

FROM: Head, Market Reporting
LOCATION: MR/GY5/86
EXTENSION: 5129
DATE: 20 October 2003
REFERENCE: Y3167
SUBJECT: 2003 ASSET RETURN
SUBJECT AREA(S):
ATTACHMENTS: Yes
ACTION POINTS: **Members' agents and direct corporates to complete either an asset return or Form A as appropriate**
DEADLINE: **30 January 2004**

The purpose of this bulletin is to advise you of the form of the asset return for the year ending 31 December 2003, as prescribed under the Solvency and Reporting Byelaw (No. 13 of 1990) as amended. The return must be prepared in accordance with the eligible asset rules, which are being issued via a separate market bulletin.

Unless otherwise stated the following paragraphs relate to both members' agents and direct corporate members.

1. Solvency test as at 31 December 2003

Members' agents and direct corporate participants (DCP) are required to submit, **by 30 January 2004**, either:

- (i) an **unaudited** year end return (i.e. where all relevant members' FAL is held under the custodianship of Lloyd's centrally, i.e. Members' Services Unit (MSU)); or
- (ii) an **audited** asset return (where any FAL is **not** held under the custodianship of Lloyd's centrally).

Unaudited year end asset returns

The unaudited asset return, Form A, for both members' agents and DCPs is included in Appendix 1. Where applicable this form must be submitted to Lloyd's **by 30 January 2004**.

Audited year end asset returns

The forms for the audited year end asset returns are attached as part of Appendix 1. It is anticipated that the vast majority of, if not all, members' agents and DCPs, will not have to complete an audited asset return. However, there may be instances where FAL is not held by MSU, e.g. a corporate member that provides FAL by way of an external covenant and charge; in these circumstances an audited year end asset return is required. Where applicable the audited year end asset return must be submitted **by 30 January 2004**.

The factor that determines whether MSU or the DCP should report a covenant and charge is whether MSU is the custodian of the underlying assets. If MSU is the custodian of the underlying assets then MSU will report the covenant and charge for solvency purposes and an unaudited return is required. However, if MSU is not the custodian of the underlying assets then the DCP must report the covenant and charge and submit an audited return. The fact that MSU may have a record of the covenant and charge is not relevant to this decision.

It should also be noted that where the members' agent or DCP does hold assets that need to be reported on an asset return, any FAL held by MSU on behalf of the member(s) must not be included in the return.

When completing the year-end asset return you are reminded that the return must comply with the eligible asset rules and in particular the concentration limits contained in paragraph 9 of those rules.

Interavailable Funds (Corporate Consolidations only)

Where a corporate member has made funds interavailable to another corporate vehicle, all the interavailable funds should be, in the first instance, reported under the donor member asset return.

Funds held at year-end for new members

If the agent/DCP holds any FAL at 31 December 2003 for a new corporate member commencing underwriting as at 1 January 2004 then Form C (Appendix 1) must be submitted and clearly indicated on the form that this is a new member commencing underwriting with effect from 1 January 2004. This form is only required IF the assets are not held by MSU.

Supplementary asset return and asset report (deadline 31 May 2004)

The supplementary asset return and asset report forms are included at Appendix 1. Generally, MSU will report additional assets that have been received from members to clear solvency shortfalls. Where members' agents receive additional assets from members that will not be reported via MSU, they must complete the relevant return. Similarly if a direct corporate member provides additional FAL that will not be reported by MSU then that corporate member must provide the relevant return. Please note that the supplementary asset return needs to be audited.

It should be remembered that despite the fact that MSU hold the majority of funds at Lloyd's and control the annual distribution exercise the responsibility for ensuring that additional assets are reported for solvency purposes to clear solvency shortfalls remains with the members' agent or DCP.

2. Queries

Any queries concerning the content of this bulletin should be addressed to Mike Steer on extension 5709 or Kevin Nethersell on extension 6253.

This bulletin is being sent to the compliance officers of all members' agents, DCPs and recognised accountants.

John Parry

**INSTRUCTIONS FOR THE COMPLETION OF ASSET
FORMS**

The submission of the asset forms for the 2003 solvency test can be divided into two stages.

Each stage is detailed below together with a listing of the necessary forms to be submitted and the relevant deadline dates.

	<u>Asset Form</u>	<u>Deadline Date</u>
Stage 1	(i) Total Funds at Lloyd's (where all the assets are held centrally by the Member's Services Unit (MSU) at Lloyd's)	Form A 30 January 2004
	OR	
	(ii) Asset Return (where some or all of the Funds At Lloyd's are held by either the members' Agent or Direct Corporate Member (DCP))	Forms B, C, E & F 30 January 2004
Stage 2	Supplementary Asset Return	Forms D, G & H 31 May 2004

Please note that where a corporate member is commencing underwriting with effect from 1 January 2004 and FAL is held by the agent or DCP directly only form C should be submitted with it clearly indicated that the member commenced underwriting in 2004. This form is only required where the funds are not held centrally at Lloyd's.

FORM A Unaudited statement

This form must be used where the members' agent or DCP does not hold funds at Lloyd's directly itself as at 31 December 2003. The form must be submitted by 30 January 2004. The form does not need to be audited.

FORM B Asset Return

The asset return must provide details of the following assets, split between the Life and Non-Life classes of business, for each member (corporate or individual) who will be subject to the 2003 solvency test.

- | | | |
|----|---------------------|--|
| a) | PRF - | The value of all eligible, personal reserve fund assets held by the agent at 31 December 2003. |
| b) | SRF - | The value of all eligible, special reserve fund assets held by the agent as at 31 December 2003. |
| c) | Deposit - | The value of all eligible, deposit assets held by the agent as at 31 December 2003. |
| d) | Non-solvency assets | The value of any PRF/SRF or deposit assets that are not eligible for solvency purposes. |
| e) | Total assets | The aggregate of (a) to (d). |

In reporting asset values particular reference should be made to the concentration limits in the eligible asset rules.

Negative values must not be reported

If any agent should discover after the submission of an initial asset return, that a value detailed therein was erroneously reported, this can only be corrected by overwriting the original value with the correct valuation. In this case, therefore, a new form B should be completed to correct the affected valuation as necessary.

Please note in the case of a covenant and charge the concentration limits apply to the underlying assets. If certain of the underlying assets are deemed to be inadmissible, their value must be deducted from the value of the total assets supporting the covenant. If the revised value is still greater than the covenant, the value of the covenant must be reported in the relevant "for solvency" column on form B. If the revised value is lower, then the adjusted asset value must be reported in those columns with the difference being reported in the non-solvency assets column.

For example, a member provides its deposit through a £100m covenant: at 31.12.2003 the underlying assets are valued as £103m. If it transpires that £2m of the assets are inadmissible for solvency the revised value is £101m: the value of the covenant of £100m will therefore be reported in the deposit for solvency column on form B. If, however, the inadmissible assets are £5m, the adjusted asset value is £98m, i.e. lower than the covenant. In this case the £98m will be reported in the deposit for solvency column with the difference of £2m reported in the non-solvency assets column.

The values reported on this form must be accurate to the nearest pound.

Submission Date : 30 January 2004

Note : Form B must be submitted in conjunction with forms C, E & F.

FORM C **Asset return by FSA security code**

This return requires the personal reserves, special reserves and deposit held by the agent or DCP to be analysed by FSA security code. Attached at Appendix 3 is a schedule that gives examples of how various securities etc are codified by the FSA.

This form is the only one that is required to be completed by a new member who is commencing underwriting with effect from 1 January 2004 where the assets are not held by the MSU. Please clearly indicate on the form that this is a new member for 2004.

FORM D **Supplementary asset return**

The supplementary asset return must detail any asset not previously notified to Lloyd's but which are now required for solvency purposes. These assets must be valued as at the date the asset came under the terms of the relevant trust deed (ie. the date at which the asset qualified as an eligible asset for solvency purposes).

It is not necessary for agents to report on negative values on supplementary asset returns for assets released post 31 December 2003.

All assets detailed on this form must be clearly identified using the asset codes detailed in Appendix 2. None of the existing codes will be changed but new asset codes may be added and will be notified to you accordingly.

In respect of all tax recoveries, all supporting documentation must be submitted with the asset return.

Note : Form C must be submitted in conjunction with forms G & H.

FORM E **Report of the members' agent or DCP**

The report of the members' agent or DCP is a confirmation to the Council of Lloyd's that the agency has complied with the requirements of the Solvency and Reporting Byelaw (No.13 of 1990), as amended when preparing their supplementary asset returns. The report of the members' agent is required to be signed by a director or partner of the agency and must be submitted with forms B & C. The report should detail the relevant page numbers of the attached forms B & C.

FORM F **Auditors' report**

The auditors' report is a confirmation to the Council of Lloyd's that, the preparation of the asset return has been examined by the auditor to meet the requirements detailed within the Solvency and Reporting Byelaw (No. 13 of 1990), as amended. The auditors' report is required to be signed and must be submitted with forms B, C & E. The report should detail the relevant page numbers of the attached forms B, C & E.

FORM G **Report of the members' agent & DCP (supplementary)**

The report of the members' agent & DCP (supplementary) is a confirmation to the Council of Lloyd's that, the agency or DCP have complied with the requirements of the Solvency and Reporting Byelaw (No. 13 of 1990) when preparing their supplementary asset returns. The report is required to be signed by a director of the agency or DCP and must be submitted with form D. The report should detail the relevant page numbers of the attached form D.

FORM I **Auditors' report (supplementary)**

The auditors' report (supplementary) is a confirmation to the Council of Lloyd's that, inter alia, the supplementary asset return has been properly prepared in accordance with the provisions of the Solvency and Reporting Byelaw (No. 13 of 1990). The auditors' report is required to be signed and must be submitted with forms D & G. The report should detail the relevant page numbers of the attached forms D & G.

APPENDIX 2

ASSET CODES

Each asset has a pre-defined method of amendment that determines how the values are handled by the solvency system.

- a) Some asset values will always overwrite previous values (replacement method of amendment), providing the asset code and agent code are the same, so the total new value must always be supplied (see below). Typically, this will relate to year-end data submitted on the asset return.
- b) In other cases, any value supplied will be added to the existing value for the given asset (adjustment method of amendment), so the difference between the required new value and the existing value must be supplied (see below). Typically, this will relate to assets reported on either a supplementary asset return or an asset report.

Care must be taken to ensure all assets are submitted in accordance with these rules, as incorrect information may be difficult to amend once it is loaded into the solvency system.

REPLACEMENT METHOD

The following assets all have the replacement method of amendment, therefore the total new value must be supplied.

Non-Life Assets

CODE	DESCRIPTION
E05	Non-Life year end PRF
E30	Year-end SRF
H05	Non-Life unacceptable PRF
R10	Non-Life Deposit with agent

Life Assets

M05	Life year-end PRF
Q05	Life unacceptable PRF
S10	Life Deposit with agent

ADJUSTMENT METHOD

The following assets all have the adjustment method of amendment, therefore the change in value only must be supplied.

Non-Life Assets

CODE	DESCRIPTION
E10	Non-life additional PRF
E40	Additional SRF
E44	Non Life additional Interavailable FAL
E45	Non-Life additional Deposit
E60	Non-Life additional Deposit with agent
E79	Non-Life concentration adjustment
F05	Anticipated Stop Loss Recovery
F15	Non-Life Insurance Company Guarantee
F20	Non-Life Letter of Credit
F25	Means Bank Guarantee
F50	Cash calls paid post 31/12

Life Assets

M10	Life additional PRF
M44	Life additional Interavailable FAL
M45	Life additional Deposit
M51	Cash calls paid post 31/12
M60	Life additional Deposit with agent
N05	Life Stop Loss Recovery
N15	Life Insurance Company Guarantee
N20	Life Letter of Credit
N79	Life concentration adjustment

An example

Member 099999Z has a Non-Life PRF valuation of £15,000 as at 31/12/03 and then subsequently provides an additional amount of £3,000 on 3/3/04.

An entry should be made for E10 £3,000 using Forms D, G & H.

FINANCIAL SERVICES AUTHORITY (FSA) ANALYSIS
DESCRIPTION OF FSA SECURITY GROUPS

FSA CODE

1. Equity shares
2. Other shares and variable yield investments
3. Holdings in collective investment schemes
4. Rights under derivative contracts
5. Debt securities and other fixed interest securities –
Fixed interest – Approved securities
6. Debt securities and other fixed interest securities –
Fixed Interest – Other
7. Debt securities and other fixed interest securities –
Variable interest – Approved securities
8. Debt securities and other fixed interest securities –
Variable interest – Other
9. Participation in investment pools
10. Loans secured by mortgages
11. Deposits with approved credit institutions and approved financial institutions –
withdrawal subject to a time restriction of one month or less
12. Deposits with approved credit institutions and approved financial institutions –
withdrawal subject to a time restriction of more than one month
13. Other

FUNDS AT LLOYD'S HELD BY AGENT OR DCP
as at 31 December 2003 (UNAUDITED)

Agent / Corporate Code

Name of Member's Agent/ DCP

Contact Name

Telephone Number

E-Mail Address

Facsimile Number

I confirm that no funds at Lloyd's were held directly by this Agent/DCP to support underwriting requirements at Lloyd's as at 31 December 2003 other than those held centrally by Lloyd's.

Signed

Compliance Officer / Director.
(Delete as appropriate)

Date

This form should be returned to Mike Steer of Market Reporting (Lloyd's, 86/G5)
by no later than 30 January 2004.

FORM A

LLOYD'S SOLVENCY TEST
AS AT 31 DECEMBER 2003

FORM B

ASSET RETURN

Underwriting Agent/DCP							Code	
Auditor							Date	Page
(1)	(2) Member Code	(3) Member Name (Corporate or individual)	(4) Class	(5)# PRF for solvency	(6)# SRF for solvency	(7)# Deposit for solvency	(8)# Non-solvency assets	(9)# Total
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
Totals								

Cols. 5-7 should be used to report fund's at Lloyd's after deduction of any assets that do not meet the concentration limits. Assets not meeting the concentration limits should be reported in col.8. Total FAL should be reported in col 9 and will equal the aggregate of cols 5-8.

LLOYD'S SOLVENCY TEST
AS AT 31 DECEMBER 2003

FORM C

ASSET RETURN BY FSA SECURITY CODE

Underwriting Agent/DCP		Code		
Auditor		Date	Page	
Description	FSA Code	PRF for solvency	SRF for solvency	Deposit for solvency
Equity shares	01			
Other shares and other variable yield securities	02			
Holdings in collective investment schemes	03			
Rights under derivative contracts	04			
Debt securities and other fixed income securities - fixed interest - approved securities	05			
Debt securities and other fixed income securities - fixed interest - other	06			
Debt securities and other fixed income securities - variable interest - approved securities	07			
Debt securities and other fixed income securities - variable interest - other	08			
Participation in investment pools	09			
Loans secured by mortgages	10			
Deposits with approved credit institutions and approved financial institutions - withdrawal subject to a time restriction of one month or less	11			
Deposits with approved credit institutions and approved financial institutions - withdrawal subject to a time restriction of more than one month	12			
Other	13			
Totals *				

LLOYD'S SOLVENCY TEST
AS AT 31 DECEMBER 2003

FORM D

SUPPLEMENTARY ASSET RETURN

Underwriting Agent/DCP				Code	
Auditor				Date	Page
	Member Code	Member Name (Corporate or Individual)	Class	Asset Value *	Asset Code *
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
Totals					

*** Notes**

- Any input of supplementary assets must conform to the Valuation of Assets criteria and must be clearly identified using the asset codes as detailed in the "Instructions for the completion of Asset Forms".
- Ensure that there is only one entry per member per asset code.
- All figures should be accurate to the nearest pound.

LLOYD'S SOLVENCY TEST
AS AT 31st DECEMBER 2003

FORM E

Report of the Members' Agent/DCP

Page No.	
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To the Council of Lloyd's

Members' Agent/DCP

Responsibilities

The Solvency and Reporting Byelaw (No. 13 of 1990) requires the members' agent/DCP to prepare an asset return for all underwriting through that agency/DCP during the year to 31 December, in accordance with Lloyd's rules.

In preparing the asset return the members' agent/DCP must have regard for Lloyd's rules which require that every asset return shall state;

- that the members' agent/DCP has, throughout the year ended 31 December 2003, established and maintained such systems and procedures, including maintenance of adequate accounting and other records, as are necessary to enable it to comply with the requirements of the Solvency and Reporting Byelaw;
- (required for members' agents only) in respect of each relevant member the value of all monies and assets of that relevant member held by the agent or under the agent's control including but not limited to monies and assets held in any trust of such a member.

The members' agent/DCP is also responsible for safeguarding the assets under its custody and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Confirmation

We confirm that;

- (a) we have, throughout the year ended on 31 December 2003, established and maintained such systems and procedures, including maintenance of adequate accounting and other records, that are necessary to comply with the requirements of the Solvency and Reporting Byelaw (No. 13 of 1990); and
- (b) we have prepared the attached asset return set out on pages to.... in accordance with the provisions of the Solvency and Reporting Byelaw (No.13 of 1990) and the conditions and the requirements prescribed thereunder; and
- (c) (required for members' agents only) all the assets in respect of each member underwriting through this agency are included in the return and that there are no other members for whom the agent acts who should have been included as at 31 December 2003

Signed (Director)
Name (Block Capitals)
On behalf of (agent/DCP)
Date

LLOYD'S SOLVENCY TEST
AS AT 31st DECEMBER 2003

FORM F

Auditors' Report

To the Council of Lloyd's

Members' Agent/DCP	Code
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We have examined the asset return set out on pages to

Respective responsibilities of the members agent and auditors

As described in Form E the members' agent/DCP is responsible for the preparation of the asset return. It is our responsibility to form an independent opinion, based on our audit, on Forms B, C & E ("the Forms") and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Forms are free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion,

- i) all monies and assets have been valued in accordance with the conditions and requirements prescribed by the Council of Lloyd's; and
- ii) the asset return has been properly prepared in accordance with the provisions of the Solvency and Reporting Byelaw (No. 13 of 1990), as amended, and the conditions and requirements as prescribed thereunder.

Signed	Dated
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Note: The page number of the members' agent report (Form E) must be covered by the page numbering in the reference above.

LLOYD'S SOLVENCY TEST
AS AT 31st DECEMBER 2003

FORM G

Report of the Members' Agent/DCP (Supplementary)

Page No.	
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To the Council of Lloyd's

Members' Agent/DCP	Code
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Responsibilities

The Solvency and Reporting Byelaw (No. 13 of 1990) requires the members' agent/DCP to prepare an asset return for all underwriting through that agency/DCP during the year to 31 December in accordance with Lloyd's rules.

In preparing the supplementary asset return the members' agent/DCP must have regard for Lloyd's rules which require that every supplementary asset return shall state that the supplementary return has been prepared in accordance with the provisions of the Solvency and Reporting Byelaw (No. 13 of 1990).

Confirmation

We confirm that we have prepared the attached asset return set out on pages to in accordance with the provisions of the Solvency and Reporting Byelaw (No.13 of 1990) and the conditions and requirements prescribed thereunder.

Signed (Director)*	
Name (Block Capitals)	
Signed (Compliance Officer)*	
Name (Block Capitals)	
On behalf of (Agent/DCP)	Date

* The signatories must be different

LLOYD'S SOLVENCY TEST
AS AT 31st DECEMBER 2003

FORM H

Auditors' Report (Supplementary)

To the Council of Lloyd's

Members' Agent/DCP	Code
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We have examined the supplementary asset return in respect of funds held by the above named members' agent/DCP set out on pages to

Respective responsibilities of the members agent and auditors

As described in Form G the members' agent/DCP is responsible for preparation of the supplementary asset return. It is our responsibility to form an independent opinion, based on our audit, on Forms D and G ("the Forms") and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Forms are free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion,

- i) the monies and assets of every relevant member are valued in accordance with the conditions and requirements prescribed by the Council of Lloyd's; and
- ii) the supplementary asset return has been properly prepared in accordance with the provisions of the Solvency and Reporting Byelaw (No. 13 of 1990), as amended, and the conditions and requirements prescribed thereunder.

Signed
Dated

Note: The page number of the members agent report (Form G) must be covered by the page numbering in the reference above.