

MARKET BULLETIN

REF: Y5056

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	18 January 2017
Deadline	For immediate attention
Related links	Appendices 1-6 Reduced collateral web page here

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

Please also note the change in requirements detailed in paragraph 10.

1. This bulletin is to advise you that the preliminary US reporting packs (including Schedules F & P) for the year ended 31 December 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 locked 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 respectively. Appendix 6 relates to Schedules F & P.
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 in certain [US States](#) 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 packs, clearing all errors and positively verifying warnings as applicable, you must lock them. You will then be able to print final Jurat pages for signature and notarisation. This is done by creating a pdf version of the form and then printing it. **Once you have locked the 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 are reasonably certain no further changes will be made.
9. You must also provide **two original** signed copies of the statements of **actuarial opinions** of gross reserves on **14 February 2017** (the same day by which the electronic packs must be completed) addressed to the NYDFS (New York State Department of Financial Services) for both the Surplus Lines Trust Fund and Credit for Reinsurance Trust Fund. Please do not submit extra copies for the NAIC/IID filing at this time. You should also be aware that the actuarial reports supporting the US trust fund opinions must be submitted to the Lloyd's Actuary by 30 March 2017.
10. There has been a change in the requirement to file hard copy packs. For this year end return and subsequent quarters **you are now only required to file the hard copy signed, dated and notarised Jurat page (SL/RI 0) for each reporting pack.** The rest of the pack is not required nor are the packs for Schedules F & P. The version date on the notarised Jurat page **must** still agree to the electronic version on the ORS. Notarisation of the Jurat page 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 another director may sign in his or her place, and the pack should be marked accordingly. You may wish to keep a copy of the full notarised pack for your own records.
11. When hard copy Jurat pages (**due on 17 February 2017**) are returned 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 of the packs, on how to complete them, or any comments about the software, please contact me on the above number or 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 year ended 31 December 2016

	<u>Key Date</u>
Provision of preliminary packs by Market Finance (MF) to managing agents on the ORS web-site.	18 January 2017
Completed electronic packs (including Schedules F & P) locked by managing agents. Actuarial certification of the gross reserves must also be returned at this time (two original copies for both the SLTF and CRTF). Submit details of reduced collateral funding cedants to MF.	14 February 2017
Cash Transfer forms to be returned to Settlements & Trust Funds, Chatham, value date 23 February 2017. <u>STFO WILL CHARGE MANAGING AGENTS £50 FOR ANY FORMS THAT ARE SENT IN LATE TO REFLECT THE COST OF ADDITIONAL MANUAL PROCESSING.</u>	16 February 2017
Provision of final signed and notarised reporting packs by managing agents	17 February 2017
Instructions to transfer securities to be advised to Citibank.	20 February 2017
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	20 February 2017
All syndicate packs to be despatched to New York by MF for filing with NYDFS	21 February 2017

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 Overseas Reporting 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 Overseas Reporting in extremis MUST be raised no later than TWO WORKING days prior to the date by which the electronic packs must be completed and locked.

Xchanging underwriting transactions

1) 'ESR' files

For those agents subscribing to 'ESR' data, you will by now have received the 'ESR' file(s) for your syndicate(s). As in previous periods, there may be some small differences between these reports and the packs as the ORS 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 31 December 2016 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 the Market Returns web-site. 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 or submitted as Direct Reporting to Lloyd's

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 the year (and where applicable the syndicate) into which it has closed. In order to ensure sufficient assets are maintained for the outstanding liabilities on that business, you are able to print and export to excel working schedules, which identifies data that relates to closed years of account. The data reports 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 will be added into the reserves of the year into which the years have closed on line 1 of SL/RI 2, and be shown separately on line 7 of SL/RI 3.

2) Methodology

The reserves for all years of account at the end of the year must be calculated in accordance with the methodology previously advised (i.e.: the modified UK basis of reserving as previously detailed in market bulletin Y748 issued on 4 December 1997).

Agents must ensure that the schedule of Gross Liabilities and Reconciliation of Movements in Trust Fund (SL/RI 2 form) is completed appropriately. The reserves must agree to the figures entered on lines 6 and 7 on SL/RI 3 and agents **MUST** ensure that the losses incurred figures on SL/RI 6 (i.e.: gross reserves plus cumulative paid losses) are entered accordingly. Please note that SL/RI 6 must be completed on a pure year basis, and SL/RI 6a is for the reporting of 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. To do this please follow the instructions below;

- Enter the 100% value on line 2d on Form RIQ 2 under the appropriate year of account.

- On form RI 10 remove the tick in the Include column next to the individual cedants of the applicable year(s) of account and recalculate the form to save these changes. This is to remove them from the schedule in your reporting pack as they must no longer appear on it.
- 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 **14 February 2017**.

Please be aware that it is not possible for the software to distinguish which assets 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 (in respect of letters of credit) or lines 2c and 2d (in respect of funds withheld).

4) Alternative Security (CRTF only)

In the Lloyd's US 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.

- In cases where alternative security has been provided you must calculate the reserves for disclosure on form RI 2, including any amounts for such business.
- 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 RI 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.
- 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.
- 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 have relied on Citibank electronic data for the investment transactions during the year. 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

Please note: Citibank will dispatch Certified Schedule B's on 20 January 2017. Agents must ensure that the assets in the final packs agree to the confirmed investment valuations included on Schedule B.

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 allow you to change this figure.

The value of cash and securities held as at the year end for all years of account have been entered in the total column on the SL/RI 1 asset form according to the type of assets. (Please note: short-term investments are those with less than 1 year to maturity at the date of acquisition and bonds (or long-term bonds) are those with 1 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 be changed.

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 SL/RI 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, Overseas Reporting has not allocated the net remittances across years of account in the preliminary packs, but has posted them all to the youngest open 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.

Please also note that net remittances included in the annual pack relate to the whole year except for the 2013 and prior years of account where these years closed at the end of 2015. Agents should check the figures to ensure that any remittances/withdrawals made during 2016 are accurately reflected.

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 ORS 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 software will derive the total amount to be funded from pack and the cash transfer figure from that entered in 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, agrees 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 therefore 14 February 2017.**
- **Please note that a reduction due to an RITC is acceptable, provided the assuming year maintains at least 50%.**

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 report listing any premiums which have been recorded early (i.e.: de-linked) is included with this letter 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.

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

Schedules F&P – integration with US reporting packs

Agents are reminded that at the same time as the main US packs are due to be completed and locked (14 February 2017) you must also complete and lock the packs for Schedules F & P. When returning the final signed and notarised reporting packs the Schedules F & P should be combined within the main reporting packs.

A list of the LORS codes available in the software is available from the SecureStore website.

F&P and US reporting packs – data integrity

Schedule P part 1 will be pre-populated with the data for Premiums, Paid Claims and Known Outstanding Claims, as will the historic data on the triangulations for P parts 2 to 6. The csv upload for P part 1 will therefore not require you to upload data for these three transaction types. In addition any underwriting adjustments made in the main pack to these categories will automatically feed through to Schedule P, following pack recalculations, ensuring that the data always agrees between the two returns.

Once you have completed your Schedule F & P you must lock it only once you have locked the main pack. You must therefore ensure that both packs have been completed, eliminating errors and positively verifying warnings as appropriate, before you lock them. To lock them you simply need to click the Lock button on each pack.

Details of the file formats for the upload files are found at the end of the instructions for Schedules F & P.