

FROM: Andrew Moss, Director Finance, Risk Management and Operations
LOCATION: G5
EXTENSION: 6711
DATE: 23 April 2003
REFERENCE: Y3039
SUBJECT: **1. INDIVIDUAL MEMBERSHIP and
2. TAX CONSEQUENCES OF CONVERSIONS**
ATTACHMENTS: None
ACTION POINTS: To note
DEADLINE: None

1. Introduction

- 1.1 This bulletin announces that individuals are ineligible to become new unlimited liability underwriting members of Lloyd's. Existing individual underwriting members remain free to continue to underwrite as such with unlimited liability.
- 1.2 It also announces that the Government is aiming to introduce measures in next year's Finance Bill (i.e. Finance Bill 2004) to remove tax barriers to individual members converting to limited liability underwriting.

2. Detail

- 2.1 One of the proposals contained in the Chairman's Strategy Group Consultation Document was that no new unlimited liability members should be admitted to Lloyd's. The Document stated that:

"Initial consultation revealed that in recent years members' agents have not actively recruited new unlimited members and they have no plans to do so in the future. Members' agents have noted that individuals with the wealth to become members are no longer prepared to take on unlimited liability. As a consequence, there is general acceptance that it is appropriate to stop admitting new unlimited members of Lloyd's from 1 January 2003."

- 2.2 The proposals set out in the Consultation Document were approved by members at the EGM held on 12 September. On a capacity weighted basis 80% of the votes were in favour of the proposals.
- 2.3 The Document also made it clear that although there was little support for mandatory conversion of unlimited liability members, Lloyd's should concentrate its efforts on removing the obstacles that inhibit voluntary conversion. The inability for individual members to carry forward unused tax losses against income derived from limited liability underwriting was identified as a major disincentive to convert. There were also capital gains tax issues. Lloyd's therefore entered into discussions with HM Treasury and the Inland Revenue with a view to seeking a change in tax law to facilitate the conversion of unlimited liability members.
- 2.4 On Budget Day the Government announced that it intends to bring forward legislation in next year's Finance Bill (Finance Bill 2004) with a view to removing these tax obstacles. Lloyd's welcomes this announcement and is continuing its discussions with Government to develop the necessary legislation.
- 2.5 Accordingly, the Council has now amended the Membership Byelaw to provide that individuals are ineligible to become new underwriting members of Lloyd's although they can underwrite through corporate members and Scottish limited partnerships.
- 2.6 Existing individual underwriting members remain free to continue to underwrite with unlimited liability.
- 2.7 Members who have previously underwritten at Lloyd's and have remained at all times as non-underwriting members may resume underwriting with unlimited liability. Individuals also remain eligible to become non-underwriting working members for the purposes of Council elections.

3. Readership and Contact Details

- 3.1 This bulletin is being sent to members' agents, managing agents and Lloyd's market associations.
- 3.2 If you have any queries about membership, please contact Steve Quiddington on 020 7327 6261. If you have any queries on tax and conversion, please contact David Clissitt on 020 7327 5228.

Andrew Moss