LLOYD'S

MARKET BULLETIN

From	Head, Market Finance (extn 5129)
Date	11 January 2007
Reference	Y3946
Subject	**Syndicate PTF Investments**
Subject areas	**Recent decisions to increase investment flexibility. The ability for members to hold capital within syndicate PTFs; investment of syndicate surpluses in all assets; summary of other changes during 2006**
Attachments	None
Action points	**Please note this cancels and replaces Market Bulletin Y3944, which has been withdrawn. Please accept our apologies for any inconvenience caused.**
Deadlines	**For immediate attention**

Executive Summary

During 2006 Lloyd's has been working in conjunction with the LMA through the Investments Working Party in order to create a less prescriptive environment in which managing agents may take investment decisions. Franchise Board has agreed two recent policy changes:

- Member capital may be held in syndicate PTFs
- Surplus assets may be invested in any asset

These proposals continue to progress the capital advantages benefit stated within the strategic plan, regarding the development and implementation of a flexible capital framework.

As described in more detail below, the policy change in respect of surplus assets is effective immediately. However, in relation to member capital held in syndicate PTFs, agreement with the FSA will be required before any changes can be implemented. We also want to clear the tax treatment before implementing this change.

A more detailed explanation of these policy changes and other work streams and achievements in conjunction with the LMA Investments Working Party follow.

Capital Held within Syndicate Premiums Trust Funds (PTF)

Aligned members will be able to hold the capital supporting their underwriting within their syndicate PTFs rather than centrally within FAL.

This proposal excludes LOCs and bank guarantees as it is not possible for members to hold LOCs or bank guarantees in syndicate PTFs as part of their capital resources. Furthermore, this proposal does not apply to arrangements where the capital to support the member's underwriting is provided under a covenant and charge arrangement. It is not possible for these, or other third party assets, to be held under the Premiums Trust Deed (PTD).

Current UK tax rules do not specifically cover the possibility of an investment return on syndicate PTF assets not being attributed to a year of account. Discussions with HM Revenue & Customs are underway with the aim of having any necessary new UK tax legislation in place by the end of June 2007. Consultation has yet to take place with the FSA regarding these changes.

Where capital is provided by members supporting multiple syndicates, these members would face liquidity issues if the capital was held individually by each syndicate as opposed to a member's FAL which is not syndicate specific and can be used to fund any shortfall incurred by the member. This may have resulted in increased capital requirements being imposed on these members. Furthermore, members would surrender control over their capital and investment policy if held at syndicate level.

Investment of Surplus Assets

The obligations of the Premiums Trust Fund Investment Requirements (PTFIR) have been revoked. These rules previously required that all assets held in a syndicate's PTF must be applied in accordance with the list of admissible assets.

With effect from 31 December 2006, the FSA has restructured 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). This is a reorganisation of the legislation only with no significant changes to the underlying requirements. GENPRU and INSPRU only list the assets (GENPRU 2 Annex 7R) that are admissible for the purpose of covering technical provisions and calculating an insurer's capital resources. They do not require insurers to invest in particular categories of assets but if an investment is not an admissible asset, or is in excess of the market risk and counterparty limits specified in INSPRU 2.1, it cannot be brought into account for the purpose of satisfying solvency and other regulatory capital requirements. By removing the PTFIR, the admissible asset rules for syndicate surpluses have been brought into line with those in GENPRU and INSPRU.

Please note that Managing Agents continue to be required to ensure that their financial resources are adequate and comply with the GENPRU AND INSPRU rules on Market, Credit and Liquidity risk.

LMA Investments Working Party achievements on other goals during 2006

- Alignment of the eligible assets contained in the EARs with the FSA's admissible assets contained in PRU. Managing Agents now only need to refer to the PRU for syndicate investment criteria. Please note that direct holdings of land, buildings and immovable property rights are currently excluded under the Premiums Trust Deed. This deed is currently being redrafted by Lloyd's Counsel and, subject to consultation, this will be implemented by the end of June 2007.

- A review of the US Situs funds and Canadian Trust funds investment criteria is being undertaken in conjunction with our US and Canadian lawyers, LeBoeufs and Stikeman Elliott respectively. The outcome of these reviews will be highlighted by Market Bulletin and published on Lloyds.com once completed.

- Legal advice has been sort from Linklaters in order to investigate the ability for members to undertake investment management activities for charged assets. Linklaters concluded that there was sufficient residual interest in the assets once passed to Lloyd's to allow this. However, this has been superseded by the initiative on allowing members to hold capital in syndicate PTFs.

- FAL investment criteria have been enhanced by the inclusion of foreign exchange contracts as admissible assets. Documentation and procedures are in place, please contact Anne Cooper in the MSU (anne.cooper@lloyds.com or x2576) for further information.

If you have any queries on this bulletin please contact Mike Steer (mike.steer@lloyds.com or x5709) or Kevin Nethersell (Kevin.nethersell@lloyds.com or x6253).

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