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LOCATION: Market Risk Unit, 86/G5
EXTENSION: 5685
DATE: 31st October 2001
REFERENCE: Y2642
SUBJECT: SURETY BONDS
SUBJECT AREA(S): Financial Guarantee
ATTACHMENTS: Annexe 1: Related Underwriting Conditions
ACTION POINTS: **Underwriters and Managing Agents to Note**
DEADLINE: **None**

This bulletin is issued on behalf of the War, Civil War & Financial Guarantee Committee ("the Committee"), and its purpose is to advise the market that the risk code "FS" has been redefined.

1. The intention when instituting the "FS" code was to compliment the pre-existing "SB" risk code by extending the range of territories within which reinsurable surety bond providers could be domiciled. The current "FS" definition does not clearly reflect this intention. From the date of this bulletin, therefore, the definition of the "FS" risk code will be:

"Reinsurance of surety bond providers, excluding those providers located in the US, Canada, EC, Scandinavia, Australia and Japan"

2. The effect of this redefinition will be to prohibit Lloyd's underwriters from providing surety bond arrangements in respect of Financial Guarantee perils (as listed in Schedule 3 to the 1989 Financial Guarantee Regulation) on a direct basis. Lloyd's underwriters' participation in this area will thus be limited to the reinsurance of non-Lloyd's entities which are licensed surety bond providers.
3. This bulletin will take effect as follows:
 - i) this bulletin will not apply retrospectively: any "FS" risk which is agreed and initialled by a Lloyd's underwriter on, or prior to, the date of this bulletin will not be required to conform with the new definition;

- ii) except for business covered by point iii) below, renewal of existing "FS" risks which do not meet the new definition will not be permitted, unless such renewal has been concluded on, or prior to, the date of this bulletin;
 - iii) the Committee is mindful that a small number of large programmes currently underwritten in the market require an element of direct bond provision, and that Lloyd's underwriters' ability to participate on such programmes may be contingent upon being able to meet such requirements. This situation has been discussed in detail with the underwriters concerned, who will be permitted to continue providing bonds, providing these bonds remain strictly as currently structured. Any modification of the scope of the bonds, or of the associated underwriting arrangements, must be approved by the Committee in advance of the modification;
 - iv) Both "FS" and "SB" will continue to be regarded as exempted Financial Guarantee classes and, with the exception of the FS definition, all other conditions as stated in Bulletin 060/98 of 26 June 1998 will continue to apply (except, of course where superseded by later bulletins). For ease of reference, the conditions which include "FS" and "SB" in their remit are noted in Annexe 1 to this bulletin;
 - v) Ins-sure (LPSO) have been advised of this redefinition of "FS", and will reject "FS" risks except unless these are presented in accordance with the terms of this bulletin.
4. All syndicates that have declared an intention to allocate 2002 capacity to "FS" business have been notified in advance of this bulletin, to enable them to adjust their syndicate business plans if they so wish.
5. For the market's information, it is the Committee's intention to remove "FS" completely for the 2003 year of account, and to offset this by modifying the territorial restrictions of "SB". Due to certain RBC practicalities, it has not been possible to effect this removal in time for the 2002 year of account.

This bulletin has been circulated to all Active Underwriters, Market Associations, Underwriting Agents, Managing Agents, Brokers and Recognised Auditors.

Any queries relating to this bulletin, or to any other matters arising from Lloyd's 1989 Financial Guarantee Regulation, should be referred to myself: full contact details are given below.

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Related Underwriting Conditions

The three conditions below are as stated in Bulletin 060/98 of 26 June 1998. They apply to the seven classes of business deemed to be Financial Guarantee, but which are exempted from the 1989 Financial Guarantee Regulation, and as such apply to the underwriting of "FS" and "SB" risks:

"Any business which falls within any of the seven risk codes¹ listed above may be underwritten for the 1999 and subsequent years of account without the specific prior approval of the War, Civil War & Financial Guarantee Committee, subject to:

- i) a premium income limit of 2% of syndicate allocated capacity for all financial guarantee business falling within the above risk codes taken together, other than trade credit business which will continue to be subject to a limit of 5% i.e. 7% in total; and
- ii) prior written notice to members that they will be underwriting financial guarantee business; and
- iii) particular attention being paid by managing agents to the monitoring of aggregate liabilities which, wherever possible, should be performed at country level as well as in total."

¹: CR, CN, SB, FS, BS, FM, FC

