

MARKET BULLETIN

From Manager Settlement & Trust Fund Operations (extn 2098)

Date 24th April 2006

Reference Y3796

Subject **Additional Settlement Currencies**

Subject areas

Attachments

Action points

Deadlines

1 Purpose

To notify agents and brokers of the intention by Lloyd's to settle in four additional settlement currencies.

2 Background

Following requests from the Market, Lloyd's have been investigating the addition of further settlement currencies – Hong Kong Dollar, Swedish Krona, Danish Krone and Norwegian Krone.

3 Settlement Implications

The additional currencies would be run in the same way as we do the Euro, Australian Dollar, Swiss Francs, South African Rand and Japanese Yen. ALL syndicates would need to be able to accept currency payments either by settling directly in the currency or by mandating Lloyd's to effect the foreign exchange transaction via the Currency Conversion Service (CCS). Syndicates will be able to select settlement in currency or CCS on a currency by currency basis and will have the opportunity to migrate to actual currency settlement at a later date.

In addition to the market IS charge, syndicates that elect to use CCS will be charged £250 per currency by Xchanging where CCS is selected (i.e. £1000 if a syndicate wishes to use CCS for all new currencies). This cost is based on the administrative work to set the syndicates up for CCS and follows the user pays concept. This set-up charge will not apply to those syndicates that have adopted full settlement and use CCS purely for “re-denominated” contracts nor those in run off.

Currency dealing requirements of the CCS are carried out by the Lloyd’s Treasury Department. As for existing CCS currencies, the Department will make a charge of 0.05%, by transaction value, for these services. Any CCS surplus (or deficit) arising from exchange rate variations is distributed to (or collected from) participating syndicates by varying daily bid/offer dealing spreads.

There will be no additional set-up charge for those syndicates that have chosen the currency settlement option and transaction charges will be in line with those levied for transactions in the existing settlement currencies.

Those syndicate who elect to settle transactions direct rather than via the CCS and all brokers who expect to transact in these currencies, will need to nominate a settlement bank account for each relevant currency, which will be debited or credited as required by the Corporation’s central settlement process.

At this stage we can not advise a live date until Xchanging have completed their testing, however we are currently anticipating a quarter 3 2006 start date.

4 Central Settlement Banking Arrangements

The Corporation have selected Citibank to be its clearing bank for these four new settlement currencies. Participants are free to hold nominated settlement accounts at the bank of their choice, however their accounts must be able to receive and act upon SWIFT debit and credit instructions in the relevant currencies and in accordance with the central settlement 3 day settlement cycle. These debit and credit instructions will be sent by Citibank on the Corporation’s behalf, and if your chosen bank does not already have one, they will need to enter into a bilateral agreement with Citibank governing these instructions prior to any settlements being automatically processed.

Banking charges incurred by the Corporation as a result of direct settlement in these new currencies will be recharged back to the syndicates as with other settlement currencies. In addition participants will probably be charged by their nominated bank for acting on the Corporation’s settlement instructions, and the level of these costs will depend upon the participants’ relationship and negotiating position with their bank. Where participants choose to hold their account at Citibank, debits and credits will be processed as internal transfers and as a result will be significantly cheaper.

5 Next Steps

All Agents will be receiving a letter from Xchanging asking them to indicate whether their syndicates intend to settle in currency or via CCS for each of these new currencies. The letter will also include the relevant mandates for completion if you choose to settle in currency.

All brokers will be receiving a letter from Xchanging asking them to complete the relevant mandates for the additional currencies that they wish to settle in.

On receipt of this documentation Agents and Brokers are asked to complete and return within the deadline specified.

Ian Wootten
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