

Guidance: Transfer of Interests in Lloyd's Corporate Members

20 July 2017

1. Introduction

1.1 This Guidance note is aimed at those who may be considering acquiring or disposing of an interest in a Lloyd's Corporate Member where they are not members of Lloyd's and have not engaged a members' agent or another suitably qualified professional with detailed experience and knowledge of the Lloyd's market.

1.2 **Lloyd's strongly recommends that you do engage a members' agent or another suitably qualified professional adviser before proceeding.**

1.3 The members' agents contact details are as follows:

Alpha Insurance Analysts
107 Fenchurch Street
London
EC3M 5JF
+44 (0)20 7767 3420
www.aianalysts.com

Argenta Private Capital
70 Gracechurch Street
London
EC3V 0XL
+44 (0)20 7825 7200
www.argentagroup.com

Hampden Agencies
85 Gracechurch Street
London
EC3V 0AA
+44 (0)20 7863 6500
www.hpcgroup.co.uk/hampden-lloyds-members-agency/hampden-agencies-ltd

1.5 This guidance is no substitute for the advice and assistance that a members' agent or another suitably qualified professional can provide. **In particular, Lloyd's accepts no liability to you for the content of this guidance or for any reliance you may place on it.**

- 1.6 The guidance has been provided in order that you can understand –
- a. why the advice and assistance of a members' agent or another suitably qualified professional should be sought; and
 - b. that any change of control of a Lloyd's corporate member requires Lloyd's consent and cannot take effect until that consent has been given.

2. Why the advice and assistance of a members' agent or another suitably qualified professional should be sought

- 2.1 Those seeking to acquire or dispose of interests in corporate members need to be aware that the valuation of the assets and liabilities of a Lloyd's corporate member is complex and requires careful consideration of a wide range of issues. Some of these issues are set out below but this is not intended to be an exhaustive list. You should always have careful regard to the particular circumstances of the acquisition of a specific corporate member.
- a. A corporate member can be either a company, Scottish limited partnership or a limited liability partnership especially formed to underwrite at Lloyd's. There are a variety of reasons why individuals prefer one form of vehicle over another, the most common one being tax considerations. You will need to consider which form of member best meets your individual needs;
 - b. When you acquire a corporate member which is currently underwriting at Lloyd's, you are not only acquiring the corporate member's prospective rights to participate on specific syndicates but also acquiring the underwriting liabilities of that member in relation to its open years of account. This means that the member could either receive profits or be required to pay for losses arising from its underwriting at Lloyd's. It is important that those acquiring a corporate member also fully understand that underwriting insurance business is high risk. In addition, the corporate member may have other liabilities (for example, tax liabilities) which will need to be taken into account;

Analysing the value of the prospective rights of the member to participate on specific syndicates requires knowledge and an understanding of how the syndicates are managed by the relevant Lloyd's managing agents and of their syndicate business plans which have been agreed with Lloyd's. Regard also needs to be given to the historic auction prices (if any) of the syndicate capacity held by the corporate member. It is important that those acquiring a corporate member understand that it is difficult to accurately assess on a particular date the value of the prospective rights of the member to participate on specific syndicates as the only opportunity to definitively establish the value is when such

rights are sold in the Lloyd's auctions. The auctions take place on an annual basis in September and October. There is also a risk that circumstances may subsequently arise after such rights have been acquired which may detrimentally affect the value of some or all of those rights;

In order to assess the extent of the liabilities of the member and ascertain the value of the interest to be acquired, due diligence should be carried out on a corporate member prior to any transfer taking place. This due diligence will assist you in determining what you are prepared to offer by way of consideration to the person disposing of the interest in the member. You should consider engaging a members' agent or professional adviser (for example, an accountant) to assist you with this due diligence and valuation process;

- c. Ownership of a corporate member brings with it a range of financial and regulatory obligations. In particular, the member will be required to lodge capital with Lloyd's to support its underwriting. You will need to understand the basis on which this capital is provided to Lloyd's, what forms of capital are eligible and the circumstances in which that capital will be used to meet the member's liabilities. It is essential that you have a full understanding of these obligations prior to acquiring a member and are able to assess what will best meet your individual needs;
- d. Where you are disposing of your interest in a corporate member, you may have your own contacts for individuals who wish to acquire a corporate member. However, it also may be in your best interests to also consider using a members' agent or professional adviser in order to broaden the pool of potentially interested parties;
- e. Effecting the transfer of an interest in a corporate member from the seller to the buyer will require the parties to enter into a number of legal agreements. The parties will therefore need to instruct legal advisers to assist them in the preparation of these documents and to ensure that the documents accurately reflect the agreement of the parties.

The matters set out above require knowledge of the Lloyd's market as well as an understanding of the complex tax, legal and regulatory issues which may arise from the transfer of a corporate member. For this reason, Lloyd's strongly recommends that you engage a members' agent or other professional adviser to provide this knowledge and experience and guide you through the process of acquiring a member.

3. Lloyd's change of control

Those seeking to acquire an interest in a corporate member should note that there are Lloyd's requirements for changes of control in corporate members. In accordance with paragraph 12 of the Membership Byelaw –

“No person shall, without the prior written consent of the Council, be a controller of a corporate member”

Lloyd’s uses the definition of “controller” for this purpose as set out in section 422 of the Financial Services and Markets Act 2000. Accordingly, members are required to obtain Lloyd’s approval prior to any change of control.

Those seeking to buy an interest in a corporate member should ensure that they get confirmation from the relevant member that this consent has been sought from Lloyd’s as part of the transaction. They should also be aware that Lloyd’s will also ask new controllers to sign a declaration confirming that they have read this Guidance.

In the event that Lloyd’s prior approval to the change of control is not obtained, Lloyd’s may withdraw the corporate member’s permission to underwrite.

4. Further information about Lloyd’s

More information about Lloyd’s can be found on our website –

www.lloyds.com/Lloyds/Investor-Relations/Lloyds-overview

If you have any questions about this Guidance, please contact Paul Thornton of Lloyd’s Legal and Compliance Department (+44 (0) 207 327 6281