

FROM: Clive Wormald, Manager, Members' Services Unit EXTN: 2410

DATE: 22 February 2005 REF: MSU/CH/L3/Y3497

SUBJECT: 2002 ACCOUNT DISTRIBUTION AND ALL CASH CALLS

SUBJECT AREA(S):

ATTACHMENTS:

ACTION POINTS: **Managing Agents to note and action section 1
Members' Agents to communicate to members**

DEADLINE(S): **Various**

The purpose of this Bulletin is to set out for Managing and Members' Agents the key deadlines and process requirements for the 2002 Account distribution.

1.0 Managing Agents

- 1.1 DD and ND files should be submitted to MSU by 11 March 2005. On successful validation of the file, MSU will issue a remittance advice to agents notifying the amount to be collected by currency. Agents should check the details on the advice, sign to confirm their agreement and return it to MSU within two working days. Debits against sterling, LATF and LDTF dollar surpluses will be applied via the Central Accounting Settlement System for value on 15 April 2005.
- 1.2 Cash remittances collected via Central Accounting must correspond to the values reported in the DD and ND files submitted in March. If for any reason this is not the case, or a cash remittance is not cleared in full for value 15 April, this may cause MSU to have to re-run some of the Distribution systems. This will delay the process and almost certainly incur further costs. In these circumstances the Executive Committee has confirmed that any additional costs incurred as a result of MSU having to re-run its processes can be recovered from any managing agent responsible for the delay.
- 1.3 The payment date for cash calls and losses made through the Distribution system will be 30 June 2005.
- 1.4 In order to process interim cash calls for payment on 30 June 2005 in the Distribution system, MSU must have details of the cash call by 30 March 2005. MSU will guarantee that cash calls received by that date will be included in the liabilities to which members' profit/surpluses from the 2002 Distribution are applied. MSU require notice by 30 March so that MAPA apportionment to member level can be applied prior to loading the data to the debt allocation matrix ("DAM"). Any cash calls notified after 30 March will not be included in the first run of the DAM but will be included as

early as possible in subsequent DAM runs. Profits and surpluses in the DAM may therefore have been allocated against debts prior to the inclusion of any late notified cash calls. Consequently, these calls may need to be funded by new money or drawdowns, which could result in cash passing to syndicates after the due date for payment.

2.0 Members' Agents

- 2.1 Members with Special Reserve Fund (SRF) should ensure that sufficient cash is available within the fund to meet anticipated cash calls and losses as they become due for payment. This will avoid the need for a forced sale of assets should insufficient cash be available in the fund when required. For the 2002 Account Distribution, sufficient cash should be available by 17 May 2005 in the SRF in order to meet the requirements for DAM processing. The compulsory SRF drawdown process will commence on 18 May 2005.
- 2.2 Members may also find it beneficial to retain sufficient cash within the SRF to meet ongoing cash calls, which may be made outside of the normal Distribution timetable.
- 2.3 Members and their agents are reminded that in accordance with FSA regulations, MSU can no longer accept instructions from members or their members' agents to sell specific shares (apart from unit trusts upon which we can accept instructions and sell through the fund manager). These sales must be actioned by the member's broker. Where members have not completed a Lloyd's Form of Appointment nominating a broker to act on their behalf, shares can be sold by MSU on a compulsory basis.
- 2.4 Members must realise non-cash assets at least ten working days before cash call payment is due in order to have sufficient cash available to meet cash calls. If sufficient SRF cash is not available ten working days prior to any cash call payment date, MSU will liquidate SRF assets in the order set out in Market Bulletin Y2598 dated 10 August 2001 entitled "Payment of Losses – Cash Calls". However, for all losses and cash calls in the 2002 Distribution, the SRF assets need to have been realised by 17 May (see 2.1 above).
- 2.5 Members and their agents should note that any liquidation instructions put in train by MSU will not be reversed if sales are also placed by a member or his broker which are for settlement within ten working days of the cash call payment date, or after 17 May 2005 for Distribution 2002.
- 2.6 It is anticipated that procedures similar to last year will be adopted for dealing with the re-balancing of SRF and transfer of 2002 account profit to SRF to meet open year cash calls.
- 2.7 Similar considerations regarding the liquidity of assets and availability of cash also apply to Personal Reserve Funds (PRF). When a cash call has not been paid by the due date, MSU will initiate drawdowns on any available PRF assets. This normally occurs 21 days after the due date of the cash call.

- 2.8 When a cash call is made outside of the Distribution period and a member has unallocated assets in the DAM, these assets may be used to meet any cash calls. However where a member has an SRF, the full amount of the SRF withdrawal will be loaded into the DAM ensuring that the SRF asset is allocated against the intended debt, before the unallocated assets are used.
- 2.9 Members wishing to meet their cash calls and losses by voluntary drawdown should ensure that the relevant instructions are provided to the MSU as soon as possible after receipt of the cash call notification. This will prevent the member suffering late payment interest and avoid duplication of effort by MSU in initiating compulsory drawdowns.
- 2.10 Audit certificates will be provided for 30 June 2005 and prior losses during August and regularly thereafter, following subsequent cash calls.
- 2.11 Members with no SRF, who have a profit surplus and pass the glass test, can anticipate that their surplus will be available for payment in early June. Members with SRFs will have any surplus available for payment later in June. This slight delay is caused by the need to carry out a number of additional tasks to satisfy the Inland Revenue and also to reflect the capital test calculation and the changes to the SRF. As usual, the above timings are dependent upon the planned timetable being adhered to. Members should be warned not to make any financial commitment based upon the planned timetable.

The above advice and guidance to members' agents and their members will apply to the forthcoming Distribution and all future cash calls and loss payments. Where the contents of the Bulletin are different to the current SRF manual, this Bulletin should take precedence.

- 2.12 Members' agents are asked to communicate this to their members and their investment advisers in good time so that the appropriate steps can be taken to have cash available when required.

3.0 Future Communication

MSU will issue more detailed instructions in the coming weeks to augment this bulletin and the detailed implementation of it. This will include more detail on the procedures for the payment of 2002 profits into the SRF.

4.0 Contacts

If agents have any queries they should be addressed as follows:

SRF Policy	Christine Allcott Lloyd's extension 2433
Deposit Drawdowns	Gavin Bennett Lloyd's extension 2444
PRF Drawdowns	Frances Farley Lloyd's extension 2615
DAM	David Stevens Lloyd's extension 2417
Cash Calls	David Stevens Lloyd's extension 2287

DD and ND Files Graham Bonner Lloyd's extension 2056

This Bulletin has been sent to all members' agents, managing agents and Direct Corporate Participants.

Clive Wormald
Manager
Members' Services Unit