

FROM: Head, Market Reporting
LOCATION: 86/G5
EXTENSION: 5129
DATE: 7 April 2005
REFERENCE: Y3537
SUBJECT: 2002 YEAR OF ACCOUNT DISTRIBUTION: CONTINUOUS SOLVENCY TRANSFERS – 2003 & 2004 YEARS OF ACCOUNT
SUBJECT AREA(S): As above
ATTACHMENTS: Cash transfer statement
ACTION POINTS: **Requirements for continuous solvency transfer**
DEADLINE: **Declaration 20 April 2005**
Transfer from syndicate premium trust funds 28 April 2005

The Franchise Board has now considered and agreed proposals to permit continuous solvency transfers (CSTs) on the 2003 and the 2004 years of account to meet cash calls and loss payments. Any CST that is not applied to meet cash calls will be held in the personal reserve sub-fund (PRF) may be used towards meeting capital requirements within the 2006 coming-into-line exercise. Further, any unspent CST and all CSTs transferred this year will be available for release to members subject to the Release Test calculations to be conducted later this year.

Methodology to be utilised

Managing agents may make a transfer in respect of a 2003 and 2004 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 determined by reference to the cumulative annual accounting result declared up to 31 December 2004.

The CST will be restricted to a maximum of 50% of the accumulated 31 December 2004 annual accounting result across the 2003 and 2004 years of account. Where syndicates have reported an annual accounting loss at 12 months on the 2004 year of account this must be deducted from the cumulative profit on the 2003 year of account when determining the level of CST. Further the CST will be restricted to the available solvency surplus at syndicate level. This methodology is consistent with previous CSTs and continuous solvency adjustment proposals.

2005 is a transitional year for capital setting purposes given the introduction of the Individual Capital Adequacy Standards (ICAS) regime. Consequently the Franchise Board has prudently restricted the release to 50% of the earned profits to date.

Effect on solvency

The CST will not have any effect on the 31 December 2004 solvency calculations as the members participating on the 2003 and 2004 years of account will already have received the benefit of the 2003 and 2004 surpluses within the solvency calculations as set out on the solvency statements to be issued on 8 April 2005. 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.

Market Reporting will shortly issue a cash transfer statement to each managing agent setting out the maximum CST which can be transferred using the above methodology.

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

- i) prepare cash flow projections for the business of the syndicate 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 cash transfer statement (which will be issued to each managing agent under separate cover) to Lorraine Harfitt by 20 April 2005 (attached is an example cash transfer statement managing agents will be requested to complete);
- iii) use a rate of exchange of \$1.92 : £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 2003 and / or 2004 CST will be included for payment via Central Accounting Settlement for value on 28 April 2005. Managing agents must ensure that any CST is made in accordance with the profits in the underlying currency. Agents should not remit funds directly but should ensure that their Central Settlement Accounts have sufficient funds to support settlement on 28 April. The usual notifications will be issued.

Taxation implications

As noted in earlier bulletins on this subject, the Inland Revenue has confirmed that neither the CST nor the inclusion of any unspent CST in the Release Test brings forward the time at which the syndicate profits are taxed.

Distribution DAM related Issues

The DAM spend order and its relationship with the SRF is actively being considered. The MSU will advise on this separately following the SRF workshop due on 15 April and after subsequent discussions with members agents.

SRF Issues

The inclusion of unspent CST in the Release calculations and the subsequent release of a solvency surplus from a member's PRF does not prevent an individual member from making a transfer into his or her Special Reserve Fund if he or she wishes to do so when the year of account closes following the three-year point, provided the conditions for a transfer are met at that time. A further bulletin will be issued on SRF issues in due course.

Life syndicates

Life syndicates will not be able to make transfers of 2003 or 2004 year of account solvency surpluses.

Further information

Any queries on the above should be addressed to Kevin Nethersell ext. 6253 – kevin.nethersell@loyds.com, Lorraine Harfitt ext. 6420 – lorraine.harfitt@loyds.com or Mike Steer ext. 5709 – mike.steer@loyds.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 _____

	2003 Year of Account £000's		2004 Year of Account £000's
1. Cumulative Annual Accounting Results			
2. Less 2004 Annual Accounting Loss			N/A
3. Adjusted Cumulative Annual Accounting Profit (Line 1 minus line 2) x50%			
4. Previously released Continuous Solvency Transfer 2003 YoA (£)			N/A
5. Amount available for release (lesser of line 3 minus line 4 or SR15 result)			
6. Transfer from syndicates Sterling Premiums Trust Fund			
7. Transfer from Lloyd's Dollar Trust Fund*			
8. Total transfer in sterling (*converted at 1.92) Must not exceed line 5			

In accordance with the market bulletin dated 7 April 2005 entitled 2002 Year of Account Distribution: Continuous Solvency Transfers – 2003 & 2004 Years of Account Ref [.....] the Board of Directors has prepared cash flow projections for the business of the 2003 and/or 2004 years of account of the Syndicate and based upon these projections, has decided to transfer the amounts above 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 2003 and/or 2004 years of account respectively on 28 April 2005.

The Board of Directors confirms 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 2003 and/or 2004 years of account that sufficient liquid resources exist to fund the transfer and that no material adverse development has occurred since 31 December 2004, which affects the declared solvency surplus.

Approved by the Board on _____

Signed _____ (Compliance Officer)

_____ (Director)

PLEASE RETURN TO LORRAINE HARFITT BY FAX TO 020 7327 6178 BY 20 APRIL 2005.