

MARKET BULLETIN

REF: Y4069

Title	Calculation of Interest on Late Payment of Syndicate Losses
Purpose	To provide details of a change to the current process for charging interest
Type	Scheduled
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Date	23 October 2007
Deadline	n/a
Related links	n/a

Summary

Following consultation with the LMA Finance Committee and members' agents, with effect from 31 December 2007, the procedure for the calculation of interest on late payment of syndicate losses will be completed by Market Services. This market bulletin details the background to the change and also the steps to be taken by managing agents in order to charge interest within the 2005 and future distribution years.

Background

In order to relieve managing agents of a significant administrative burden, interest on late payment of syndicate losses will be completed by Market Services.

Under the terms of the Managing Agent's Agreement (7.1(c)), managing agents have the opportunity to charge interest to Members who do not fund their losses by the stipulated due date. These interest charges are submitted to Market Services on an annual basis via ND (Non Distribution) files in early March as part of the annual results collection exercise.

Despite the terms set out in the Managing Agent Agreement, there is no standard approach across the market in terms of the date from when interest is charged, the exchange rate used for dollar losses and the interest rate applied to the outstanding debt. The Managing

Agent Agreement currently prescribes charging '2% over the base rate of such London clearing bank as the agent may select'.

Currently, the managing agent calculates the interest amount at MAPA level, as managing agents do not have details of the Members that are on the relevant MAPA. Upon receipt of the interest to be charged, Market Services then utilise the history of the outstanding debts for that particular syndicate/year to ascertain how the interest charged to the MAPA should be apportioned across the Members within the MAPA. This is a lengthy, manual process which takes a week to complete.

The calculation of MAPA interest currently sits on the critical path on the Distribution timetable, and in order to accelerate the profit release for all Members in 2008, the MAPA interest allocation requires streamlining.

Procedure for 2008

As Market Services hold all of the relevant information at Member level within the Debt Allocation Matrix (DAM), Market Services will complete the interest calculation for each of the managing agents in February each year. The calculation will include:-

- Interest due on unpaid cash calls made for the prior 36 months of the year of account that is due to close
- Interest due on any outstanding debt in the prior 12 months for any syndicate
- Interest will be applied at 2% over base rate as supplied by National Westminster Bank PLC
- Dollar losses will be converted using the published year end exchange rate
- Interest will accrue from 14 days following the due date for any loss. This will allow a grace period for the clearance of cheques provided by the Member and where drawdowns on their Funds at Lloyds have been delayed
- Any amounts under £100 at syndicate level will not be charged.

During the consultation it was explained and agreed that in order to recover Market Services costs, a charge will be made of £100 for each syndicate year for which interest is loaded into the DAM (Debt Allocation Matrix).

Action Required

With effect from 31 December 2007, Market Services will calculate the interest which could be collected by managing agents and will provide a statement detailing the total amount, via

e-mail to the compliance officer. The statement will be sent by the end of the second week in February each year in good time for submission of the Annual Return.

- Agents will be required to sign and return the statement as authorisation to charge the interest. The deadline for the return of the statement will be specified in the relevant e-mail.
- If agents do propose to charge this interest, then they will need to include the amount as part of the unpaid cash calls within line 3 form AR215 of their Annual Return.

Please note that charging of interest will not be compulsory, if an agent decides not to charge the amount calculated, they will need to send an e-mail to Graham Bonner (graham.bonner@lloyds.com) confirming this. In this case, the statement will not need to be returned.

Once all responses have been collated Market Services will load the chargeable Member level interest into the DAM. Managing agents will then be provided with a csv file of the Member level interest amounts so that they can be loaded into their systems.

Market Services will raise invoices in respect of those syndicates which have charged interest at the end of the second quarter.

ND Files

As Market Services will be calculating the interest centrally, there will no longer be any requirement for interest to be included on ND files. However these files may still be submitted in order to correct errors on previously closed years. The ND file specification will be revised to remove the interest code.

If you have any queries concerning this bulletin, please contact Graham Bonner on 01634 392056 (graham.bonner@lloyds.com) or David Stevens on 01634 392287 (david.stevens@lloyds.com)

This bulletin is being sent to all underwriting agents, direct corporate members, recognised accountants and market associations.