pack should be marked accordingly. You may wish to keep a copy of the notarised pack, for your own records. **A hard copy notarised pack for the LATF is NOT required and should not be submitted.**
9. When hard copy final packs (**due on 19 February 2008**) are returned to Market Reporting we can only guarantee their receipt if they are hand delivered directly to **Gallery 6 of the Lloyd's 1986 building via Tower 1.**

If you have any queries on the contents of the packs, or on how to complete them, please contact me on the above number or David Cokayne (extn 6238) or email the overseas reporting mailbox Lloyds-MR-OverseasReporting@lloyds.com

Yours faithfully

Leslie Redmond
Manager, Overseas Reporting
Market Reporting

Timetable and arrangements for the year ended 31 December 2007

	<u>Key Date</u>
Provision of preliminary electronic packs by Market Reporting to managing agents, (available for collection from the Market Reporting web-site) for: <ol style="list-style-type: none"> 1 Checking of all underwriting data; 2 Checking investment data (both transactions and valuations) 3 Updating for reserves as calculated for the year end 	18 January 2008
Submission of amended electronic packs (including Schedules F & P) by managing agents to Market Reporting. Actuarial certification of the gross reserves must also be returned at this time (two original copies for both the SLTF and CRTF).	14 February 2008
Provision of final signed and notarised reporting packs by managing agents	19 February 2008
Cash Transfer forms to be returned to Dave Whitby (Settlements & Trust Funds, CH/L4), value date 26 February 2008. <u>STFO WILL CHARGE MANAGING AGENTS £50 FOR ANY FORMS THAT ARE SENT IN LATE TO REFLECT THE COST OF ADDITIONAL MANUAL PROCESSING.</u> Letters of Credit must be in place by 21 February 2008 the pre-advice having been submitted to David Cokayne by the 19 February 2008.	19 February 2008
All syndicate packs to be despatched to New York by Market Reporting for filing with NYID	22 February 2008

Please note that it is essential that any queries generated by the packs or otherwise should be raised well in advance of the deadline dates to allow Market Reporting sufficient time to revert to you with the answers. This is particularly relevant to queries in respect of Citibank investment and cash balances, or where in extremis an adjustment is required which cannot be made to the electronic packs which agents are updating. Any adjustments to be made by Market Reporting in extremis MUST be raised no later than TWO WORKING days prior to the date by which the electronic packs are to be returned to Market Reporting.

Xchanging underwriting transactions

1) 'ESR' files

For those agents subscribing to 'ESR' data, you will by now have received either on Disk or electronically the 'ESR' file(s) for your syndicate(s). As in previous periods, there may be some small differences between these reports and the packs as the US reporting database rounds each individual figure as it is entered into the system. Additionally, please note that these figures will not directly agree to information from the USMs or SCMs which are not at the same level of detail and which exclude certain elements, such as RI Costs on Treaties and State details. If you do subscribe to this service and have not received this data, or you need copies of the prospectus which sets out how to use the file please contact Data & Information at Xchanging on 01634 887632. If you have any queries relating to the data itself please contact 'Enquire' in Xchanging on 01634 887758.

2) Incomplete data

Where applicable we enclose a schedule of gross items which have been advised to you on the USMs prior to 31 December 2007 but which are not reflected in the packs, because part of the data was not completed (e.g. a state code was not known for a particular signing at the time the year was closed). Please review this data carefully and make amendments where the amounts involved are material. You are reminded that you must ensure that the syndicate reserves are adequate, and must include the effect of these items, where material.

3) Data corrections

Where applicable, we also enclose a schedule of corrections to business transactions processed through Ins-Sure & XCS that affect the data in the reporting packs.

4) USI adjustments

Any adjustments made to the underwriting data on the electronic US reporting packs are not carried forward from one quarter to the next. This will avoid double-counting, as any such adjustments will be included in future US reporting packs once the appropriate entries have been processed by Xchanging: you may need to advise them directly of these 'corrections'.

5) Delinked items

Please see Appendix 5 to this letter for their impact on underwriting data.

6) US regulated data not processed by Xchanging

Data that is not processed through Ins-Sure or XCS will not appear in the packs and will need to be added as adjustments. These entries will need to be added each quarter as they will not be carried forward from one quarter to the next.

Reserving and funding

1) Closed years of account

Where a year of account with US situs business has closed by way of RITC, any relevant transactions are shown against the year (and where applicable the syndicate) into which the year has closed. In order to ensure sufficient assets are maintained for the outstanding liabilities on that business, you are able to print working schedules, where appropriate, for the closed years of account. These show calendar year movements (or where the accepting year remains open after 12 months cumulative since the RITC), rather than the cumulative position, to enable you to check the figures in the preliminary packs. The reserves will be added into the reserves of the year into which the years have closed on line 1 of SL/RI 2, and be shown separately on line 7 of SL/RI 3.

2) Methodology

The reserves for all years of account at the end of the year must be calculated in accordance with the methodology previously advised (i.e.: the modified UK basis of reserving as previously detailed in market bulletin Y748 issued on 4 December 1997).

Agents must ensure that the schedule of Gross Liabilities and Reconciliation of Movements in Trust Fund (SL/RI 2 form) is completed appropriately. The reserves must agree to the figures entered on lines 6 and 7 on SL/RI 3 and agents MUST ensure that the losses incurred figures on SL/RI 6 (i.e.: gross reserves plus cumulative paid losses) are entered accordingly. Please note that SL/RI 6 must be completed on a pure year basis, and SL/RI 6a will show data for closed years. Further details on how to complete the forms are provided in the checklist.

3) Allowances against reserves (CRTF only)

Any credits in respect of letters of credit, deferred premium instalments or funds withheld against gross reserves in the Credit for Reinsurance Trust Fund, **must** be restricted to the amounts of the calculated reserves for the relevant contracts (i.e. not usually 100% of Schedule F figures). Please note that the figures appearing in the preliminary packs (lines 2a-2c of RI 2) are shown at zero, including amounts for closed YOAs against the assuming year. A working schedule, showing information by reinsured, may be printed from the electronic system (see detailed instructions) to assist managing agents in this calculation. Please note that closed year items are included on the working schedules, but only where a letter of credit, deferred element or funds withheld are shown.

4) Alternative Security (CRTF only)

In the Lloyd's United States Situs Credit for Reinsurance Trust Deed under paragraph 1.24, gross liabilities included in the definition of an 'American Reinsurance Policy' shall exclude any contract or policy of insurance, the liabilities for which the underwriter has provided security by means other than the Trust Fund. Such alternative security would include a

letter of credit lodged with the reassured, or funds withheld by the reassured (e.g. outstanding claims advances).

Where syndicates have provided an alternative security to the reassured, the guidance notes below should be followed for completing the RI packs.

- a) In cases where alternative security has been provided you must calculate the reserves for disclosure on form RI 2, including any amounts for such business.
- b) As the reserves disclosed within the pack now include the liabilities where alternative security has been provided, deduction for such security should be made at lines 2a or 2c on RI 2 (restricted to the actual reserves for those contracts). A working schedule, showing information by reinsured, may be printed from the electronic system to assist managing agents in calculating the credits to be entered for the relevant contracts. It may also be exported into excel.
- c) The New York Insurance Department also require details of the level of alternative security held by reassureds to be reported. Please therefore complete the memo note at the foot of the form (see below for further instructions), showing, by year of account, the extent of each type of alternative security and the gross reserves relating to that business calculated using the modified UK basis of reserving.
- d) Premiums and claims data for such 'regulated' business will continue to be disclosed within the packs: hence no adjustment should be made to these figures.

Where a syndicate has provided alternative security to a reassured you must complete the memorandum note at the foot of RI 2. To do this select the 'memo assets' button towards the foot of the RI 2 screen, which opens a sub-screen. You may then enter the relevant details in the fields on screen and close the sub-screen. The default print does not show this note, but once you have entered any figures into the sub-screen the note will print. For years of account in run-off the memo assets fields are in the bottom right hand part of the year specific RI 2 form.

5) Delinked items

Please see Appendix 5 to this letter for their impact on reserving.

Trust Fund assets

Please note that we have relied on Citibank electronic data for the investment transactions during the year. It is therefore essential that agents check all relevant schedules in detail and make any revisions to the electronic packs as necessary.

1) Trust Fund market valuation

Please note: Citibank will dispatch Certified Schedule B's on 24 January 2008. The system is therefore applying Final Pricing from Citibank's Security review process. Lloyd's inquiries and position adjustments can still change final prices and market values. Agents must ensure that all final packs agree to the confirmed investment valuations included on Schedule B. To assist in changing market price information, Market Reporting will provide an electronic update to agents with new prices and market values where applicable.

The packs issued to agents will be based on the trust fund valuation provided by Citibank. Any change to this total will need to be approved by Citibank before we can allow you to change this figure.

The value of cash and securities held as at the year end for all years of account have been entered in the total column on the SL/RI 1 asset form according to the type of assets. (Please note: short-term investments are those with less than 1 year to maturity at the date of acquisition and bonds (or long-term bonds) are those with 1 year or longer to maturity at the date of acquisition). The cash position is calculated by our system to be a balancing figure based on total fund value less securities, so where investment valuations change, unless the total asset value also needs amending, the cash figures will be changed.

There is also a schedule for each of your syndicates where investments are, or have been held in the respective trust funds (the Investment Summary), which should enable you to check the figures in Schedule D. This can be printed using the electronic US reporting system or exported to excel which will automatically happen when you select 'print investment summary'. The resulting file will be found in US2007Q4\export and named inv_[syndicate number, fund].xls. Citibank Transaction Reports information should be available from Citibank Electronic Banking and/or from your investment managers.

N.B: All investment data must be shown within the US Reporting Packs excluding accrued income purchased and sold. Managing agents should note that if, by virtue of non repatriation, interest is rolled up into the principal accounts of the relevant situs trust funds, these funds cannot at a later date be released from the trust fund other than via the TFMA mechanism.

2) Net remittances

Each quarter many syndicates transfer securities to make their funding adjustments. These are reflected on the net remittance line of SL/RI 2 at the market value prevailing on the date the transfers were made. As a margin has to be transferred this figure may not match precisely the value of the required transfers. Hence, Market Reporting has not allocated the

net remittances across years of account in the preliminary packs, but has posted them all to the 2007 column, as agents will need to determine the split. You **must** make the year of account allocation in the packs that are returned.

Please also note that net remittances included in the annual pack relate to the whole year except for the 2004 and prior years of account where these years closed at the end of 2006. Agents should check the figures to ensure that any remittances/withdrawals made during 2007 are accurately reflected.

It should also be noted that where syndicates have transferred securities between trust funds (termed by Citibank as 'deliver free' and 'received free' transactions) these will appear on the Citibank statements as having been traded at zero proceeds/cost. However, the historic cost relating to that holding will be shown on the Citibank investment summaries. For US reporting purposes only, the market value prevailing on the date of the transfer has been used as the proceeds for any 'deliver free' and the cost of any 'received free' transaction. The carrying cost within the US reporting system will also be the market value on the transfer date rather than the historical cost. (N.B.: The reason for this different treatment is that a 'deliver/received' free does not create a taxable event, so Citibank treat it as a transaction with no value and continue to carry the original cost. For US reporting purposes each trust fund is treated as a separate entity, so the transactions must be valued at the market value on the date they occurred).

Line 16 of forms SL/RI 2 currently does not show any transfers required to/from the situs trust funds. The figures included in the final packs must be based on the figures in the amended draft packs.

3) Cash Transfer Forms

Cash transfer forms must be returned to Dave Whitby (LPSO Settlements & Trust Funds, Fidentia House, Chatham) in hard copy on the 19 February 2008, and will have a value date of 26 February 2008. The cash transfer form also requires Managing Agents to specify non-cash assets that they intend to move to/from the situs accounts. The reporting system will derive the total amount to be funded from the pack and the cash transfer figure from that entered at the top of the form. It is then possible to enter values in respect of investments and letters of credit that will be added/removed from the fund. Agents will need to ensure that the total calculated after these details have been input agree with the total amount to be funded figure derived from the pack.

4) SLTF funding requirements

Please note that for Surplus Lines Trust Fund purposes, with effect from 1 January 1999, the amended terms of Art. 2.7 of the surplus lines trust deed: (i) require advanced notice to be given to the Trustee, the Domiciliary Commissioner, any Non-Domiciliary Commissioner and the IID in the event that, in respect of a given year of account, the TFMA for any quarter is less than 50% of the TFMA for the immediately preceding quarter; and (ii) prohibits the Trustee from permitting any such withdrawal for a period of 10 days after receipt of any such notice. The single exception relates to the situation where there is an RITC of the relevant year of account when details of the syndicate and year of account assuming the RITC of the US liabilities are required to be advised to the Trustee. **In other words you**

may not transfer assets out of the SLTF, when making the adjustment for the 31 December 2007 position, which will mean that the remaining asset balance for any YOA is less than 50% of the TFMA as at 30 September 2007, without previously providing the required notices. If your syndicate is likely to be in this position, please advise Market Reporting immediately.

- **FAILURE TO DO SO WILL MEAN THAT YOU ARE UNABLE TO RELEASE ASSETS IN EXCESS OF THE 50%.**
- **The deadline for notification is therefore 14 February 2008.**
- **Please note that a reduction due to an RITC is acceptable, provided the assuming year maintains at least 50%.**

De-linked underwriting transactions

Further to market bulletin Y2109, issued on 5 August 1999 some brokers may have used the optional facility whereby premium transactions may be recorded in advance of settlement. This process is referred to as 'de-linking'.

A report listing any premiums which have been recorded early (i.e.: de-linked) is included with this letter for those syndicates having an involvement in such transactions for their US situs trust fund business.

Where the effect of "de-linked" items on premiums is material the figures in the reporting packs should be adjusted accordingly. For clarification, this means included in any workings, as set out in the following example:

Example:

For a syndicate's 2007 year of account, as at 31 December 2007: The syndicate has \$100m of signed premiums and a further \$25m of de-linked premium items which have been recorded in advance of settlement. The syndicate has paid claims of \$40m, and the outstanding claims are not large enough to increase the reserve requirement.

	<i>\$m</i>
<i>(1) Signed premiums</i>	<i>100</i>
<i>(2) De-linked premiums (i.e.: not yet signed)</i>	<i><u>25</u></i>
<i>(3)</i>	<i>125</i>
<i>(4) Credit against future unsigned premiums</i>	<i><u>(25)</u></i>
<i>(5) Premiums for inclusion in the US situs trust fund pack</i>	<i><u>100</u></i>
<i>(6) Paid claims</i>	<i>40</i>
<i>(7) Reserves required (5) – (6)</i>	<i><u>60</u></i>

A: If, however, it is already known that the loss ratio on the de-linked premiums will be in excess of 100% the amount of the credit in (4) must be restricted accordingly.

B: If outstanding claims on the signed and de-linked premiums exceed the \$60m, then the reserves required will be equal to the outstanding claims.

PROGRAMME NO

LLOYD'S INSURANCE DATA SYSTEM

DATE: DD/MM/YY PAGE: NO

US TRUST FUND DELINKED ITEMS REPORT

SYNDICATE NUMBER: 9999

<u>TRUST FUND CODE</u>	<u>LPSO NUMBER</u>	<u>LPSO DATE</u>	<u>GROSS PREMIUM AMOUNT</u>	<u>YEAR OF ACCOUNT</u>	<u>RISK CODE</u>	<u>SYNDICATE REFERENCE</u>
XX	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
SUBTOTAL:			-9,999,999,999,999.99			
XX	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
	99999	DD/MM/YY	-9,999,999,999,999.99		CCYY	XXXXXXXXXXXXXX
SUBTOTAL:			-9,999,999,999,999.99			

*** END OF REPORT ***

Schedule F&P – integration with US reporting packs

Agents are reminded that at the same time as the electronic updates to the main US packs are due to be returned to Market Reporting (14 February 2008) you must also return electronic updates for schedule F and P, including the LATF. When returning the final signed and notarised reporting packs the schedules F and P should be combined within the main reporting packs. N.B Hard copy schedules F&P are **NOT** required for the LATF.

F&P and US reporting packs – cross validations

It is essential that the agent schedule F and P system can locate the data file of the US reporting agent front end system. This will allow the automatic cross validations between systems to take place and permit the final locking of both systems and creation of the final electronic returns to Market Reporting. Agents should also note that it is only possible to print the final hardcopy for notarisation (without the word 'draft') at this stage.

To locate the US reporting data file from the F and P system:

On entering the F and P system (having previously set up the F and P syndicate return with the syndicates relevant to your agency), select the Syndicate Information screen. If the US reporting system and F and P system are held in the same directory, the screen should automatically show the US reporting data file reference. If not, click on the 'US reporting' button and point the system, using the browse facility, to the US reporting data file (2007q4).