MEMBERSHIP & UNDERWRITING CONDITIONS AND REQUIREMENTS

Guidance Notes

These notes are designed to provide additional guidance on and information relating to the operation of certain provisions in the new Membership & Underwriting Conditions and Requirements ("M&URs").

The notes will be revised on a regular basis to ensure that they remain up to date, particularly as regards the implementation of operational efficiencies in Member Services.

Para	*Guidance*
1. Application to membership	
1.1	Under the new M&URs, only candidates in the form of a company or LLP will be considered for membership. New SLPs will no longer be permitted, however, existing members which are SLPs will be able to continue underwriting.
1.3	The Stage 1 documents referred to at paragraph 1.3B will be available online from Q1 2022. Stage 2 documents, and the US persons forms referred to at paragraph 1.3E, are available by contacting the Client Onboarding team in Member Services.
1.3F	Further guidance on the charge registration regime for Lloyd's corporate members can be found in Market Bulletin Y4686 – Y4686 - Changes to the charge registration regime for Lloyd's corporate members
1.5	The power of attorney required from members is contained in the Membership Agreement, so for practical purposes every new member will comply with this requirement when they execute that agreement as part of their application to Lloyd's.
1.6	In order to register for and sign up to the terms of the FAL Online portal, the member should contact Lloyd's at FALonline@lloyds.com. For new members, this will be covered as part of the application process. For non-DCPs, the member's members' agent will be able to handle this process on the member's behalf. Third Party Capital Providers can also register for the FAL Online portal via the above email address. Further details, including FAQs and terms and conditions, can be found on www.lloyds.com.
2. Member's capital – provision and maintenance	
2.1C-D	Any third party which is intending to provide FAL on behalf of a member must provide the documentation requested (paragraph 2.1C) and obtain the prior approval of the Society (paragraph 2.1D). For further guidance on this process contact the Client Onboarding team in Member Services.

2.1E	For guidance on the circumstances in which a member's Adjusted ECA may be met through the provision of FIS rather than FAL, see Market Bulletins Y3946 and Y4032 Y3946 - Syndicate PTF Investments Y4032 - Capital Advantages: Aligned member capital held in syndicate PTFs The contents of MB Y3946 remain valid as at the date of issue of these guidance notes. The contents of MB Y4032 also remain valid, other than that the additional return referred to in the "Additional Reporting" section is no longer collected by the Society.
2.2	Guidance on the Economic Capital Assessment process is issued annually by Lloyd's by way of Market Bulletin. Guidance on the process for the 2022 year of account can be found in MB Y5344 dated 9 August 2021; the Bulletin also contains links to the Capital Guidance Documentation and ECR Guidance Manual found on www.lloyds.com.
2.3	This paragraph sets out the constituent parts of "member's assets", which is assessed against the member's Adjusted ECA for the purposes of CIL and the quarterly corridor tests. In that regard: • interest and income arising on FAL will only be counted towards member's assets if the member has elected for them to be paid into FAL – amounts which are held and due to be paid away will not be included in the calculation; • the member's share of a syndicate's solvency result (which could be a positive or negative number) will be included once the result has been notified to Council. If positive, once the amount has been paid into distribution it will be included under item 1 and not under item 3, to ensure there is no double-counting; • any outstanding cash calls will be covered under item 4, until such time that they have been paid.
2.4C	A member's Annual CIL Statement will be published via the FAL Online Portal. DCP members and members' agents will be notified once the statement is available on the portal.
2.4F	If a member fails to CIL in time they will be served with an Overdue Notice, and an administrative fine will be levied with effect from Working Day 56 (see comments in respect of para 2.5H below). Within 10 working days the Council will be asked to issue a direction that the member cease underwriting with effect from the year end, unless the member undertakes to, and subsequently does, sell sufficient capacity in the auctions to raise funds to cover 150% of the CIL shortfall. After the 10 Working Days have passed, members will not be permitted to clear their CIL shortfall by paying in new funds, nor by way of a revaluation of their FAL. New funds may be paid in but only for the purpose of stopping

	the clock on the accumulation of administrative fines – they will not be treated as having cleared the CIL shortfall. Members that are the sole member on a wholly aligned syndicate will be able to CIL by way a reduction of that syndicate's underwriting for the then current year of account. Members that only hold capacity that is not tradeable in the auctions will be required to cease underwriting at the end of the year. A direction of the Council pursuant to paragraph 40 of the Membership Byelaw in respect of a particular member is subject to a right of appeal to the Appeals Tribunal (paragraph 23(c) and Schedule 1(a) of the Enforcement Byelaw). The procedure that applies to appeals is set out in the Requirements made under the Enforcement Byelaw (available on www.lloyds.com).
2.4G	If a member's FAL exceeds 165% of their Adjusted ECA, for example as a result of an increase in the value of assets held in FAL, the member will be expected to apply for a release of the surplus (above 165%) at the next CIL or quarterly Corridor Test.
2.5A - D	A timetable showing the key dates for CIL and the Quarterly Corridor Tests throughout out the year is set out at Schedule 1. Schedule 2 provides a detailed overview of how the Corridor Test works alongside the Annual CIL process in Q2, in particular the 4 key principles that will apply in determining whether (and in what amount) a member is required to provide funds by Working Day 55 or is entitled to a release.
2.5C	Any new funds to be provided to cover a Corridor Test shortfall must have cleared by Working Day 55 in order for the member to be treated as having met the 90% threshold. Requests for the release of surplus FAL or FIS should continue to be submitted to Lloyd's in accordance with the existing process.
2.5E – G	The Quarterly Cut-Off Period for adjustments to LOCs or Guarantees varies depending on the quarter. For Q2 and Q4 the period runs from the beginning of the quarter until the deadline by which these assets can no longer be adjusted for the purposes of the Society's Ancillary Own Funds application to the PRA (see definitions of Cut-Off Date and Mid-Year Cut-Off Date). For Q1 and Q3, LOCs and Guarantees may only be adjusted between Working Day 35 and Working Day 55.
2.5H	An Overdue Notice specifying the amount of any Corridor Test (or CIL) shortfall will be issued to a member immediately following the deadline by which the member has failed to provide the requisite amount of funds. The Notice will also state that an administrative fine will be levied until the shortfall is cleared. The administrative fine regime is intended to be implemented via an amendment to the Enforcement Byelaw. A consultation on the proposed

	amendment, including details of the fines and how they will operate, will be issued by the Society shortly.
2.5L – N	These provisions give the Society the right to run an ad hoc Capital Test on members following the occurrence of an event that has a material impact on solvency levels (e.g. the Covid pandemic). Subject to the results of those tests, members may be required to inject additional capital to ensure that they hold assets at a level equivalent to at least 90% of their Adjusted ECA. As with the regular quarterly Corridor Tests, the De Minimis of £1m will apply to any shortfall that a member would otherwise be required to meet.
2.5P	The means by and form in which a member's instructions for a voluntary drawdown should be provided to the Society are currently under review and further details will be provided in due course. All trades must have cleared and cash available in the required amount in time for the cash call to be paid. The requirements applicable to the form and content of cash call statements issued by managing agents have recently been revised – see Market Bulletin Y5335 for more details: Y5335 - Amendments to the Agency Agreements Byelaw
3. Member's capital – acceptable assets	
3.1C, R	LOCs and Guarantees in paper form will continue to be acceptable for a limited time, until arrangements have been put in place to allow these to be received electronically by Lloyd's. From that point in time, as notified to the market in advance – • existing paper LOCs and Guarantees will be grandfathered (but will not be capable of amendment other than to make it interavailable); and • only LOCs and Guarantees which can be received electronically will be accepted into FAL. For the avoidance of doubt, Guarantees issued by insurance companies are no longer acceptable in FAL (but any existing such Guarantees will be grandfathered). Subject to the provisions of paragraph 3.2 and Appendix 3, a member's FAL may also be invested in Illiquid Assets. For these purposes an Illiquid Asset is one which is not readily realisable or able to be accurately valued more than once a week on an ongoing basis (see definition in Appendix 5). An Illiquid Asset (or holding thereof) must still comply with the admissibility requirements of paragraph 3.1C, other than sub-paragraphs (d) (valuation/liquidity) and (e) (listed on approved exchange/traded on regulated market).
3.1C(i)	Further details on the sanctions screening process will be provided by the Society in due course.
3.1G – I	Further details on the type of asset covered under each CIC code used in Appendix 4 are set out in Schedule 3 to this guidance note.

3.1M	Details of the current rules on the provision of tier 1 and tier 2 assets are set out in the following market bulletin: Y5177 - Provision of capital to support members' Economic Capital Assessments; timing and Solvency II tiering limits As per the bulletin, the maximum limit of tier 2 assets that may be held by a member applies to members with an ECA in excess of £5m. The limit is set at 50%, but this may be reduced depending on overall market utilisation. A lower threshold would be notified by Member Services.
3.1Q	Information regarding the collateral supporting a LOC of 5 million or higher (as denominated in the currency of the LOC, which must be an acceptable currency), must be submitted on the LOC Collateralisation form, available from Member Services. Completed forms should be submitted to LOCs@lloyds.com. If the collateral provider is not the member, they will need to be approved by the Society as a Third Party Capital Provider (see paragraphs 2.1C – D above).
3.1T	A member must provide the name of any collateral provider for a Guarantee which the member does not collateralise themselves. As for LOCs, the collateral provider will need to be approved by the Society as a Third Party Capital Provider (see paragraphs 2.1C – D above).
3.2A+B	The SSAA will apply in respect of a member's Aggregate Capital (as defined), which in practice means any FAL and/or FIS held in respect of the member together with the member's share of the assets held at syndicate level for each syndicate on which the member participates. Monitoring of the application of the SSAA to the member's Aggregate Capital will be carried out by Lloyd's Treasury and Investment Management (LTIM). For the avoidance of doubt, the new M&URs apply only to members and therefore only to FAL assets. No new restrictions are placed on the syndicate investments. While syndicate assets will be considered for the purposes of the calculating the capital charge, the member remains responsible for any capital charge, not the syndicate. Practically, the syndicate assets are only considered for diversification purposes and their inclusion into this calculation acts as a benefit to the member, not a requirement upon the syndicate. For example: If a member held 70% in equities and 30% in government bonds, the member would be invested outside of the SAA and would be subject to a capital charge. However, if the syndicates it underwrites hold 98% in cash and government bonds and 2% in sub-IG bonds, then the inclusion of these assets for the purposes of calculating the capital charge only serves to diversify the SAA at an 'Aggregate Capital' level and reduces or removes the capital charge to the member. Should a capital charge remain, the member is responsible for this and should look to reduce their investment risk in order to avoid a capital charge.

3.2C	Issuer (formerly counterparty) exposure limits apply to a member's Aggregate Capital, and then only as regards members that have an ECA in excess of £20m. Limits apply per asset class and will be monitored by LTIM. In the event that the limits are exceeded LTIM will contact the member to discuss what remedial action may be taken.
3.2D+E	Any member whose Aggregate Capital is invested outside the SSAA may be subject to a capital loading. Further guidance on the additional capital requirements that may be imposed on members whose Aggregate Capital is invested outside the SSAA, including the methodology and worked examples, are set out in Schedule 4. The table at Schedule 5 provides details of how the loading will apply on a per asset class basis. The Society will review a member's SSAA on an annual basis for the purposes of determining if a capital loading should be applied, however, it reserves the right to impose a loading on a quarterly basis if changes to the member's Aggregate Capital warrant this; the effect of this will be to change the member's Adjusted ECA with effect from the next CIL and corridor test assessment.
3.3A	For the purposes of establishing "fair value", assets in FAL or FIS will be valued at "bid" price (i.e. "marked to market").
3.3C	For individual members with a SRF, there are rules regarding when credit for the value of that SRF can be taken – in other words, it cannot be used to cover that proportion of FAL which is equal to 30% of the member's overall premium limit. By way of illustration: OPL £625,000 Non-Life Only ECA £352,000 Adjusted ECA £410,000 **Member Holds** Non SRF Funds Value £265,500 SRF £150,000 30% of OPL - Non SRF Funds £187,500 Balance of Non SRF Funds £ 78,000 SRF to cover shortfall £144,500
3.4	Members that want to trade an asset within the 6 core currencies can FX their FAL cash prior to a trade being alleged, to ensure the trade settles correctly. The initial allocations / FX conversions will be carried out in Distribution in April to bring members to a bottom line profit or loss position, as part of the annual results process. Once that position is established Lloyd's will not carry out any further conversions in Distribution.

	SRF compulsory drawdowns must be made in a currency to match the cash call, so compulsory FX conversions will occur in FAL for these drawdowns. To simplify the DAM process, FX conversions will be carried out in FAL for PRF/Deposit drawdowns before transfer to Distribution. PRF assets must be allocated before the Deposit. New money being introduced to fund liabilities must be paid directly into Distribution in the correct currency. Undertaking FX transactions for the purposes of speculative trading will not be allowed even across the six acceptable core currencies. All FX transactions must be in line with operational or business requirements.
3.4C	Members must hold bank accounts that are able to accept payments in each currency in which a member holds assets within FAL. This could be either a single currency account or a multiple currency account that is able to accept payments in other currencies.
3.4E	Where monies in FAL are required to cover a loss, the member must ensure that assets are sold in good time to provide cleared funds for the payment of the loss. If the resulting monies are in a different currency to that required for the payment, the Society will convert the monies into the correct currency before they are required.
4. Member's capital – income, distribution and drawdowns	
4.1	In general terms, members will be given two options for the treatment of income arising on FAL: • income to be held outside of FAL for paying away and therefore not included in any capital calculations for either CIL or quarterly tests; • income retained and included as part of their capital position, i.e. the income will be added to their FAL following receipt. This will be included as part of the member's assets for capital calculation purposes and will allow reinvestment by the relevant investment manager. The default will be the first option.
4.1A	Some income previously paid directly to members/third party capital providers (e.g. for CREST holdings) is already now paid via Lloyd's and so for members other than DCPs this process will remain unchanged; the same approach will apply to all income regardless of source. For certain unit trusts, the change to payment via the Society will not be effected until a unit trust platform is implemented (scheduled for 2022).
4.1B	Interest earned on cash in FAL will paid out at least six monthly, unless the member/third party capital provider elects for it to be paid into FAL (which will also take place every six months). For the avoidance of doubt, a member/third party capital provider may make different elections for the treatment of income arising on non-cash assets and that arising on cash.
4.1C	Income appearing on the annual Lloyd's consolidated tax voucher will include all income on assets held in CREST and with the Society's global

	custodian, Citibank. For unit trust income the Society sends out tax vouchers received from the Unit Trust Managers/Fund Administrators directly to members and Third Party Capital Providers on a quarterly basis, and will continue to do so until alternative arrangements have been put in place.
4.2	Should a corporate action resulting in a cash payment have an out-turned currency outside of the 6 core currencies this would be converted by the Society to a core currency. If a corporate action requires payment and the right currency is not available an FX would need to take place. The Society will determine how to apply the FX depending on the currencies and the amounts thereof which are held in FAL at the time.
4.2B	Funds submitted in order to take up a corporate action must be submitted from a bank account previously verified by the Society. Funds that are sent in from an unverified account will be rejected, and as a result there may be insufficient time for the action to be taken up.
4.2E	In the case of a voluntary corporate action where there are different options available, the member must select an outcome which means that the resulting asset meets the acceptable asset criteria. If for a voluntary corporate action there is no outcome which results in an acceptable asset arising then the action will not be offered to the member or Third Party Capital Provider.
4.3A - C	Details of the allocation timetable are provided to members via the members' agents or (for DCPs) via the DCP team in Member Services. A high level summary of the timetable is also available on www.lloyds.com.
4.3F	Further details of the process by which drawdowns are effected are set out in Schedule 6 below.
5. Appointment of investment managers	
5A	Any member or Third Party Capital Provider that holds assets within FAL must appoint an investment manager. This requirement applies irrespective of the number of transactions that may be carried out in respect of those assets.
5D	As a minimum for trade notification requirements regarding SWIFT messaging, the investment manager must ensure they can send all trade instructions via MT 541s for purchases and MT 543s for sales to the Society. Future developments may lead to a requirement for investment managers to send and receive corporate action related messaging via the SWIFT MT56x series messages. Further information on SWIFT messaging requirements for corporate actions will be communicated in good time should the need arise. In certain circumstances messaging via CREST may also be acceptable, as an alternative or in addition to SWIFT, subject to further investigation and confirmation by the Society (to be notified in due course).

	Subject to the proposed unit trust platform becoming operational (see comments in respect of 4.1A above), it may be possible for unit trust trades to be facilitated via an alternative messaging system. This is subject to confirmation and further details will be provided by the Society in due course.
5H	The process by which newly appointed investment managers sign up for access to the FAL Online portal will be dealt with as part of the onboarding process. Investment managers who have already been appointed and which previously used the members' access portal were automatically given access to the FAL Online portal as part of that arrangement. Any new members of staff at an investment manager who require access to the FAL Online portal can download an application form from: https://www.lloyds.com/conducting-business/member-services/fal-online Training videos are also available at the same link.
6. Taxation and accredited investors	
D	The tax declaration forms for completion by a member will be available via the members' agents or (for DCPs) via the Lloyd's DCP team in Member Services.
E	Notwithstanding that a non-underwriting member's open YOAs may have all closed, the member may still have tax liabilities which have not yet been determined and which will require funding. Accordingly, the member will be required to retain FAL in an amount to cover these liabilities, which will be either determined by the Tax Dept (based on an estimate of the potential liabilities) or the amount of the member's Adjusted ECA for the YOA prior to the closure of the last open YOAs.
F	Where approved by an Authorised Person, an indemnity can be provided in lieu of the requirement set out in paragraph E. The indemnity must be provided by an entity within the member's group (not being another member) and in determining acceptability the Society will consider (inter alia) the financial standing and resources of the company proposed to provide the indemnity.
7. Additional Requirements	
7.1A(b)	Premiums trust deeds signed by members will have a defined Trust Period, depending on the legal status of the member. This clause makes provision for Council to require members to execute a new premiums trust deed in advance of the expiry of their current premiums trust deed.
7.3	Only non-UK domiciled corporate members will be required to submit a copy of their accounts to the Society.
10. Supplemental and commencement	

Appendix 1	
A1.3 – 1.5	All Stage 1 documents will be available on an online portal for downloading during Q1 2022. Once available, the documents should be completed and then submitted via the portal. Stage 2 documents will continue to be available from Member Services, and an update will be issued in due course once they are available from the online portal referred to above.
A2.3	The conditions and requirements by which two or more members under common control can apply for a corporate consolidation are found in MBY5001 – see link below: Y5001 - Corporate Interavailability – Conditions and Requirements
Appendix 3	
Footnote 5: Illiquid asset approval	**<u>Process for illiquid asset / fund acceptance</u>** **a. Requirements for FAL eligibility** i. All asset / fund investments that meet the illiquid investments definition (see Appendix 5 – Interpretations and definitions), must meet the following minimum criteria in order for Lloyd's as trustee of FAL to consider approval: 1. <u>Lloyd's Trustee requirements</u> a. Lloyd's as trustee of FAL have the option to refuse approval of any illiquid asset or fund that does not satisfy its requirement as trustee. 2. <u>Specific requirements</u>: **a. Assets** i. Illiquid assets must be held in suitable structure, such that ownership can be transferred to Lloyd's as trustee at inception of the investment or at the point of such assets being posted as FAL. Note this would be subject to said assets being approved (see approval process below). **b. Funds** Illiquid funds may only be invested in FAL by Lloyd's market participants. Market participants include managing agents, syndicates, members and third party capital providers and are expected to meet the following requirements: i. Minimum Fund size must be at least £100m in committed capital. Capital commitment can be shown via letter of credit or

similar instrument. This also ensures that any external funds are appropriate in size and operations to meet FAL requirements.

ii. Lloyd’s as trustee must have recourse to underlying member investment exposure, such that Lloyd’s as trustee can perform its role in administering the capital fungibility of the underlying member exposure.

iii. Any illiquid fund, must be appropriately aligned to Lloyd’s interest as FAL trustee and overall market security i.e. the interests of the investor base must all be aligned to Lloyd’s such that the directors of the fund would be required at all times to act in the interests of the FAL trustee for fund investments.

iv. Fund legal structures – any illiquid funds must meet the current approved fund structure requirement for FAL. This includes the requirement for illiquid funds to be open-ended. Lloyd’s has the right to refuse to accept particular funds on a case by case basis. An example of a prohibited fund is a Luxembourg domiciled fund for reasons pertaining to KYC requirements.

v. Commitments, redemptions, gating and settlement

1. Commitment periods in excess of 18 months would not typically be permitted.
2. Dealing dates with a frequency at least annually are preferred.
3. Units must be transferable within the Lloyd’s chains of security to meet cash calls if required.
4. Settlement cannot be less frequent than 45 calendar days after dealing date.
5. Maximum of 3-year initial lock-up period.
6. Gating: A minimum of 5% of the NAV must be made available for redemptions at each valuation period (if quarterly)

vi. Valuation

1. Illiquid asset investments should have an appropriate valuation methodology, due to the additional valuation uncertainty that can arise from the lack of an independently verifiable market price. Valuations will need to be audited at least annually by an approved valuation provider (contact Lloyd’s Investment Management and Treasury (“LTIM”) for the most up to date list of approved providers).

   Valuation is defined as: A method of ascribing value to a company. In private equity, methods used include discounted cash flow, comparables and adjusted present value.

c. Members

1. Member’s underlying syndicate(s) must be “meeting expectations” for the Liquidity dimension under Lloyd’s Principle Based Oversight.

d. Review Process

i. Members who wish to post an illiquid asset / fund as FAL must complete a template that will be made available on the Lloyd's website. This must be submitted to Lloyd's Investment Management and Treasury ("LTIM") and Member Services and will serve as formal notification of intent to post an illiquid asset / fund as FAL. This template will include:

1. Details on type of investment for consideration
2. Demonstration that above requirements for FAL eligibility have been met
3. Demonstration that member meets PPP requirements

ii. LTIM will review template submission and revert back to member with queries as required

iii. Lloyd's Legal team to review fund application and revert back to member with queries as required

iv. Member's investment will be presented to Chief Investment Officer for approval

v. Chief Investment Officer will formerly approve / reject proposed investment"

e. Fees

i. Lloyd's reserve the right to make a cost recharge to all approved illiquid asset / funds for the oversight and monitoring of these funds by LTIM, or delegated oversight manager. These fees will be levied directly against the approved fund via invoice.

Additional pass-through charges will be applied should Lloyd's as trustee need to step-in and sell down fund assets in the event that underlying member capital is needed to meet claims.

Appendix 4

Permissible assets per CIC category

Collective investment vehicles that invest in the following asset classes will be allocated to the relevant asset class per the following:

Asset/Fund Type	SAA Asset Class	CIC Code
Equities	Equity Funds	41
IG Bonds	IG Bonds	42
Sub-IG Bonds	Sub-IG Bonds	42
Money Markets	Cash	43
Asset Allocation Funds	Alternatives	44
Real Estate	Alternatives	45
Alternative Funds [1]	Alternatives	46
Funds, Other [2]	Alternatives	49

[1] "Alternative Funds" for the purposes of assigning an appropriate CIC code, are defined as collective investment undertakings whose investment strategies include such as hedging, event driven, fixed income directional and relative value, managed futures, commodities etc.
[2] "Funds, Other" includes funds with strategies that do not specifically fall into any other category

https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa_13_415_final_report_on_cp10.pdf

Appendix 5

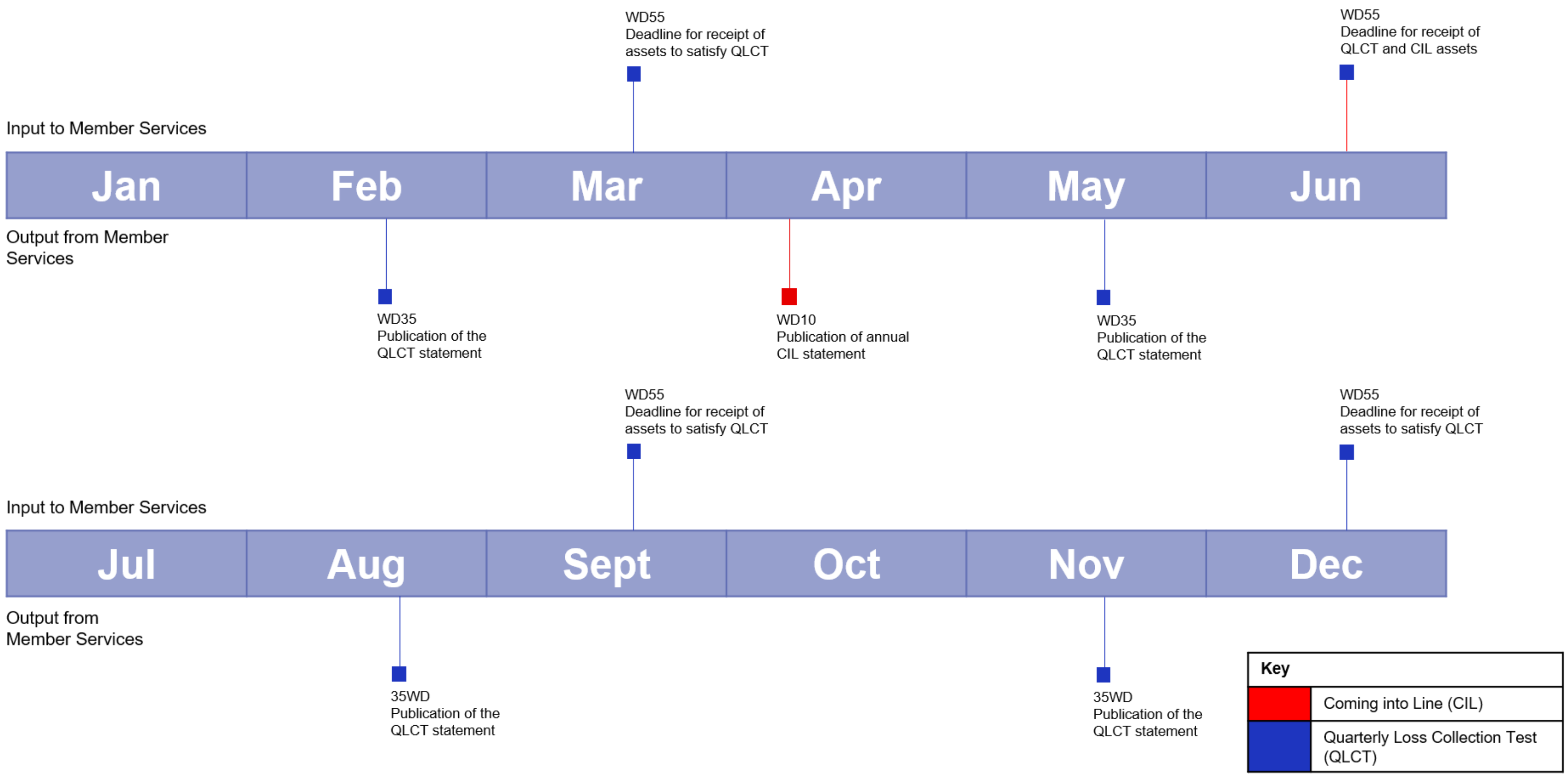
ECA	A member’s ECA will be set for CIL purposes, but for the purposes of subsequent Corridor Tests it may adjusted to take account of more recent FX rates. Similarly, there may be other occasions on which the Society changes the ECA, for example to take account of a major solvency event.

Schedules

1. Timeline of key dates for CIL and QCTs
2. How the Corridor Test works with CIL in Q2
3. Definitions of the CIC codes used in Appendix 4
4. Methodology for determining additional capital charge
5. Table of capital loadings per asset class
6. Guidance on deposit drawdowns

Schedule 1

TIMELINE OF KEY DATES RE: CIL AND QCTs



Schedule 2

How the Corridor Test works alongside the Coming into Line (CIL) statement in Q2

The annual CIL and Q2 Quarterly Corridor Test are independent tests. Members must CIL to the pound (i.e. 100% of Adjusted ECA requirement with no De Minimis Amount being applied).

However, should a member add or release funds to satisfy the CIL requirement in full and the effect is to take them outside of the Q2 Corridor Test, then the Q2 Corridor Test position must be taken into account as regards shortfalls below 90% of Adjusted ECA, and may be taken into account in respect of a surplus above 110% of Adjusted ECA.

Members must ensure that any release permitted under the CIL test does not take the member outside the Q2 corridor (i.e. not less than 90% of Adjusted ECA).

Furthermore, members required to top up as a result of the CIL test may wait until the Quarterly Corridor Test has been published, to ensure the top up is in the right amount to keep them within the corridor.

Members will be permitted to release funds above 100% of Adjusted ECA following the CIL statement but could find themselves in a position of having to inject further funds within a short period, if the net outcome of the Corridor Test is to leave them below 90% of Adjusted ECA. Members are therefore encouraged to consider if it is likely their net position will deteriorate; if so, they should defer any request for the release of FAL or FIS until the Quarterly Corridor Test is issued.

These are the four rules that must be adhered to:

1. Where CIL (at 100% of Adjusted ECA) requires a member to submit assets, but this amount leaves a member under 90% (of Q2 CT) - the member must pay in to 90% of Adjusted ECA under Q2 Corridor Test, unless the additional amount required is under £1m (De Minimis Amount).

2. If CIL requires the member to submit assets to reach 100% Adjusted ECA and this takes the member over 110% of Q2 Corridor Test. The member has the option to limit CIL amount to that which takes him to 110% only (because on 31 Mar data the member will be in line).

3. No part of CIL release (to 100% Adjusted ECA) can take a member under 90% of Q2 CT or further under 90% (De Minimis Amount doesn’t apply to releases).

4. If CIL release results in a member still being over 110% of Adjusted ECA, the member can release extra FAL or FIS down to 110% of Adjusted ECA (because on 31 Mar data the member will be in line).

DEFINITIONS OF THE CIC CODES USED IN APPENDIX 4

1	**Government bonds**	**Bonds issued by public authorities, whether by central governments supra-national government institutions, regional governments or local authorities local authorities and bonds that are fully, unconditionally and irrevocably guaranteed by the European Central Bank, Member States' central government and central banks denominated and funded in the domestic currency of that central government and the central bank, multilateral development banks referred to in paragraph 2 of Article 117 of Regulation (EU) No 575/2013 or international organisations referred to in Article 118 of Regulation (EU) No 575/2013, where the guarantee meets the requirements set out in Article 215 of Delegated Regulation 2015/35. Regarding bonds with a qualifying guarantee, the third and fourth position shall be attributed by reference to the entity providing the guarantee.**
11	Central Government bonds	Bonds issued by central governments
12	Supra-national bonds	Bonds issued by public institutions established by a commitment between national states, e.g. issued by a multilateral development bank as listed in Annex VI, Part 1, Number 4 of the Capital Requirements Directive (2013/36/EU) or issued by an international organisation listed in Annex VI, Part 1, Number 5 of the Capital Requirements Directive (2013/36/EU)
13	Regional government bonds	Regional government or autonomous communities debt instruments offered to the public in a public offering on the capital market
14	Local authorities bonds	Bonds issued by local authorities, including cities, provinces, districts and other municipal authorities.
15	Treasury bonds	Short term government bonds, issued by central governments (issued with a maturity term up to 1 year).
19	Other	Other government bonds, not classified under the above categories.
2	**Corporate bonds**	**Bonds issued by corporations**
21	Corporate bonds	Bonds issued by corporations, with simple characteristics, usually covering the ones referred to as "plain vanilla", and that don't have any special feature described in the categories 22 to 28 (Subordinated bonds; Corporate bonds which have a lower priority than other bonds of the issuer in case of liquidation).
22	Convertible bonds	Corporate bonds that the holder can convert into shares of common stock in the issuing company or cash of equal value, having debt and equity-like features
23	Commercial paper	Unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities, usually with original maturity lesser than 270 days.
24	Money market instruments	Very short term debt securities (usualy with maturities ranging form 1 day up to 1 year), consisting mainly of negotiable certificates of deposit (CDs), bankers acceptances, repurchase agreements (repos) and other highly liquid instruments. Commercial Paper is excluded from this category
25	Hybrid bonds	Corporate bonds that have debt and equity-like features, but are not convertible.
26	Common covered bonds	Corporate bonds which have a pool of assets that secures or "covers" the bond. Those assets remain on the issuer balance sheet. Covered bonds subject to specific law are excluded from this category
27	Covered bonds subject to specific law	Corporate bonds which have a pool of assets that secures or "covers" the bond if the originator becomes insolvent and are subject by law to special public supervision designed to protect bond-holders, as definid in Article 22(4) of Directive 2009/65/CE. An example of this category is Pfandbrief: "Covered bonds which are issued on the basis of the Pfandbrief Act. They are used to refinance loans for which collateral is furnished in the form of loans secured by real estate liens (Mortgage Pfandbriefe), public-sector loans (Public Pfandbriefe), ship mortgages (Ship Pfandbriefe) or aircraft mortgages (Aircraft Pfandbriefe). Thus, the distinction made between these Pfandbrief types refers to the cover pool created for each type of Pfandbrief."
28	Subordinated bonds	Corporate bonds which have a lower priority than other bonds of the issuer in case of liquidation.
29	Other	Other corporate bonds, with other characteristics than the ones identified in the above categories

3	**Equity**	**Shares and other securities equivalent to shares representing corporations' capital, i.e., representing ownership in a corporation**
31	Common equity	Equity that represents basic property rights on corporations
32	Equity of real estate related corporation	Equity representing capital from real estate related corporations
33	Equity rights	Rights to subscribe to additional shares of equity at a set price
34	Preferred equity	Equity security that is senior to common equity, having a higher claim on the assets and earnings than common equity, but is subordinate to bonds
39	Other	Other equity, not classified under the above categories
4	**Collective Investment Undertakings**	**Collective investment undertaking' means an undertaking for collective investment in transferable securities (UCITS) as defined in Article 1(2) of Directive 2009/65/EC of the European Parliament and of the Council or an alternative investment fund (AIF) as defined in Article 4(1)(a) of Directive 2011/61/EU of the European Parliament and of the Council.**
41	Equity funds	Collective investment undertakings mainly invested in equity
42	Debt funds	Collective investment undertakings mainly invested in bonds
43	Money market funds	Collective investment undertakings under the definition provided by ESMA (CESR/10-049)
44	Asset allocation funds	Collective investment undertakings which invests its assets pursuing a specific asset allocation objective, e.g. primarily investing in the securities of companies in countries with nascent stock markets or small economies, specific sectors or group of sectors, specific countries or other specific investment objective
45	Real estate funds	Collective investment undertakings mainly invested in real estate
46	Alternative funds	Collective investment undertakings whose investment strategies include such as hedging, event driven, fixed income directional and relative value, managed futures, commodities etc.
49	Other	Other Collective investment undertakings, not classified under the above categories
6	**Collateralised securities**	**Securities whose value and payments are derived from a portfolio of underlying assets. Includes Asset Backed Securities (ABS), Mortgage Backed securities (MBS), Commercial Mortgage Backed securities (CMBS), Collateralised Debt Obligations (CDO), Collateralised Loan Obligations (CLO), Collateralised Mortgage Obligations (CMO). Assets under this category are not subject to unbundling**
62	Interest rate risk	Collateralised securities mainly exposed to interest rate risk
64	Credit risk	Collateralised securities mainly exposed to credit risk
65	Real estate risk	Collateralised securities mainly exposed to real estate risk
66	Commodity risk	Collateralised securities mainly exposed to commodity risk
7	**Cash and deposits**	**Money in the physical form, cash equivalent, bank deposits and other money deposits**
72	Transferable deposits (cash equivalents)	Deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction
79	Other	Other cash and deposits, not classified under the above categories
8	**Mortgages and loans**	**Financial assets created when creditors lend funds to debtors, with collateral or not, including cash pools.**
89	Other	Other mortgages and loans, not classified under the above categories

Schedule 4

METHODOLOGY FOR DETERMINING ADDITIONAL CAPITAL LOADING

Stage 1: Member's Strategic Asset Allocation (SAA) is determined

- Asset classes shaded in grey are considered 'Core' assets.
- Asset classes shaded in blue are considered 'Non-Core' assets.

Member ECA	**423,000**
Member FAL	**500,000**

Member exposure	**GBP**	**%**	**Core / Non-core**	**Standard SAA Min limits**	**Standard SAA Max limits**	**Capital Loading Rate**
LOC	-	0%	19%	0%	50%	N/A
Cash	50,000	12%		5%	100%	N/A
Government Bonds	10,000	2%			100%	N/A
IG Bonds	20,000	5%		0%	80% (Sub-IG 40% max)	10%
Sub-IG Bonds	45,000	11%	81%	0%		25%
Equities	185,000	44%		0%	40%	40%
Equity Funds	25,000	6%		0%	40%	40%
Alternatives	75,000	17%		0%	40%	40%
Collateralised securities	13,000	3%		0%	10%	30%
Illiquid assets	-	0%		0%	10%	50%
Total	**423,000**	**100%**	**100%**			

Member SAA is determined according to Q4 data on an annual basis. The SAA is valued down proportionately to the Member's ECA. This prevents charging on overfunding of FAL.

- Asset classes have a minimum or maximum allocation as per SAA table.
- The capital loadings are applied at the aggregate capital level where SAA limits have been breached.
- Capital loading rates are determined according to the Standard Formula and will be reviewed regularly.

Stage 2: Syndicate Strategic Asset Allocation (SAA) is determined

Syndicate exposure	GBP	%	Core / Non-core	Standard SAA Min limits	Standard SAA Max limits	Capital Loading Rate
LOC	100	0%	91%	0%	50%	N/A
Cash	80,000	15%		5%	100%	N/A
Government Bonds	200,000	38%			100%	N/A
IG Bonds	200,000	38%		0%	80% (Sub-IG 40% max)	10%
Sub-IG Bonds	10,000	2%	9%	0%		25%
Equities	5,000	1%		0%	40%	40%
Equity Funds	5,000	1%		0%	40%	40%
Alternatives	25,000	5%		0%	40%	40%
Collateralised securities	5,500	0%		0%	10%	30%
Illiquid assets	-	0%		0%	10%	50%
Total	**530,600**	**100%**	**100%**			

- Syndicate SAA is determined according to Q4 data
- Syndicate SAA is determined according to the syndicates that the Member has underwritten for the relevant Year of Account (YoA)
- Where the Member is a Spread Member (has underwritten more than one syndicate), the SAA is determined in proportion to the Member's participation on each syndicate and each of the syndicates' SAA.

Stage 3: Member and Syndicate SAA are combined to create an Aggregate Capital SAA

Group exposure	GBP	%	Core / Non-core	Standard SAA Min limits	Standard SAA Max limits	Capital Charge Rate	Capital Charge	Non-Core Capital Charge	Final Capital Charge
LOC	100	0%	59%	0%	50%	N/A	-		
Cash	130,000	14%		5%	100%	N/A	-		
Government Bonds	210,000	22%			100%	N/A	-		
IG Bonds	220,000	23%		0%	80% (Sub-IG 40% max)	10%	-		
Sub-IG Bonds	55,000	6%	41%	0%		25%	-	2,003	
Equities	190,000	20%		0%	40%	40%	-		
Equity Funds	30,000	3%		0%	40%	40%	-		
Alternatives	100,000	10%		0%	40%	40%	-		
Collateralised securities	18,500	2%		0%	10%	30%	-		
Illiquid assets	-	0%		0%	10%	50%	-		
Total	**953,600**	**100%**	**100%**				**-**	**2,003**	**2,003**

Stage 4: Final Capital Loading Determined

Diversification benefit	GBP	%
Pre-Diversification Capital Loading	2,003	0%
Stage 1 (portfolio diversification)	1,416	0%
Stage 2 (business diversification)	1,001	0%
Final Capital Charge	1,001	0.2%
Capital Charge in excess of FAL	-	

Portfolio Diversification:

- Diversification at portfolio level.
- Set at √50%
- The parameters used are those in the Standard Formula.
- This assumes 50% correlation between Equity, Interest Rate and Spread Risk.

Business Diversification:

- Diversification applied due to dependency between market risk and insurance risk.
- Set at √50%

Members are required to put up capital where the capital loading is in excess of the difference between the Member's ECA and their FAL value.

Schedule 5

Table of Capital Loadings per asset class

Core/ Non-Core Assets	Asset Class	SAA Min	SAA Max	Capital Loading in excess of max	Post-capital requirement value per £100 investment
	Letters of Credit & Bank Guarantees[1]	0%	50%	N/A	100
Core Assets	**Cash:** overnight cash deposits, CP, CDs, term deposits, and money market funds	5%	100%	N/A	100
	Government Bonds: A- or higher, National savings certificates[1] **Securitisation backed by OECD countries:** with a credit rating of A- or higher		100%	N/A	100
	IG Corporate bonds, Government bonds and bond funds: BBB- or higher **Collateralised Securities:** AA- or higher	0%	80% Sub-IG max 40%	10%	102
Non-Core Assets **(max. aggregate 40% of aggregate capital)**	**Sub-IG Corporate Bonds, Government bonds and bond funds:** BB+ or lower & NR			25%	115
	Equities	0%	40%	40%	124
	Equity Funds	0%	40%	40%	124
	Alternatives (Funds)	0%	40%	50%	130
	Collateralised securities (A and BBB only) **and life products**[1]	0%	10%	30%	127
	Illiquid assets	0%	10%	50%	145

- Capital requirements will apply where the aggregate capital position is in breach of the Standard SAA.
- Capital requirements are based on the Lloyd's standard formula
- [1] Letters of credit and bank guarantees (CIC 79) are subject to all limits as imposed by Member Services.
- A breach of the non-core aggregate of 40% will result in a capital charge that is weighted to the non-core asset mix.

Schedule 6

Guidance on deposit drawdowns

A. Deposit drawdowns – Voluntary

a) A drawdown can be made to settle unsatisfied liabilities in respect of open or run-off years of account and/or unfunded losses in respect of closed years of account.

b) Any drawdown will utilise liquid assets designated by members first, where this is stock the member must instruct their broker to realise assets in readiness for the cash drawdown.

c) In respect of any payment required to be made out of any such assets for the purposes of sub-paragraph a):

i. the Council may at is discretion realise, drawdown on or disperse such assets in any order and at any time and waive the need for compliance with any formalities in relation thereto;

ii. any financial institution which has issued any guarantee or letter of credit which forms any part of such assets can make payments pursuant to any such guarantee or letter of credit without the need for compliance by Lloyd's, any members' agent or that financial institution with any formalities provided for in any such guarantee or letter of credit, any trust deed or any relevant agreement.

iii. the amount realised from any realisation or drawdown of any such assets is at the risk of the member/third party capital provider and Lloyd's shall not be responsible, or have any liability, for any loss or damage arising from any such realisation or drawdown, including its timing.

d) The member's Lloyd's deposit cannot be regarded as a current account for the funding of losses and/or cash calls. A request for a voluntary release will be dealt with as expeditiously as possible but without any liability on Lloyd's part for any interest or other expense incurred by the member after the date of the request.

B. Deposit drawdowns – Compulsory

a) Where there are insufficient assets in respect of unfunded losses in the PTF of a member to meet their Lloyd's obligations, and/or where a member has sustained a loss on an open or run-off or closed underwriting account which has not been met, the Council may (in the absence of a voluntary drawdown) consider and if appropriate give effect to a compulsory drawdown. For non-DCPs, the member's members' agent would be required to submit a compulsory drawdown request; for DCPs, the request should be made by the relevant managing agent.