



South African Reserve Bank

Prudential Authority

Prudential Standard FSL 2

Valuation of, and limitations on, assets held as security by Lloyd's

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the requirements that Lloyd's must adhere to when valuing assets held as security in the Lloyd's trust ("trust assets"), particularly for items where the valuation differs from those used for general financial reporting purposes.

This Standard also sets out the limitations on the type and spread of assets that may be held as trust assets. This Standard also sets out under which circumstances approvals relating to trust assets are required from the Prudential Authority.

The responsibility for ensuring that the valuation and composition of trust assets meets the requirements of this Standard rests with Lloyd's of London and its representative in South Africa.

Table of Contents

1. Application.....	1
2. Roles and Responsibilities.....	1
3. Commencement and Transition Provisions	2
4. Valuation of Assets.....	2
5. Investment Limitation Requirements.....	2
6. Location of Assets	3

1. Application

- 1.1. This Standard applies to Lloyd's in respect of insurance business conducted by Lloyd's underwriters in South Africa.¹
- 1.2. Unless otherwise indicated, all references to "insurer" in any other Standard referred to in this Standard can be read as a reference to Lloyd's.

2. Roles and Responsibilities

- 2.1. Lloyd's of London and its representative in South Africa are ultimately responsible for ensuring that the valuation of assets complies with the principles and requirements set out in this Standard. Lloyd's must ensure that it has in place the necessary resources, systems, procedures and controls to meet the requirements of this Standard on an ongoing basis.

¹ "insurance business conducted by Lloyd's underwriters in South Africa" means:

- All risks of South African policyholders underwritten by Lloyd's underwriters irrespective of where the risks are located (includes direct placements or placements through a South African binder holder); and
- All South African risks underwritten by Lloyd's underwriters irrespective of who the policyholder is.

- 2.2. The auditor appointed by Lloyd's under section 32 of the Insurance Act, 2017 (the Act) must provide assurance to Lloyd's and the Prudential Authority that the valuation of the security held in the trust complies with the requirements of this Standard. The auditor must report to Lloyd's, the representative and the Prudential Authority any matters identified during the performance of its responsibilities that may cause Lloyd's not to comply with the requirements of this Standard.
- 2.3. The roles and responsibilities of the representative of Lloyd's are described in more detail in the Governance and Operational Standards for Lloyd's (GOL 1).

3. Commencement and Transition Provisions

- 3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

4. Valuation of Assets

- 4.1. Trust assets must be valued in accordance with the general principles for the valuation of assets that are set out in section 4 of Prudential Standard FSI 2 (Valuation of Assets, Liabilities and Eligible Own Funds).

5. Investment Limitation Requirements

- 5.1. Eligible trust assets are limited to the following asset classes:
 - a) Cash and cash equivalents;²
 - b) Investment funds limited to money market funds;³
 - c) Securities issued or guaranteed in South African Rand by the government of South Africa; and
 - d) Corporate bonds with a credit quality step that is no more than 2 steps lower than the equivalent government bond.
- 5.2. Any deviation from the limitations in section 5.1 above must be approved by the Prudential Authority.
- 5.3. For investment in asset classes included in section 5.1 above other than those in section 5.1c), recognition of assets in any one institution will be limited as applicable, as set out in the table in section 5.6 below, for the purpose of determining eligible trust assets.
- 5.4. The determination of the threshold percentages in the table in section 5.6 below relies on the assignment of credit ratings to issuers or instruments. The basis on which credit ratings are assigned in this Standard is through credit quality steps, which reflect long term historic probabilities of default, rather than external credit ratings. The use of credit quality steps allows for different external and internal ratings to be used in a consistent manner.

² Cash and cash equivalents are defined in the Complementary Identification Code ("CIC") table.

³ Money market funds are defined in the Complementary Identification Code ("CIC") table.

- 5.5. Where Lloyd's relies on external ratings to assign an issuer or an instrument to the appropriate credit quality step and there is more than one external rating available, the historic default rates associated with each rating category must be assessed in order to assign the issuer or the instrument to the most appropriate credit quality step.
- 5.6. The threshold percentages of exposure to an issuer or entity, as applicable are given in the table below:

Credit quality step	<i>Threshold</i> %
1 to 4	50%
5 to 13	25%
Unrated or lower rated	0%

- 5.7. The thresholds in section 5.6 above may be adjusted with the prior approval of the Prudential Authority.

6. Location of Assets

- 6.1. The trust assets must be held in South Africa.