

Market Bulletin

Ref: Y5421

Title	Letter of Credit Eligibility Update
Purpose	To inform the Market of changes of criteria for holding Letters of Credit in Funds at Lloyd's
Type	Scheduled for 10 th January 2024
From	Burkhard Keese Chief Financial Officer
Date	10 th January 2024
Deadline	There is a period of 30 UK business days to comply with this policy

Related links

Introduction

Lloyd's has recently taken a number of steps to improve its credit and solvency risk framework applying to banks and financial institutions. The framework encompasses detailed counterparty credit assessment which are also a key regulatory requirement and form part of Lloyd's application for approval of Ancillary Own Funds. One of the improvements is to better manage Lloyd's exposure to individual counterparties. Letters of Credit ("LOC") present the most material exposure to Lloyd's and we have therefore adopted a number of overarching rules as a way to help mitigate this risk.

Exposures to Counterparties

The limits below relating to LOC exposure for Funds at Lloyd's (FAL) will now be applied to banks with the following bank long-term credit ratings.

Long Term Rating	Individual Concentration Limit
AA- and Above	£750m
A+ or A	£600m
A- (Stable or Above)	£350m

These limits may change over time in line with aggregate LOC exposure.

Rating Criteria

Banks long-term rating must be A- Stable and above by each of Moody's, S&P and Fitch (where a rating exists). Lloyd's credit assessments encompass many other factors when determining bank creditworthiness and willingness to pay when required, and even if a bank meets the rating criteria and other acceptability criteria, they may still be deemed as an unsuitable counterparty. Additionally, Lloyd's monitors the entire portfolio of LOCs and takes into consideration geographic concentrations and aggregate limits of credit ratings.

A- Negative Outlook

If a counterparty is moved to an 'A-' negative outlook, by any of Moody's, S&P and Fitch, any member who holds an LOC will have **thirty days** to replace the Letter of Credit with an alternative acceptable asset. Lloyd's will follow the process below:

- Lloyd's will serve the member 30 days' notice to replace the LOC with an alternative acceptable asset.
- If after 30 days the LOC has not been replaced, Lloyd's will make a claim against the LOC.

Summary

These steps have been made to increase the credit profile of Funds at Lloyd's whilst enabling the Market to continue to grow. I trust the above information is clear, however if you require any clarification please contact Client-Gateway@lloyds.com.