

MARKET BULLETIN

From	Head, Market Finance (extn 5129)
Date	29 December 2006
Reference	Y3936
Subject	Eligible Asset Rules (EARs)
Subject areas	Syndicate Investment Criteria
Attachments	None
Action points	Managing Agents to note the EARs will not be reissued and should refer to the FSA's Prudential Sourcebook (PRU) for guidance on Premiums Trust Funds (PTF) investment criteria
Deadlines	Immediate

Executive summary

Earlier this year Franchise Board approved proposals to bring syndicate permitted investments into line with the list of admissible assets contained in the FSA's Prudential Sourcebook (please refer to Market Bulletin Y3831 issued 13 June 2006).

There are two exceptions, being Land, buildings & other immovable property rights, and surplus assets. The rules governing these two areas are included in the detailed section below and remain unchanged since the previous reporting period. We are in the process of reviewing these two exception areas so as to further reduce the burden of dual compliance and will keep you informed of our progress in these areas.

As you will be aware there have been changes to the FSA Handbook during 2006, we have included a summary of these changes in the detailed section of this Bulletin.

Eligible asset rules

Managing agents should refer to PRU for all admissible asset criteria together with the requirements on credit, market and liquidity risk. However, please note the following two exceptions:

1. Land, buildings and other immovable property rights are specifically excluded under the terms of the Premiums Trust Deed (PTD) and therefore are not an admissible asset at present. The PTD will be amended during 2007 as part of the work to introduce flexible options for asset admissibility.
2. PRU does not apply to surplus assets, however in accordance with the Premiums Trust Fund Investment Requirements all syndicate PTF assets must be invested only in admissible assets. Discussions are underway with the FSA to remove this requirement from Lloyd's rules. A Bulletin will be issued when this has been achieved.

LATF solvency test and admittance of personal stop loss policies

In respect of these procedures there has been no change since the prior reporting period (covered by Market Bulletin Y3656, dated 31 October 2005). Separate Bulletins, covering these two areas independantly, will be issued in due course. Subsequent to this there will be no requirement to refer to the EARs.

Changes to the FSA Handbook

With effect from 31 December 2006, the FSA is restructuring its Handbook. As part of this, the Prudential Sourcebook (PRU) and Lloyd's Sourcebook (LLD) are relocated within two new sourcebooks, the General Prudential Sourcebook (GENPRU) and Insurance Prudential Sourcebook (INSPRU). Currently, the 'old' PRU and LLD references appear on the FSA's online handbook but in due course these will be replaced by the new GENPRU and INSPRU references. This is a reorganisation of the legislation only with no significant changes to the underlying requirements.

Your attention is also drawn to the requirements set out in PS 06/14 'Prudential Changes for Insurers' recently published by FSA. This contains, among other things, certain changes to life insurers' reserving and capital requirements, and revised admissible asset rules for solvency with regard to derivatives, quasi-derivatives and collective investment schemes. It is not considered that any of these will have a significant impact on syndicates.

We would also like to draw your attention to recoveries due from an ISPV (Insurance Special Purpose Vehicles). We do not consider that a Lloyd's SPS (Special Purpose Syndicate) is an ISPV since it has the same characteristics of previous qualifying quota share arrangements. However, if Managing Agents have recoveries due from an ISPV they may not be admissible assets by virtue of GENPRU 1.3.55R and GENPRU 2 Annex 7R. Therefore, Managing Agents may wish to discuss this with their professional advisers.

Further information and downloads of the relevant documents are available at the FSA website at www.fsa.gov.uk.

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