

MARKET BULLETIN

REF: Y5011

Title	US Trading Regulatory Reporting
Purpose	To advise the market that the US Reporting packs are available for completion and to provide the timetable and instructions
Type	Scheduled
From	Leslie Redmond, Manager, International Finance, Market Finance Direct Tel No: +44 (0)20 7327 5490 Email: leslie.redmond@lloyds.com
Date	14 July 2016
Deadline	For immediate attention
Related links	Appendices 1-5 Reduced collateral web page here

Please copy this letter and its attachments to those people within your organisation who are responsible for reviewing and completing the US reporting packs.

1. This bulletin is to advise you that the preliminary US reporting packs for the quarter ended 30 June 2016, together with the relevant working schedules and checklists for your managed syndicate(s), are now available for you to access via the Overseas Reporting System (ORS) web-site. **Please note that this return is now subject to Lloyd's Overseas Returns Fining Policy (see Market Bulletin Y4843 dated 1 December 2014).**
2. You are reminded that, whilst the reporting packs have been prepared centrally, the ultimate responsibility for submission of correct data rests with the managing agent of each syndicate and, as such, you must satisfy yourself that you have reviewed the whole return. Packs must be completed and the required documents submitted by the due dates as set out in the timetable attached to this letter at Appendix 1.
3. Appendices 2, 3, 4 and 5 to this letter provide general information and instructions concerning Xchanging underwriting transactions, reserving and trust fund assets.
4. Checklists and detailed instructions on how to update the reporting pack will be available to download from the Quick Links area of the reporting software.
5. The Delinked Items and Incomplete Items reports are available for download from Secure Store at <http://www.lloyds.com/the-market/tools-and-resources/tools-e-services/secure-store>. Once you launch this page click on Access Secure Store, log in and select US Reporting. Click on your agent name to access these reports which you can then download. There is also a Shared Files area where templates and

reference files will be placed for you to download if you need them. If you are denied access to the site please contact your Devolved Administrator to give you the required permissions. The web page has a Devolved Administrator guide to assist them.

6. Where there are known issues with the reporting software a document will be posted to the Quick Links area detailing them, advising of any workarounds or whether the issue has been fixed.
7. Approval had been given by the Insurance Regulators of New York, Florida and Pennsylvania for Lloyd's syndicates to post reduced collateral in respect of reinsurance contracts with cedants domiciled in these states. Please see Appendix 3 section 3b for details on how to use this functionality in the pack and the additional reporting requirements that you will need to meet.
8. Once you have completed the pack, clearing all errors and positively verifying warnings as applicable, you must lock it. You must then create a pdf version of the final pack and print it for signature and notarisation. Please print the packs double sided if you are able to do so. **Once you have locked a pack you will not be able to unlock it to make further amendments without contacting Market Finance.** You should therefore only lock a pack once you expect that no further changes will be made. Agents are also reminded that the quarterly return must not include the Schedule F working schedule.
9. Final hard copy packs, which must agree to the electronic versions on the ORS (see paragraph 5 above), must be signed, dated and notarised as indicated on the Jurat page (SLQ/RIQ 0). **Control sheets, working schedules and checklists must not be attached to these packs.** Notarisation of the US packs may be performed by a solicitor, other than an in-house solicitor, who holds a practising certificate under section 81(1) of the Solicitors Act 1974, which allows them to administer oaths and affidavits in the UK. Where your Finance Director is unavailable to sign the pack, another director or the compliance officer may sign in his or her place and the pack should be marked accordingly. You may wish to keep a copy of the notarised pack for your own records.
10. When hard copy final packs are submitted to Market Finance we can only guarantee their receipt if they are hand delivered directly to the **Tenants & Couriers Office on the Lower Concourse.**

If you have any queries on the contents or completion of the packs, or any comments about the software, please contact me on the above number, David Cokayne (extn 6238), or email the overseas reporting mailbox Lloyds-MR-OverseasReporting@lloyds.com

Leslie Redmond
Manager, International Finance,
Market Finance

Timetable and arrangements for the quarter ended 30 June 2016

	<u>Key Date</u>
Provision of preliminary packs by Market Finance (MF) to managing agents at the ORS web-site.	14 July 2016
Completed electronic packs locked by managing agents. Submit details of reduced collateral funding cedants to MF	29 July 2016
Provision of final signed and notarised reporting packs by managing agents	2 August 2016
Cash Transfer forms to be returned to Settlements & Trust Funds, Chatham, value date 11 August 2016. <u>STFO WILL CHARGE MANAGING AGENTS £50 FOR ANY FORMS THAT ARE SENT IN LATE TO REFLECT THE COST OF ADDITIONAL MANUAL PROCESSING.</u>	4 August 2016
Instructions to transfer securities to be advised to Citibank.	8 August 2016
Letters of Credit to be in place. Please ensure that these are issued with the correct beneficiary name and address which should be as follows; Citibank N.A. as Trustee for Credit for Reinsurance Trust Fund Syndicate XXXX or Citibank N.A. as Trustee for Surplus Lines Trust Fund Syndicate XXXX Citibank N.A. Trust and Custody Operations Attn: William Mulrenin 480 Washington Boulevard, 30 th Floor Jersey City, NJ 07310 USA	8 August 2016
All syndicate packs to be despatched to New York by MF for filing with NYDFS	5 August 2016

Please note that it is essential that any queries generated by the packs or otherwise should be raised well in advance of the deadline dates to allow Market Finance sufficient time to revert to you with the answers. This is particularly relevant to queries in respect of Citibank investment and cash balances, or where in extremis an adjustment is required which cannot be made to the electronic packs which agents are updating. Any adjustments to be made by Market Finance in extremis MUST be raised no later than TWO WORKING days prior to the date by which the electronic packs must be locked.

Xchanging underwriting transactions

1) 'ESR' files

For those agents subscribing to 'ESR' data, you should by now have received the 'ESR' file(s) for your syndicate(s). As in previous quarters, there may be some small differences between these reports and the packs as the US reporting database rounds each individual figure as it is entered into the system. Additionally, please note that these figures will not directly agree to information from the USMs or SCMs which are not at the same level of detail and which exclude certain elements, such as RI Costs on Treaties and State details. If you do subscribe to this service and have not received this data, or you need copies of the prospectus which sets out how to use the file, please contact Data & Information at Xchanging on 020 3604 0000. If you have any queries relating to the data itself please contact the Xchanging Service Desk on 0870 380 0830.

2) Incomplete data

Where applicable a schedule of gross items which have been advised to you on the USMs prior to the quarter end date but which are not reflected in the packs, because part of the data was not completed (e.g. a state code was not known for a particular signing at the time the quarter was closed) are available to download from Secure Store. Please review this data carefully and make amendments where the amounts involved are material. You are reminded that you must ensure that the syndicate reserves are adequate, and must include the effect of these items, where material.

3) USI adjustments

Any adjustments made to the underwriting data on the electronic US reporting packs are not carried forward from one quarter to the next. This will avoid double-counting, as any such adjustments will be included in future US reporting packs once the appropriate entries have been processed by Xchanging (you may need to advise them directly of these 'corrections') or submitted as Direct Reporting to Lloyd's.

4) Delinked items

Please see Appendix 5 to this letter for their impact on underwriting data.

5) US regulated data not processed by Xchanging

Data that is not processed through Ins-Sure or XCS will not appear in the packs unless they have been submitted as Direct Reporting to Lloyd's. Items not captured by either of these methods will need to be added as an underwriting adjustment each quarter as they will not be carried forward from one quarter to the next.

Reserving and funding

1) Closed years of account

Where a year of account with US situs business has closed by way of RITC, any relevant transactions are shown against that year (and where applicable the syndicate) into which the year has closed. In order to ensure sufficient assets are maintained for the outstanding liabilities on that business, you are able to print working schedules, where appropriate, for the closed years of account. These show calendar year movements (or where the accepting year remains open after 12 months cumulative since the RITC), rather than the cumulative position, to enable you to check the figures in the preliminary packs. The reserves for closed years will be aggregated with the reserves of the accepting year on line 1 of SLQ/RIQ 2, and be shown separately on line 7 of SLQ/RIQ 3.

2) Methodology

The reserves for the 2015 and prior years of account at the end of the quarter must be calculated in accordance with the methodology already advised to you (i.e.: the modified UK basis of reserving as previously detailed in market bulletin Y748 issued on 4 December 1997). Reserves for the 2016 year of account, which is at an early stage of its development for the first three quarters of that year, must be determined at the higher of total cumulative signed gross premiums (net of brokerage and commission) less cumulative gross paid claims for that period and total gross outstanding claims at each quarter end, unless it is apparent that the ULRs for that year (all classes combined) will exceed 100%, in which case reserves as at the quarter end must be adjusted accordingly. Guidance notes and a worked example were issued in a letter dated 1 April 1998: further copies of this letter are available on request.

You must also ensure that the schedule of Gross Liabilities and Reconciliation of Movements in Trust Fund (SLQ/RIQ2 form) is completed appropriately. The reserves must agree to the figures on lines 6 and 7 on SLQ/RIQ 3 and you **MUST** ensure that the losses incurred figures on SLQ/RIQ 4 (i.e.: gross reserves plus cumulative paid losses) are entered accordingly. Please note that SLQ/RIQ 4 must be completed on a pure year basis, and SLQ/RIQ 4a will show data for closed years. Further details on how to complete the forms are provided in the checklist

3a) Allowances against reserves (CRTF only)

Any credits in respect of letters of credit (these do not include those lodged with cedants under the reduced collateral requirements), deferred premium instalments or funds withheld against gross reserves in the Credit for Reinsurance Trust Fund, **must** be restricted to the amounts of the calculated reserves for the relevant contracts (i.e. not usually 100% of Schedule F figures). Please note that the figures appearing in the preliminary packs (lines 2a-2c of RIQ 2) are shown at zero, including amounts for closed YOAs against the assuming year. A working schedule (US Schedule F Working Schedule), showing information by reinsured is available in the software, to assist managing agents with this calculation. This schedule is found under the 'Import/Export Data' menu item in the bottom left hand corner of the screen. Click on the file name and follow the onscreen instructions to view and/or download it. Please note that closed year items are included on the working schedules, but only where a letter of credit, deferred element or funds withheld are shown.

3b) Allowances against reserves – Reduced collateral funding (CRTF only)

Where you have met the criteria for reduced collateral funding you can take 100% credit for reserves against individual cedants to whom you have provided assets of 20% of these reserves. In order to do this you must enter the 100% value on line 2d on Form RIQ 2 under the appropriate year of account. You must also complete a spreadsheet located in the Secure Store detailing the individual cedants, the amount of reserves, collateral provided and credit taken, and submit this to Lloyds-MR-OverseasReporting@lloyds.com. The deadline for submitting these details is **29 July 2016**. **Please be aware that it is not possible for the software to distinguish which letters of credit in Sch F Part 1 are in respect of these cedants. It is your responsibility therefore to ensure that you don't take credit for these items twice i.e. do not enter them on both lines 2a and 2d.**

4) Alternative Security (CRTF only)

In the Lloyd's United States Situs Credit for Reinsurance Trust Deed under paragraph 1.24, gross liabilities included in the definition of an 'American Reinsurance Policy' shall exclude any contract or policy of insurance, the liabilities for which the underwriter has provided security by means other than the Trust Fund. Such alternative security would include a letter of credit lodged with the reassured, or funds withheld by the reassured (e.g. outstanding claims advances) as detailed in 3 above.

Where syndicates have provided an alternative security to the reassured, the guidance notes below should be followed for completing the RI packs.

- a) In cases where alternative security has been provided you must calculate the reserves for disclosure on form RIQ 2, including any amounts for such business.
- b) As the reserves disclosed within the pack now include the liabilities where alternative security has been provided, deduction for such security should be made at lines 2a, 2c or 2d on RIQ 2 (restricted to the actual reserves for those contracts). A working schedule, showing information by reinsured, may be printed from the electronic system to assist managing agents in calculating the credits to be entered for the relevant contracts. It may also be exported into excel.
- c) The New York Department of Financial Services also require details of the level of alternative security held by reassureds to be reported. Please therefore complete the memo note at the foot of the form (see below for further instructions), showing, by year of account, the extent of each type of alternative security and the gross reserves relating to that business calculated using the modified UK basis of reserving.
- d) Premiums and claims data for such 'regulated' business will continue to be disclosed within the packs: hence no adjustment should be made to these figures.

Where a syndicate has provided alternative security to a reassured you must complete the memorandum note at the foot of RIQ 2. The value of letters of credit and funds withheld entered on lines 2a, 2c and 2d will be pre-populated in the memorandum note. You must enter the gross reserves relating to this business in the relevant row above.

5) Delinked items

Please see Appendix 5 to this letter for the impact of delinked items on reserving.

Trust Fund assets

Please note that we rely on Citibank electronic data for the investment transactions in the reporting packs. It is therefore essential that agents check all relevant schedules in detail and make any revisions to the electronic packs as necessary.

1) Trust Fund market valuation

The packs issued to agents will be based on the trust fund valuation provided by Citibank. Any change to this total will need to be approved by Citibank before we can change this figure.

The value of cash and securities held as at the quarter end for all years of account have been entered in the total column on the SLQ/RIQ 1 asset form according to the type of assets. (Please note: short-term investments are those with less than one year to maturity at the date of acquisition and bonds (or long-term bonds) are those with one year or longer to maturity at the date of acquisition). The cash position is calculated by the software to be a balancing figure based on total fund value less securities, so where investment valuations change, unless the total asset value also needs amending, the cash figures will also change.

There is also a schedule for each of your syndicates where investments are or have been held in the respective trust funds (the Investment Summary), which should enable you to check the figures in Schedule D. This can be printed from the Internal reports menu or exported to CSV file by clicking on the Investments link then on the US Investment Data link. Citibank Transaction Reports information should be available from Citibank Electronic Banking and/or from your investment managers.

N.B: All investment data must be shown within the US Reporting Packs excluding accrued income purchased and sold. Managing agents should note that if, by virtue of non-repatriation, interest is rolled up into the principal accounts of the relevant situs trust funds, these funds cannot at a later date be released from the trust fund other than via the TFMA mechanism.

2) Net remittances

Each quarter some syndicates transfer securities to make their funding adjustments. These are reflected on the net remittance line of SLQ/RIQ 2 at the market value prevailing on the date the transfers were made. As a margin has to be transferred this figure may not match precisely the value of the required transfers. Hence, Market Finance has not allocated the net remittances across years of account in the preliminary packs, but has posted them all to the youngest year of account column, as agents will need to determine the split. You **must** make the year of account allocation in the packs that are returned.

It should also be noted that where syndicates have transferred securities between trust funds (termed by Citibank as 'deliver free' and 'received free' transactions) these will appear on the Citibank statements as having been traded at zero proceeds/cost. However, the historic cost relating to that holding will be shown on the Citibank investment summaries. For US reporting purposes only, the market value prevailing on the date of the transfer has been used as the proceeds for any 'deliver free' and the cost of any 'received free' transaction. The carrying cost within the US reporting system will also be the market value on the transfer date rather than the historical cost. (N.B.: The reason for this different

treatment is that a 'deliver/received' free does not create a taxable event, so Citibank treat it as a transaction with no value and continue to carry the original cost. For US reporting purposes each trust fund is treated as a separate entity, so the transactions must be valued at the market value on the date they occurred).

3) Cash Transfer Forms

Cash transfer forms must be returned to Settlement & Trust Fund Operations, Fidentia House, Chatham, in hard copy. Please refer to Appendix 1 for the deadline date for receipt of these forms and the date when the transfers will take place. The cash transfer form also requires Managing Agents to specify non-cash assets that they intend to move to/from the situs accounts. The reporting system will derive the total amount to be funded from the pack and the cash transfer figure from that entered at the top of the form. It is then possible to enter values in respect of investments and letters of credit that will be added/removed from the fund. Agents will need to ensure that the total calculated after these details have been input agree with the total amount to be funded figure derived from the pack.

4) SLTF funding requirements

Please note that for Surplus Lines Trust Fund purposes, the terms of Art. 2.7 of the surplus lines trust deed:

(i) require advanced notice to be given to the Trustee, the Domiciliary Commissioner, any Non-Domiciliary Commissioner and the IID in the event that, in respect of a given year of account, the TFMA for any quarter is less than 50% of the TFMA for the immediately preceding quarter; and

(ii) prohibits the Trustee from permitting any such withdrawal for a period of 10 days after receipt of any such notice. The single exception relates to the situation where there is an RITC of the relevant year of account when details of the syndicate and year of account assuming the RITC of the US liabilities are required to be advised to the Trustee.

In other words you may not transfer assets out of the SLTF, when making the adjustment for the quarter end position, which will mean that the remaining asset balance for any YOA is less than 50% of the TFMA as at the previous quarter end, without previously providing the required notices. If your syndicate is likely to be in this position, please advise Market Finance immediately.

- **FAILURE TO DO SO WILL MEAN THAT YOU ARE UNABLE TO RELEASE ASSETS IN EXCESS OF THE 50%.**
 - **The deadline for notification is 29 July 2016.**
 - **Please note that a reduction due to an RITC is acceptable, provided the assuming year maintains at least 50%.**
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De-linked underwriting transactions

Brokers are permitted to use the optional facility whereby premium transactions may be recorded in advance of settlement (de-linking).

A schedule listing any premiums which have been recorded early (i.e.: de-linked) is available for you to download from the Secure Store for those syndicates having an involvement in such transactions for their US situs trust fund business.

Where the effect of “de-linked” items on premiums is material the figures in the reporting packs should be adjusted accordingly. For clarification, this means included in any workings, as set out in the following example:

Example:

For a syndicate’s current year of account, as at the current quarter end: The syndicate has \$100m of signed premiums and a further \$25m of de-linked premium items which have been recorded in advance of settlement. The syndicate has paid claims of \$40m, and the outstanding claims are not large enough to increase the reserve requirement.

		<i>\$m</i>
(1)	<i>Signed premiums</i>	<i>100</i>
(2)	<i>De-linked premiums (i.e.: not yet signed)</i>	<u><i>25</i></u>
(3)		<i>125</i>
(4)	<i>Credit against future unsigned premiums</i>	<u><i>(25)</i></u>
(5)	<i>Premiums for inclusion in the US situs trust fund pack</i>	<u><i>100</i></u>
(6)	<i>Paid claims</i>	<i>40</i>
(7)	<i>Reserves required (5) – (6)</i>	<u><i>60</i></u>

A: If, however, it is already known that the loss ratio on the de-linked premiums will be in excess of 100% the amount of the credit in (4) must be restricted accordingly.

B: If outstanding claims on the signed and de-linked premiums exceed the \$60m, then the reserves required will be equal to the outstanding claims.