

MARKET BULLETIN

REF: Y4113

Title	Open Year Profits at 31 December 2007 and 2008 Release Test
Purpose	Advise of the procedure to be followed for the transfer of open year profits from syndicate PTFs and the timetable for the accelerated release of profits and surplus capital
Type	Scheduled
From	Jonathan May, Senior Manager, Market Finance Contact details: 020 7327 6500, jonathan.may@lloyds.com
Date	7 January 2008
Deadline	<ul style="list-style-type: none"> i) Submission of open year cash transfer statements 29 February 2008 ii) Submission of cash calls for 30 June due date 29 February 2008 iii) Accelerated Release Test – see timetable
Related links	

Summary

Compliance Officers should note the contents of this bulletin which provides details of:-

1. The procedure to be followed for the transfer of open year profits determined at 31 December 2007 (including from life syndicates and run-off years) for all syndicates from Sterling premiums trust funds (PTFs) and / or Lloyd's Dollar Trust Funds (LDTFs) and / or Lloyd's American Trust Fund (LATF) to members' personal reserve sub-fund (PRF).
2. A timetable to accelerate the release of profits and surplus capital following the year end results for members.
3. Open year profits retained at the syndicate level will be available for full off set within the solvency calculations and for capital setting purposes within the CIL exercise and the Release Test.
4. The dates for the submission of open year profit cash transfer statements and cash calls for 30 June due date.

Open Year Profits at 31 December 2007*Methodology to be utilised*

The maximum available for transfer is the syndicate solvency result as per AR5 within the Annual Return ie. cumulative annual accounting result plus cash calls less transfers made to members in previous years less solvency provisions eg. disallowed assets as at 31 December 2007 (ie. AR5 line 7). Where the solvency result has been improved by a positive adjustment to reflect exchange differences on technical provisions for solvency in respect of non monetary items (AR5 line 2) then this element of the result is not available for release. Any retained surplus, including positive adjustments for exchange difference, will be available as full offset within solvency, for the CIL exercise and the Release Test.

Lloyd's American Trust Fund (LATF)

Transfers from open years will also be permitted from the LATF. Transfers from the LATF will be available for release into members' personal reserve fund (PRF) accounts to meet non LATF liabilities once the member is LATF solvent across all syndicate participations. The LATF solvency exercise is conducted centrally by Market Finance and Market Services. Where members are not LATF solvent Market Services will retain any LATF balances in separate member level LATF accounts.

Transfers from the LATF cannot exceed any surplus reported on AR250 line 28. Managing agents should also be mindful of NYID funding requirements when making a transfer. Any LATF profits (either via DD File results or open year transfers) available for release are dependent upon completion of the LATF Solvency Test.

Action required by managing agents by 29 February 2008

Transfers will be subject to managing agent's sign-off that they have no liquidity or other concerns eg. fundamental uncertainty regarding the ultimate outcome of the open year of account. In making the decision to transfer monies from syndicate PTFs, managing agents will be exercising powers conferred on them by clause 14(b)(iv) of the PTD, clause 14(a)(ii) of the Lloyd's American Instrument and Article 4.1(D) of the LATD to direct the managing agent's trustees or the managing agent's dollar trustees to transfer funds from the syndicate PTFs and/or LDTFs and/or LATFs. An agent must therefore act prudently and should ensure that it retains sufficient assets to cover its reasonable estimate of the liabilities. It should therefore be reasonably satisfied in making its decision that the retained assets will allow it to meet all liabilities as they are expected to fall due. In addition, by approving the cash transfer managing agents are providing a negative assurance that no material adverse development has occurred since 31 December 2007.

Where a managing agent proposes to make a transfer it must:

- i) prepare cash flow projections for the business of the syndicate in order to satisfy itself that the transfer of syndicate funds will not cause cash flow difficulties in the future;
- ii) complete and return the attached cash transfer statement to Kevin Nethersell, Market Finance by 29 February 2008. **A nil return is required if no transfer is to be made.** NB. Managing agents may e-mail a signed completed version of the cash transfer statement in PDF format to kevin.nethersell@lloyds.com;
- iii) use a rate of exchange of \$1.99 : £1 in order to calculate the sterling equivalent of any cash transfer to be effected in US dollars.

Any cash to be transferred from syndicate PTFs (Sterling, LDTF & LATF) will be included for payment via Central Accounting Settlement for value on 11 April 2008 (same date as the closed year results are collected). Managing agents should ensure that any open year profits transferred are in accordance with the profits in the underlying currency. Agents should not remit funds directly but ensure that their Central Settlement Accounts have sufficient funds to support settlement on 11 April 2008. The usual notifications will be issued.

Effect on solvency, Release Test and CIL

Members will have received the benefit of open year profits within the solvency calculations set out in the solvency statements to be issued during mid March and, therefore, open year profits released to PRFs cannot also be used towards clearing solvency shortfalls.

Open year profits determined at 31 December 2007 and transferred to the PRF that are not applied to meet cash calls and / or loss payments may be used towards meeting members' capital requirements and will be available for release to members subject to the Release Test calculations to be conducted this year.

The 31 December 2007 solvency open year profits calculated in accordance with UK GAAP retained at the syndicate level will be available for full off set within the solvency calculations and to meet capital requirements within the CIL exercise and the Release Test. This may enable additional profits and Funds at Lloyd's (FAL) to be made available for release.

Accelerated Release Test

Following a review of the 2007 accelerated Release Test the acceleration of the release of profits and surplus capital will apply to all members in 2008. In order to achieve this, the following data will need to be provided in accordance with the timetable below. The Release Test calculations in 2008 will be based upon FAL valuations as at 31 December 2007 and 30 June 2008. The 31 December 2007 FAL valuation will also be used as a basis for mid-year coming-into-line in June 2008, and the 30 June 2008 FAL valuation will apply to 2009 coming-into-line.

Timetable

	<u>Dates for Release of funds to non aligned capital</u>	<u>Dates for Release of funds aligned capital</u>	<u>Recipient</u>
Funds at Lloyd's valued	31 December	31 December	N/A
Annual Return	28 February	28 February	Market Finance
Submission of open year profit cash transfer statements	29 February	29 February	Market Finance
Submission of cash calls for 30 June due date	29 February	29 February	Market Services
Submission of audited DD Files	13 March	3 March	Market Services
Collection of cash from managing agents for all results and open year profit transfers	11 April	11 April (No collection of sterling/LDTF profits if participating in accelerated profit distribution)	Market Services via Central Accounting Settlement
Release Test statements issued	18 April	18 April	Members/Members' Agents
Release of funds (subject to Release Test)	From 16 May	From 18 April	Members

To clarify the timetable for the receipt of open year profit cash transfer statements and 30 June cash calls (outside of DD Files) is the same as that adopted last year.

Achieving the above timetable will require support of managing agents. Files and returns will need to be complete and correct when submitted. Any need to resubmit any file after the deadlines outlined above will result in the accelerated timetable falling away and releases being made in accordance with the timetable applied in previous years.

Aligned Capital

The timetable above is similar to that adopted for aligned capital last year

Non Aligned Capital

The above timetable represents a significant step in bringing forward of releases for non aligned capital. However, the acceleration in the release of profits and surplus capital for non aligned capital cannot mirror that for aligned capital for the reasons below:-

- Individual members cannot have their profit released until an SRF transfer has been made (if required). Further, SRF withdrawals for any 30 June cash calls need to be made and loaded into the DAM before final positions can be established.
- All cash needs to be collected from all managing agents before profits can be allocated in the DAM to establish final figures for Distribution.

The outcome of accelerating the Release Test for all members in 2008 will be reviewed to determine whether further improvements can be made to the timetable for the 2009 Distribution and Release Test exercises

Administrative Issues

The sterling and LDTF profits of aligned Direct Corporate Participants taking advantage of the accelerated profit distribution will not be collected through Central Accounting Settlement but can remain within the syndicate trust funds pending the member level Release Test result.

The collection of cash from managing agents for results and open year profit transfers for all other members is not affected and can remain as per the normal timetable ie. 11 April 2008. Spread syndicates with affected direct corporate participants will need to reflect the non collection of cash for these members and figures adjusted accordingly. This information will be advised via the remittance advice, once the relevant DD File has been processed.

Further Communication

Market Services will contact managing agents/aligned Direct Corporate Participants to discuss the accelerated distribution procedure in more detail. Market Services will also liaise regularly with members agents.

Contacts

If you have any general queries relating to this bulletin, please address them to Kevin Nethersell extension 6253 (kevin.nethersell@lloyds.com) or Mike Steer extension 5709 (mike.steer@lloyds.com).

Any questions relating to the general profit distribution process and submission of DD files should be addressed to Graham Bonner extension 2056 (graham.bonner@lloyds.com) or David Stevens extension 2287 (david.stevens@lloyds.com). Questions about the Release Test, and enquiries from Direct Corporate Participants about their profit distribution should be addressed to Malcolm Colesworthy extension 2497 (malcolm.colesworthy@lloyds.com).

CASH TRANSFER STATEMENT
OPEN YEAR PROFITS

SYNDICATE NO. _____ (the Syndicate)

MANAGING AGENT _____

YEAR(S) OF ACCOUNT

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1. Cumulative Annual Accounting Result
(AR5 line 7)

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2. Any positive adjustment made to reflect exchange difference arising on non monetary items for solvency, on AR5 line 2

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3. Total cumulative Annual Accounting result available to be transferred (Lines 1 minus 2)

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4. Transfer from Sterling Premiums Trust Fund

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5. Transfer from Lloyd's Dollar Trust Fund * (LDTF)

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6. Transfer from Lloyd's American Trust Fund * (LATF) **Must not exceed AR250 line 28**

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7. **Total transfer in sterling** (*converted at 1.99)
Must not exceed line 3 above

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In accordance with the market bulletin dated [...] January 2008 entitled Open Year Profits at 31 December 2007 and 2008 Release Test ref [...] the Board of Directors has prepared cash flow projections for the business of the open years of account of the Syndicate and based upon these projections, has decided to transfer the amounts above into the Personal Reserve Sub-Funds of the members who underwrote through the Syndicate for that year of account. These monies will be debited to the Syndicate's respective years of account respectively on **11 April 2008**.

The Board of Directors confirms that on the basis of the information available to it as at the date of this statement, the Board is satisfied that the above transfer is unlikely to result in a cash call on members of the Syndicate for the respective years of account, that sufficient liquid resources exist to fund the transfer and that no material adverse development has occurred since 31 December 2007.

Approved by the Board on _____

Signed _____ (Compliance Officer)

_____ (Director)

PLEASE RETURN (INCLUDING NIL RETURNS) TO KEVIN NETHERSELL BY FAX TO 020 7327 6178 OR E-MAIL COMPLETED PDF VERSION BY 29 FEBRUARY 2008.