

Market Bulletin

Ref: Y5411

Title	Open Year Profits
Purpose	To advise 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	Event
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Date	19 October 2023
Deadline	Effective immediately

Related links

Summary

This bulletin outlines the mechanisms by which members may obtain an early release of profits, outside of the traditional three years of account distribution process. It supersedes the previous bulletin on this subject, Y4113, which now no longer applies. The main changes from the previous bulletin relate to timetabling.

The process outlined below should be followed to transfer open year profits from Sterling Premium Trust Funds (SPTFs) and / or Lloyd's Dollar Trust Funds (LDTFs) and / or Lloyd's American Trust Fund (LATF) to members' personal reserve sub-fund (PRF). It does not cover the release of Funds at Lloyd's (FAL), which is dealt with separately.

Open Year Profits

Process to be followed:

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 QSR923 / ASR923 cash transfer statement in Core Market Returns (CMR) as part of the Quarterly Solvency Return (QSR) or Annual Solvency Return (ASR) submission;
- iii) use the published quarter-end rate of exchange in order to calculate any transfer to be effected in US Dollars.

The QSR / ASR923 cash transfer statement will then be reviewed by Central Finance and Member Services, who may issue queries to the applicant. The consent of the Deputy Chief Financial Officer and Head of Member Services is then required ahead of the formal approval of the release of funds.

Transfers are available from the SPTFs and the LDTF on a quarterly and annual basis as per the timetables outlined below. The maximum available for transfer is the Solvency II members' balance per line 18 of the QSR Form 210. The amount proposed will need to be cross-referenced to the latest QCT / CIL statement to ensure that it does not impact on FAL requirements. Open year profits are a credit within the QCT / CIL statement and therefore Lloyd's will need to be satisfied that the proposed release would maintain a surplus position within the statements and not lead to a further request for FAL.

Lloyd's American Trust Fund (LATF)

Transfers from open years will also be permitted from the LATF, but only on an annual basis. Transfers from the LATF will be available for release into members' PRF accounts to meet non-LATF liabilities once the member is LATF solvent across all syndicate participations. Where members are not LATF solvent, Member Services will retain any LATF balances in separate member level LATF accounts.

Transfers from the LATF cannot exceed any surplus reported on ASR210 Line 18. 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

Transfers will be subject to managing agent sign-off that they have no liquidity or other concerns e.g. 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 the balance sheet date.

Any cash to be transferred from syndicate PTFs (Sterling, LDTF & LATF) will be included for payment via Central Accounting Settlement. 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. The usual notifications will be issued.

Effect on solvency, Release Test and CIL

Members receive the benefits of open year profits within Line 2 of the capital position in the QCT / CIL statement. Therefore, once released to PRFs, open year profits cannot then be used towards solvency shortfalls.

Any questions relating to the general profit distribution process and submission of DD files should be addressed to Distribution@Lloyds.com. Questions about the CIL and QCT Tests should be addressed to Client-Gateway@lloyds.com.

Contacts

If you have any general queries relating to this bulletin, please address them to the Lloyd's solvency inbox Lloyds-SolvencyReturns@lloyds.com.

Example timetable for Quarterly and Annual Solvency Returns for 2024 (for both non-aligned and aligned capital)

	<u>Q1 2024</u>	<u>Q2 2024</u>	<u>Q3 2024</u>	<u>Q4 2024</u>	<u>Year-end 2024</u>
Quarterly Corridor Test statements issued	Working Day 35 – approx. 18 February	Working Day 35 – approx. 18 May	Working Day 35 – approx. 18 August	Working Day 35 – approx. 18 November	Working Day 35 – approx. 18 February
Funds at Lloyd's valued	31 March	30 June	30 September	31 December	31 December
Quarterly / Annual Solvency Return submission date (submission of QSR / ASR923)	19 April	19 July	18 October	17 January	7 March
Collection of cash from managing agents for all results and open year profit transfers	6 May	6 August	6 November	6 February	10 April
Release of assets from Distribution to member or Funds at Lloyd's, subject to the QCT	From 15 May	From 15 August	From 15 November	From 15 February	From 1 May

Equivalent dates can be assumed to apply in future years.