

FROM: Head of Taxation, Taxation Department
LOCATION: TAX/58/323
EXTENSION: 5228
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REFERENCE: TAX/MCM/hrc/Y2070
SUBJECT: NEW SPECIAL RESERVE FUND AND FUNDS AT LLOYD'S
SUBJECT AREA(S):
ATTACHMENTS: Appendix 1.
ACTION POINTS: Members and Members' Agents to note
DEADLINE: Immediate

The market bulletin (Ref. Y2033) advised members' agents of adjustments to the capital requirements for the 2000 underwriting year.

These changes mean that an amendment to the appropriate section of the NSRF arrangements is needed. The new section, which has been approved by the Inland Revenue, is as follows:-

6.1 The NSRF may be used as part of Funds at Lloyd's with effect from the 1999 Account. Different conditions, as set out below, apply for the 1999 Account and for subsequent accounts to reflect the different deposit requirements. However, should Lloyd's change its deposit requirements from those which apply for the 2000 Account, Lloyd's must consult with the Revenue as to whether any modification is needed to these conditions. **(This paragraph remains unchanged).**

For the 1999 Account the NSRF may not be used to cover the first 25% of OPL but may be used to cover the balance of FAL provided it is counted as the full 10% of OPW in addition to any other FAL requirement. **(This paragraph remains unchanged).**

For the 2000 and subsequent accounts the NSRF may not be used to cover the first 30% of OPL of a member's capital requirement but may be used to cover the balance of a member's capital requirement provided that the NSRF is counted as the full OPW requirement (equal to 5/45ths of the member's capital requirement) in priority

to being used to cover the remainder of the capital requirement. **(Please note changes).**

Three examples to illustrate the rules for the 2000 and subsequent accounts are attached as appendix 1.

This bulletin is being sent to all members' agents and recognised auditors. Members' agents should advise members, as appropriate, of the implications of these changes. If you have any queries will you please contact Mrs Maureen McLeod on 0171-327-6860.

D H Clissitt
Head of Taxation
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Examples:

- A) Mr Smith has an OPL of £600,000, a risk based capital (RBC) requirement of 35%, and a capital requirement of 45% (£270,000). His NSRF is £60,000.

His capital requirement can be met as follows;

£180,000	(30 % OPL)	-	non NSRF funds
30,000	(5% OPL)	-	NSRF as OPW ¹
30,000	(5% OPL)	-	NSRF (balance)
<u>30,000</u>	(5% OPL)	-	non NSRF funds
<u>£270,000</u>			

¹The maximum amount of his capital requirement that can be declared as OPW is

$$5\% \text{ of OPL (calculated as } \frac{5}{45} \times 45\%) \times £600,000 = £30,000$$

- B) Mrs Jones has an OPL of £600,000, an RBC requirement of 54%, and a capital requirement of 54% (£324,000). Her NSRF is £60,000.

Her capital requirement can be met as follows;

£180,000	(30% OPL)	-	non NSRF funds
£36,000	(6% OPL)	-	NSRF as OPW ²
£24,000	(4% OPL)	-	NSRF (balance)
<u>£84,000</u>	(14% OPL)	-	non NSRF funds
<u>£324,000</u>			

²The maximum amount of her capital requirement that can be declared as OPW is

$$6\% \text{ of OPL (calculated as } \frac{5}{45} \times 54\%) \times £600,000 = £36,000$$

- C) Mr Brown has an OPL of £400,000, an RBC requirement of 55%, and is therefore subject to the Sterling minimum capital requirement of £250,000. His NSRF is £60,000.

His capital requirement can be met as follows;

£120,000	(30% OPL)	-	non NSRF funds
20,000	(5% OPL)	-	NSRF as OPW ³
40,000	(10% OPL)	-	NSRF (balance)
<u>70,000</u>	(17½% OPL)	-	non NSRF funds
<u>£250,000</u>			

³The maximum amount of his capital requirement that can be declared as OPW is 5% of OPL, which is consistent with the requirements for members writing on the minimum capital requirements.