

FROM: Manager, Overseas Reporting, Market Reporting
LOCATION: MRD/86/G5
EXTENSION: 5490
DATE: 16 September 2003
REFERENCE: Y3142
SUBJECT: RESERVES AND NET ASSETS FOR LATF
BUSINESS AS AT 30 SEPTEMBER 2003
SUBJECT AREA(S):
ATTACHMENTS: Form 1 and form 2
ACTION POINTS: **Managing agents to complete the attached forms
and fund deficits where applicable**
DEADLINE: **Thursday 23rd October 2003**

Managing agents are asked to complete the attached Lloyd's American Trust Fund (LATF) forms for the quarter ending 30 September 2003 to enable Lloyd's to:

- (i) complete an aggregate LATF filing with the New York Insurance Department (NYID);
- (ii) monitor the overall LATF solvency position; and
- (iii) identify syndicates with solvency deficits and record the manner in which those deficits will be funded.

30 September 2003 Return

The format is the same as that used previously i.e. Form 1, "Estimate of total LATF net reserves and net assets" and Form 2, the managing agent's statement.

Assets

Managing agents will be aware that Lloyd's is required to maintain **admissible** assets in the LATF which are at least equal to their liabilities. In order to assess the LATF position of each syndicate/agency group, we require details of all assets relating to the LATF business as at 30 September 2003.

Form 1 includes an analysis of those syndicate assets which are admissible for NYID purposes and other assets. The assets admissible for inclusion in the LATF return to NYID are:

- (i) cash and investments held by Citibank - capital and accrued income;
- (ii) LOC collateral accounts (held by Citibank but separate from current accounts);
- (iii) Illinois deposits (**only** to the extent that they relate to pre 1 August 1995 business **and restricted** to net Illinois liabilities included in the LATF reserves); and
- (iv) brokers balances - LCA (net of credit balances).

Net reserves for LATF business (line 11)

Managing agents are requested to provide their best estimates of the reserves, net of reinsurance, for US dollar LATF business only, as at 30 September 2003. There is no need for these reserves estimates to be audited. They must however be prepared on the same basis as (or not materially different to) the net reserves which were included in the December 2002 Schedule P - LATF filings and Form SR16 of the 2002 Syndicate Return.

LATF solvency position on an NYID basis

Line 17 of Form 1 shows the syndicate LATF solvency position on an NYID basis. Agents are reminded that any deficit (i.e. as shown on line 17 of the form) must be funded **before 31 December 2003**. Details of the requirement to fund the LATF and of the remedial action that may be taken in respect of default, are contained in the market bulletin (reference Y683) dated 11 September 1997 with further information contained in the market bulletin dated 17 November 1997 (reference Y734).

Completion of forms

Please complete electronic versions of the forms, which will be sent to you by the MSU Department via e-mail attachment. The forms should be completed for each of the syndicates that you manage, in accordance with the enclosed instructions, and named, SYNDNO (4 digits)LATFQ32003.xls, e.g. 0002LATFQ32003.xls, (for syndicate 2). Any queries should be addressed to Vicki Riley on extension 6317 or me on extension 5490.

Completed forms must be submitted via the Market Returns website **by no later than 4:00pm on Thursday 23rd October 2003**. This tight deadline is inevitable as Lloyd's is required to send an LATF return to NYID in New York to arrive within 45 days of the quarter end. Thank you in anticipation for your assistance with this exercise.

This bulletin is being sent to the compliance officer of all managing agents for action and to all recognised accountants for information.

Leslie Redmond

Estimate of LATF Net Reserves and Net Assets
30 September 2003

Instructions for completion of forms

1. General

- 1.1 Returns must be submitted electronically.
- 1.2 An estimate of LATF net reserves is required for:
- (i) business incepting before 1 August 1995 for all syndicate years which wrote US dollar denominated business after 31 December 1992 for non-life business including that business which is now reinsured into the 1996 (or later) year of account; and
 - (ii) all open syndicate years for life syndicates.
- 1.3 The estimate of LATF net reserves and net assets is to be completed in **whole \$US**.
- 1.4 The **Managing Agent's statement** (Form 2) must be completed and returned with the estimate of LATF net reserves and net assets form (Form 1)
- 1.5 The forms must be submitted via the Market Returns website **by no later than 4:00pm on Thursday 23 October 2003**, by a Director or the Compliance Officer of the agency.
- 1.6 Any queries on the forms should be addressed to Vicki Riley on extension 6317 or myself on extension 5490.

2. Form 1 - Estimate of LATF Net Reserves and Net Assets

Relevant years of account

- 2.1 Please provide an estimate of the net reserves **as at 30 September 2003** in respect of all LATF business.
- 2.2 For non-life syndicates this will be:
- (i) the reserves and net assets for 1993 to 2000 years of account which are in run-off; and
 - (ii) the LATF reserves reinsured into the 2001 and later years of account as appropriate together with the relevant net assets.

- 2.3 For life syndicates, the total of assets and reserves relating to the 2003 and prior years of account are required where applicable (ie where the syndicate has transacted US \$ denominated business).

Line 3a - LCA balances

- 2.4 For this quarterly return the figure to be included here is the net of LCA debtors and creditors. If that net figure is a creditor it should still be included at Line 3a as a negative balance (see also para 2.12).
- 2.5 It should also be noted that a reconciliation is required between the book value recorded at line 3a and the figure provided by LCA as at the quarter end (lines 18 to 20). This will facilitate the reconciliation of individual syndicate's own figures to global figures produced by LCA. No specific detail is required in this reconciliation, just the overall total of reconciling items which should be reported at line 19.

Line 4a - Citibank current account

- 2.6 A reconciliation is also required for this figure on the same basis as that for LCA balances noted above (see lines 21 to 23).

Line 4c - Illinois deposit

- 2.7 Only that proportion of the deposit which supports pre 1 August 1995 Illinois liabilities is admissible. If this figure is not known at the syndicate level then a value of **not more than 15%** of the fund should be included in Form 2 as this is the proportion of the total funds supporting pre 1 August 1995 liabilities. The balance of the Illinois deposit should be included in line 4e, "Other assets - other".

Line 5a - Accrued income

- 2.8 This line should include accrued income and interest on all cash deposits and investments held by Citibank.

2.9 Lines 7 to 12 - Results information

Lines 7, 8, 9 and 12 were used in Form SR17(LATF) on the same basis as in Form SR12 of the 2001 Syndicate Return. For the purposes of the quarterly return however, the requirement for the figures determined as at 30 September 2003 is simply to report the balance due to (or from) members on line 10.

Line 11 - Reserves

- 2.10 Please calculate the reserves in accordance with the market bulletin: '31 December 2001 Solvency Test: Eligible Assets and Valuation of Liabilities Rules' (market bulletin reference Y2653 dated 21 November 2001).
- 2.11 Please note that these reserves as calculated at 30 September 2003 must be prepared on the same basis (or not materially different to) the net reserves which were included

in the December 2002 Schedule P - LATF filings and Form SR16 of the 2002 Syndicate Return.

Line 14a - Creditors LCA balances

- 2.12 This line has been included for the year end reporting when Lloyd's provides LCA balances on a gross basis. In this way the LATF balance sheet in the syndicate return is prepared on a comparable basis with form SR17a. However, for the purposes of the quarterly return, only net LCA balances are provided, this line has therefore been blanked out. **If a syndicate has an overall creditor LCA balance this should be reported at line 3a as a negative entry.**

3. Form 2 - Managing agent's statement

- 3.1 This form should be signed by a director or the compliance officer.
- 3.2 Where Form 1 indicates that the syndicate has an NYID based solvency surplus then the phrase "together with the table below indicating how the deficit will be funded" and the following word "have" should be deleted. Where Form 1 indicates a deficit then only the word "has" should be deleted and the deficit funding table should be completed.
- 3.3 In completing the deficit funding table that element of the deficit that is to be funded by a transfer from the LDTF should be reported at line 1 of the table together with the actual/proposed date of the transfer. An actual date will show a date in the table prior to the sign off date, a proposed date will show a date in the table later than that of the sign off. Either way a date must be included: it will not be sufficient to state "to be arranged" or anything similar. Lines 2 and 3 should be used to identify other sources of deficit funding. The amount on the total line must be at least equal to the deficit at line 17 on Form 1.