

FROM: Michael FitzGerald, Treasury Services Department
LOCATION: 86/G5
EXTENSION: 5901
DATE: 5th February 2002
REFERENCE: Y2715
SUBJECT: US SITUS TRUST FUNDS QUARTERLY FUNDING PROCESS – (1)TRANSFER OF SECURITIES, (2)LODGEMENT OF LETTERS OF CREDIT AND (3) ASSET SUBSTITUTIONS USING LETTERS OF CREDIT

ATTACHMENTS: Securities transfer forms and LOC pre-advice form
ACTION POINTS: **Managing Agents to note comments and amend internal quarterly adjustment procedures accordingly.**
DEADLINE: **For immediate attention**

The purpose of this bulletin is: (1) to remind managing agents of the procedures for transferring securities between the Lloyd's Dollar Trust Fund, Credit for Reinsurance Trust Fund and the Surplus Lines Trust Funds, (2) to inform agents of procedures to be followed when lodging letters of credit with the US Situs trustee, (3) to inform agents of procedures to be followed when carrying out asset substitutions using Letters of Credit, and (4) to provide agents with revised securities transfer forms and LOC pre-advice forms.

(1) Transfer of Securities

Procedures for transferring securities between the LDTF, CRTF and SLTF were initially notified to managing agents via market bulletin Y857 issued on 1 May 1998.

a) Due date for submission of securities transfer forms

Managing agents should ensure that securities transfer forms are faxed to Citibank at least 5 business days prior to the quarterly funding date. Details of facsimile numbers can be found on the appropriate securities transfer forms attached to this bulletin. (*The 2001 year 4th quarter deadline for the receipt of securities transfer instructions is Tuesday, 19th February 2002*)

b) Copies of securities transfer forms to Treasury Services Department

In future, copies of securities transfer forms should also be faxed to Lloyd's Treasury Services Department at least 5 business days prior to the quarterly funding date. Details of

facsimile numbers can be found on the appropriate securities transfer forms attached to this bulletin.

c) Estimating Securities Market Values

As securities transfer instructions will need to be submitted at least 5 business days prior to the quarterly funding date, managing agents should consider the effect of price volatility on securities to be transferred. **It is imperative that managing agents over-collateralise securities being transferred into a CRTF or SLTF account, and under-withdraw securities being transferred out of such accounts.**

The table below summarises the price volatility of US Treasuries during 2001, and should serve as a guide for managing agents when calculating margins to build into security transfers. **It is important for managing agents to take into consideration the nature of the security being transferred: the figures below relate to US Treasuries which are traditionally less exposed to price volatility than corporate stock.**

	Years to maturity				
	1 - 3	3 - 5	5 - 7	7 - 10	10 +
Highest weekly price volatility in 2001	2.14%	4.33%	5.59%	6.84%	10.28%

The above figures are intended as a guide for managing agents: it is the managing agents' responsibility to ensure that funding is sufficient to meet their TFMA.

(2) Lodgement of Letters of Credit

The procedures detailed below should be considered in conjunction with previous market bulletins issued on this subject (Y2705 – 23 January 2002; Y466 – 20 March 1997 and Y012 – 30 October 1995)

a) Pre-advice of LOC details

Please note that managing agents should in future provide the US Situs Trust Funds trustee with details of new, or amendments to existing Letters of Credit at least 5 business days prior to the quarterly funding date. *(The 2001 year 4th quarter deadline for the receipt of pre-advice is Tuesday, 19th February 2002)*

A pre-advice form (as attached to this bulletin) should be sent to William Mulrenin at Citibank in New York (Fax 00-1-212-657-2674; Email william.mulrenin@citi.com) and copied to Michael FitzGerald at Lloyd's Treasury Services (Fax 020 7327 5261; Email michael.fitzgerald@lloyds.com), and should include the following information:

- 1) Syndicate
- 2) Year of Account (Open and Run-off years only)
- 3) Trust Fund
- 4) Amount
- 5) Total of individual LOC (if LOC spans multiple years of account)
- 6) State whether New LOC, or Increase / Decrease to existing LOC.
- 7) Total Balance of LOCs after new LOCs or amendments to existing LOCs (per 4)
- 8) Issuing Bank
- 9) Applicant (whether the syndicate itself or its reinsurer)

b) Due date for lodgement and address for delivery of LOCs

Managing agents should also ensure that Letters of Credit reach the US Situs Trust Funds trustee at least **3 business days prior to the notified quarterly funding date**. Letters of Credit should be sent to William Mulrenin at:

Citibank Global Securities Services
Insurance Trust, 14th Floor
Citibank N.A
111 Wall Street
New York, NY 10043, U.S.A.

(The 2001 year 4th quarter deadline for the receipt of Letters of Credit is Thursday, 21st February 2002)

c) Drawing down LOCs provided by a syndicate's reinsurer

Where an existing LOC provided by a syndicate's reinsurer is to be drawn down on, managing agents should note that the draw down process typically takes between 5 and 7 business days (depending on the issuing bank). As such, where it is anticipated that the proceeds of the draw down will be subsequently transferred out of the trust fund (e.g. for the purposes of a major claims payment), the draw down instructions should be sent to William Mulrenin (address as above) at least 7 business days prior to the date on which it is anticipated that funds will be transferred out of the trust fund.

(3) Asset Substitutions using Letters of Credit

Where a managing agent intends substituting a Letter of Credit for other assets already held within the US Situs Trust Funds, any cash or securities transfer instruction whose purpose is to transfer assets back to the LDTF must clearly indicate the following by way of note:

- a) that the transfer is in respect of an "LOC Asset Substitution"; and
- b) the amount of the LOC being issued.

This applies to intra-quarter asset substitutions as well as asset substitutions which coincide with the quarterly funding exercise.

Managing agents should note that unless, and until, all in-flowing assets required for the asset substitution are received, Citibank will be unable to release the outbound assets.

(4) Queries

Any queries relating to this market bulletin should be raised with the relevant contact:

General	Michael FitzGerald	5901
Citibank (London)	Paul Salariya	020 7500 5110
Citibank (New York)	Bill Mulrenin	001 212 657 2653

This market bulletin has been sent to all managing agents. Managing agents should provide their investment manager with copies of this bulletin and attached forms as appropriate.

Michael FitzGerald
Treasury Services Department