

MARKET BULLETIN

REF: 4013

Title	Coming-into-line ("CIL")
Purpose	To inform members' agents and direct corporate members of the arrangements relating to Coming into Line in June and November
Type	Scheduled
From	John Parry, Head, Market Finance Contact details: 020 7327 5129, john.parry@lloyds.com
Date	9 May 2007
Deadline	29 June 2007 and 29 November 2007
Related links	

Summary

Compliance Officers should note the content of this bulletin, which provides details of:

- i) mid-year CIL process and instructions
- ii) CIL valuation date (31 July 2007) for November 2007 capital test in respect of 2008 year of account.

Mid Year CIL

This will be the second year that bi-annual CIL has operated. The introduction of mid-year CIL was announced in August 2004 and reiterated in December 2004 in market bulletins:

- 10 August 2004 - Capital Tests Review (Y3372)
- 23 December 2004 – Capital Tests Review (Y3474)

The 2008 ICA Minimum Standards and Guidance issued on 2 March 2007 (Y3971) included details of Lloyd's approach to member level re-capitalisation, including our approach to shortfalls against ICA levels and reaffirmed the requirement for mid-year CIL by 29 June 2007.

The timetable for this year's mid year CIL process will be as follows:

30 April 2007 (as at date)	MSU calculation of 2007 mid-year CIL position for active members
28 May 2007 (during week commencing)	Members' agents and direct corporate participants notified of any shortfalls
29 June 2007	CIL shortfalls to be made good

Given the nature of and the seasonal exposures of much of Lloyd's business, which may translate into losses in the second half year, it would be imprudent if CIL shortfalls were not made good when known. Where there is material exposure to the central fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate risks until capital is lodged at Lloyd's.

Members with a shortfall of less than 10% of their Economic Capital Assessment up to a maximum of £100,000 will not be required to provide additional funds.

Bank guarantees and Letters of Credit under notice of cancellation

Bank guarantees (BG) and Letters of Credit (LOC) under notice of cancellation can be used for CIL purposes to cover solvency deficiencies for the years of account for which they were valid, e.g. notice of cancellation given in 2004 (prior to 30 September 2004) on BGs/LOCs can be used to cover 2004 & prior year of account deficiencies before utilising later year of account surpluses. Example:-

BG / LOC under notice of cancellation valid for 2004 YOA

Years of Account	Solvency Position
2006	70,000
2005	(50,000)
2004 & prior	(20,000)

In the above example where the BG / LOC is valid for the 2004 & prior years of account the maximum credit is £20,000, leaving a net solvency surplus of £20,000. Where use of BGs/LOCs under notice of cancellation leads to a release of funds we would expect for prudential reasons that such BGs/LOCs be released first.

Assets excluded due to concentration of assets requirements

Assets excluded due to the application of the concentration of assets requirements may be used towards meeting 10% of a member's ECA or minimum capital requirement (whichever is the greater) subject to a maximum of £100,000.

Mid Year CIL Penalties

Where a member is out of line by more than 10% of their Economic Capital Assessment up to a maximum of £100,000 at 29 June 2007, members will be charged £50 per £5m shortfall or part thereof per day from 2 July until the shortfall is cleared.

CIL for 2008

The CIL valuation date for the November 2007 Capital Test in respect of the 2008 year of account is 31 July 2007.

Half year interim results will be used in the 2008 CIL calculation. The requirements for interim results remain as published in Market Bulletin dated 8 May 2006 (Y3807). The half year interim results will also be reflected in a refreshed release test calculation based upon the 31 July Funds at Lloyd's valuation, to be issued in September, for active members (including those ceased members who have made funds inter-available to an active member or where a ceased corporate member is part of an ongoing corporate group and there is a cross deficit clause in place). It is expected that any release request submitted to the MSU takes into consideration the member's 2008 CIL requirement, i.e. a surplus FAL release should not be followed by a provision of additional assets for CIL.

All other aspects of the 2008 CIL process remains unchanged from the 2006 process for 2007 CIL, in particular that shortfalls must be funded **in full** by 29 November. Sanctions will be applied for any failures to do so.

If you have any queries relating to this timetable please contact Malcolm Colesworthy ext. 2497 (Malcolm.Colesworthy@lloyds.com). All other queries should be addressed to Kevin Nethersell ext. 6253 (Kevin.Nethersell@lloyds.com). This bulletin is being sent to all members' agents, direct corporate members, recognised accountants and market associations for information.