

# MARKET BULLETIN

**From** Head Market Reporting

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**Date** 13 June 2006

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**Reference** Y3831

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**Subject** **Changes to Syndicate and Funds at Lloyd's Investment Criteria**

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**Subject areas** Permitted investments

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**Attachments**

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**Action points**

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**Deadlines**

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## Syndicate Investments

The Franchise Board has approved proposals to bring permitted syndicate investments into line with the list of admissible assets specified in the FSA's Prudential Sourcebook (PRU). This applies with immediate effect.

Implementing the PRU investment requirements removes an additional layer of complexity from the transacting of business at Lloyd's. Syndicates will now be able to invest on the same basis as external insurers and investment managers will only have one set of requirements whether dealing with Lloyd's or non Lloyd's entities.

The principal differences in the Lloyd's Eligible Asset Rules related to unlisted securities and property (i.e. land, buildings and other immovable property rights).

To date under the EARs, with the exception of commercial paper, investment in securities has been restricted to securities that are listed (ie. listed on an approved stock exchange or admitted to trading on a regulated market). There is no such restriction in PRU although it does place quantitative restrictions on the extent to which such assets are allowed for solvency and in meeting other regulatory capital requirements. The EARs are therefore to be amended to remove the restriction on investment in unlisted securities. Syndicate Investments must also comply with the PRU requirements relating to credit, liquidity and market risk and must not exceed the asset and counterparty concentration limits set out in PRU.

Land, buildings and other immovable property rights are currently excluded as authorised investments under the Premiums Trust Deed (PTD). Lloyd's proposes to consult on amendments to the PTD to permit investment in such assets.

### Funds at Lloyd's

Lloyd's has also agreed an extension to the list of permitted investments for funds at Lloyd's (FAL) under the Membership and Underwriting Conditions and Requirements (M&URs) to allow forward currency contracts (FX contracts) as an acceptable asset. This extension of the M&URs will be incorporated in the revised document which is due to be issued by the end of July.

In order to be an acceptable asset for FAL and admissible asset for solvency and other regulatory capital purposes, a FX contract must satisfy the conditions set out in PRU 4.3.5R, i.e.

- it must be held for the purpose of efficient portfolio management or reduction of investment risk
- it must be covered by assets denominated in the currency to be paid under the contract
- it must be listed or effected or issued off-market with an approved counterparty
- it must be capable of objective valuation

If cover for the contract ceases to exist the investment manager of the relevant member's FAL will be required to arrange to close out the transaction.

Where a member wishes to use FX contracts for the purpose outlined above the relevant investment manager and member will be required to sign revised documentation before arranging contracts in this new class of asset.

FX contracts are currently not within the scope of assets which may be held under covenant and charge arrangements. Therefore in relation to those members who provide their FAL via a covenant and charge and who wish to use FX contracts, revised charge documentation will need to be signed in addition to revised investment management documentation.

Direct Corporate Members who wish to arrange for the new documentation required for completion should contact Malcolm Colesworthy in the Members' Services Unit, [malcolm.colesworthy@lloyds.com](mailto:malcolm.colesworthy@lloyds.com) 01634 392497.

All other corporate members, who wish to arrange for the new documentation required for completion, should contact Karen Fox in the Members' Services Unit, [karen.fox@lloyds.com](mailto:karen.fox@lloyds.com) 01634 392368.

For any trading enquires on FX contracts please contact Anne Cooper in the Members' Services Unit, [anne.cooper@lloyds.com](mailto:anne.cooper@lloyds.com) 01634 392576.

For any query on this bulletin please contact Mike Steer, [mike.steer@lloyds.com](mailto:mike.steer@lloyds.com) .

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