

FROM: Head, Market Reporting
LOCATION: 86/G5
EXTENSION: 5129
DATE: 15 April 2003
REFERENCE: Y3038
SUBJECT: 2000 YEAR OF ACCOUNT DISTRIBUTION:
CONTINUOUS SOLVENCY TRANSFER RE. 2002
YEAR OF ACCOUNT
SUBJECT AREA(S): AS ABOVE
ATTACHMENTS: Cash transfer statement
ACTION POINTS: **Requirements for continuous solvency transfer**
DEADLINE: **Declaration 1 May 2003**
Transfer from syndicate premium trust funds 12
May 2003

As per the market bulletin dated 9 September 2002 "Membership & Underwriting Requirements: Coming-into-line for 2003" (ref:Y2868) active members, participating on the 2002 year of account, were permitted to use a 3% credit of allocated premium limit (APL) towards satisfying their risk based capital requirement for the 2003 coming-into-line exercise.

The Franchise Board has now considered and agreed proposals to extend the principle of an adjustment for continuous solvency for the 2000 distribution exercise. In this regard the Franchise Board has agreed that members participating on the 2002 year of account may be able, in part, to utilise the 2002 account solvency surpluses in respect of general business declared within the 2002 Syndicate Return to meet cash calls and loss payments. Any 2002 continuous solvency transfer (CST) that is not applied to meet cash calls will be held in the personal reserve sub-fund (PRF) until closure of the 2002 year of account.

Quantum of surplus

Managing agents may make a transfer in respect of a 2002 year of account solvency surplus for general business from the sterling premiums trust funds (PTFs) and/or the Lloyd's Dollar Trust Funds (LDTFs) to the PRF.

The surplus available for transfer will be restricted to a maximum of 5% of syndicate capacity. If the declared solvency surplus is below 5% of capacity, then the amount of the transfer will be restricted to the actual solvency surplus. Where the managing agent approves the transfer, the agent must confirm that it is satisfied that the transfer is unlikely to result in a cash call on members of the syndicate concerned. No transfer may be made in respect of a syndicate that has not declared a surplus.

Members participating both on syndicates which have declared a surplus and syndicates with a deficiency which results in an overall deficiency for the 2002 year of account will have restrictions applied to any surpluses transferred. These members will be contacted directly.

Effect on solvency

The CST will not have any effect on the 31 December solvency 2002 calculations as the members participating on the 2002 account will already have received the benefit of the 2002 surplus within the solvency calculations as set out on the solvency statements issued on 9 April 2003. The CST therefore cannot be used towards clearing solvency shortfalls.

Next steps

It will be for individual managing agents to decide on a syndicate by syndicate basis whether, and to what extent, a transfer is appropriate. In making this decision, managing agents will be exercising powers conferred on them by clause 14(b)(iv) of the PTD and clause 14(a)(ii) of the Lloyd's American Instrument (LAI) to direct the managing agent's trustees or the managing agent's dollar trustees (as the case may be) to transfer funds from the syndicate level PTFs and/or LDTFs. An agent must therefore act prudently and should ensure that it retains sufficient assets to cover its reasonable estimate of the liabilities of that part of the member's business being conducted by it. It should therefore be reasonably satisfied in making its decision that the retained assets will allow it to meet those liabilities as they are expected to fall due.

In addition, where a managing agent proposes to make a transfer it must:

- i) prepare cash flow projections for the business of the syndicate for the period ending on 31 December 2004 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 by 1 May 2003;
- iii) restrict the amount of any transfer from any one syndicate to the lower of 5% of 2002 syndicate capacity or the actual solvency surplus as reported within the 2002 Syndicate Return (line 8 of the SR15 (2002));
- iv) use a rate of exchange of \$1.61 : £1 in order to calculate the sterling equivalent of any cash transfer to be effected in US dollars.

Any cash to be transferred from the syndicate PTFs or LDTFs in respect of the 2002 CST will be included for payment via Central Accounting Settlement for value on 12 May 2003.

Agents should not remit funds directly but should ensure that their Central Settlement Accounts have sufficient funds to support settlement on 12 May. The usual notifications will be issued.

Order of use of monies to pay debts

2000 year of account profits will be used to pay debts in the same currency before any 2002 CST is used. Subject to that, any 2002 CST will be used firstly to pay debts in the same currency and then across currency, together with any 2000 year of account profits. Please note that CST may not be used to pay life debts. It may only be used to pay non-life debts.

Life syndicates

Life syndicates will not be able to make transfers of 2002 year of account solvency surpluses.

Taxation implications

The Inland Revenue has confirmed that the CST will not bring forward the time at which the syndicate profits are taxed. Syndicate profits of the 2002 year of account will still be taxed when they are declared, that is in income tax year 2005-06 for individuals and calendar year 2005 for companies.

Any queries on the above should be addressed to Kevin Nethersell ext. 6253 – kevin.nethersell@lloyds.com or Mike Steer ext. 5709 – mike.steer@lloyds.com.

This bulletin has been sent to the compliance officer of all managing agents, members' agents, direct corporates and recognised auditors, and for information to all market associations including the ALM.

John Parry

CASH TRANSFER STATEMENT

SYNDICATE No..... (the Syndicate)

MANAGING AGENT.....

To the Council of Lloyd's

In accordance with the market bulletin dated entitled [.....
.....] Ref [.....] the Board of Directors has prepared cash
flow projections for the business of the 2002 year of account of the Syndicate for the period
ending on 31 December 2004 and based upon these projections, has decided to transfer:

£..... from the syndicate's sterling premiums trust fund (PTF) and/or
\$..... from the Lloyd's Dollar Trust Fund (LDTF)

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 2002 year of
account.

The aggregate sterling value of the cash transfer, using an exchange rate, where necessary, of
\$1.61 to the pound, is £..... and does not exceed the lower of 5% of the
Syndicate's allocated premium limit for the 2002 year of account or the Syndicate's solvency
surplus declared as at 31 December 2002.

The Board of Directors confirm 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 2002 year of account.

Approved by the Board on.....

Signed..... (Compliance Officer)

..... (Director)

Please return by fax to 020 7327 6178 by 1 May 2003