

Market Bulletin

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Attached to this bulletin is a report produced by Capacity Markets which summarises activity in the 2003 capacity transfer season, including the auctions and bilateral arrangements, capacity offers, conversion and minority buy-outs. The report is being sent for information to all underwriting agents, corporate members, recognised accountants and market associations, including the ALM.

If you have any queries about the contents of the report, please contact Jonathan Rees (telephone 020 7327 6225, e-mail jonathan.rees@lloyds.com) or Richard Miller (telephone 020 7327 5897, e-mail richard.a.miller@lloyds.com).

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CAPACITY TRANSFER IN 2003

1 Introduction

1.1 This report summarises activity in the 2003 capacity transfer season including:

- the auctions;
- bilateral arrangements;
- capacity offers;
- minority buy-outs; and
- conversion schemes.

1.2 The general approach adopted in 2003 by Capacity Markets was, as in previous years, to make as few changes as necessary to the rules governing capacity transfer, on the basis that the arrangements now in place since 1999 are both effective and well understood. A few changes of an administrative nature were made, however, after appropriate consultation with the market and the FSA.

1.3 The appendices to this report present tabular and graphical information on the transfer of capacity as follows:

Appendix 1	Capacity transfer 2000 to 2003
Appendix 2	Summary of auction activity 1998 to 2003
Appendix 3	Offer summary
Appendix 4	Capacity offers in 2003
Appendix 5	Minority buy-out applications in 2003

The data in this report has been compiled with the assistance of the Members' Service Unit.

2 Chairman's Strategy Group and Capacity Transfer

2.1 To the extent appropriate, the proposals made by the Chairman's Strategy Group (CSG) and approved by the membership in 2002 with regard to capacity transfer were implemented in 2003. In particular:

- the Capacity Transfer Panel assumed responsibilities in respect of capacity offers and minority buy-outs; and
- discussions took place with two managing agents regarding the use of limited tenancy capacity in 2004 although, in the event, no new limited tenancy capacity was created.

Although new methods of structuring capacity offers could have been utilised in 2003 under the CSG proposals, the only capacity offers made during the year were conventionally structured for cash consideration.

3 Auction Timetable

3.1 Following consultation with market participants and other interested parties, it was agreed that the auction “season” for 2003 should be three auctions scheduled as follows:

Auction 1	9 and 10 September
Auction 2	23 and 24 September
Auction 3	7 and 8 October

This broadly followed the 2002 precedent of a season of three auctions but the auctions in 2003 were held two weeks apart and started one week earlier than in 2002.

4 Auctions and Bilateral Transactions

Activity in 2003

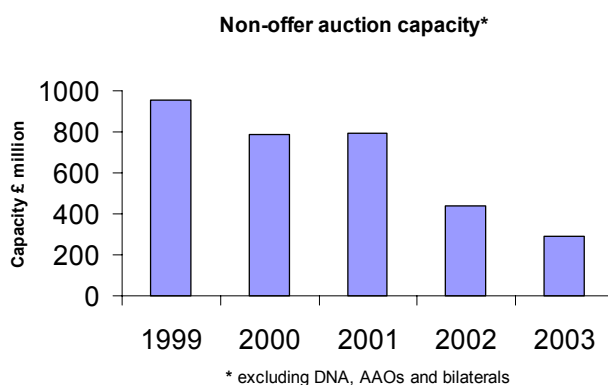
4.1 The volume of capacity transferred in 2003 was significantly lower than in previous years. In 2003 a total of £294 million of capacity transferred through the auction compared with £467 million in 2002 (see Appendix 1). Set out in Appendix 2 is a graph showing the capacity subscribed for, tendered and allocated at each auction over the past six years.

4.2 Only one bilateral arrangement took place in 2003. As in 2002, there was no mandatory interaction with the auction. In 2003 a shortened bilateral timetable, of the type first used in 2002, was adopted for all auctions.

4.3 In the Deceased Names’ Auction (DNA), held on 9 and 10 December 2003, £6 million of capacity was transferred. This included some £4.5 million of pre-emption entitlements on syndicate 958, in respect of which permission had been given for dealings to take place in the DNA.

4.4 In 2000 Council decided to allow estates of deceased members that had been unable to make use of the DNA to achieve value, provided the arrangements to transfer the capacity were made by 31 December in the relevant year. In 2003, as in 2002, this facility was not used.

4.5 2003 saw a significant decline in the capacity transferred through the auctions other than by acceptance of announced auction offers (AAOs). Of the £294m of capacity transferred through the auctions, £1m was via AAOs and £293m was outside the AAOs (compared with £28m and £439m respectively in 2002). The reduction in AAO volume reflects to some extent the lower number of mandatory offers made in 2003 (compared with 2002).



5 Capacity Offers

- 5.1 The 2003 season produced two offers. One was a formal offer and the other an announced auction offer. The formal offer led to an application for a minority buy-out, which was unsuccessful. The announced auction offer received relatively few acceptances and consequently no minority buy-out application was made on the syndicate concerned.
- 5.2 Appendix 3 lists the syndicates that were the subject of an offer in 2003 and Appendix 4 gives further details of the offers made in 2003. Appendix 5 gives details of the minority buy-out application received in 2003.

Offer activity in 2004

- 5.3 In 2003 no obligations arose requiring managing agents or corporate members to make mandatory offers in 2004.

6 Conversion Schemes

- 6.1 No conversion schemes were promoted in 2003. A number of private arrangements took place and are included in the figures in Appendix 1.

Appendix 1

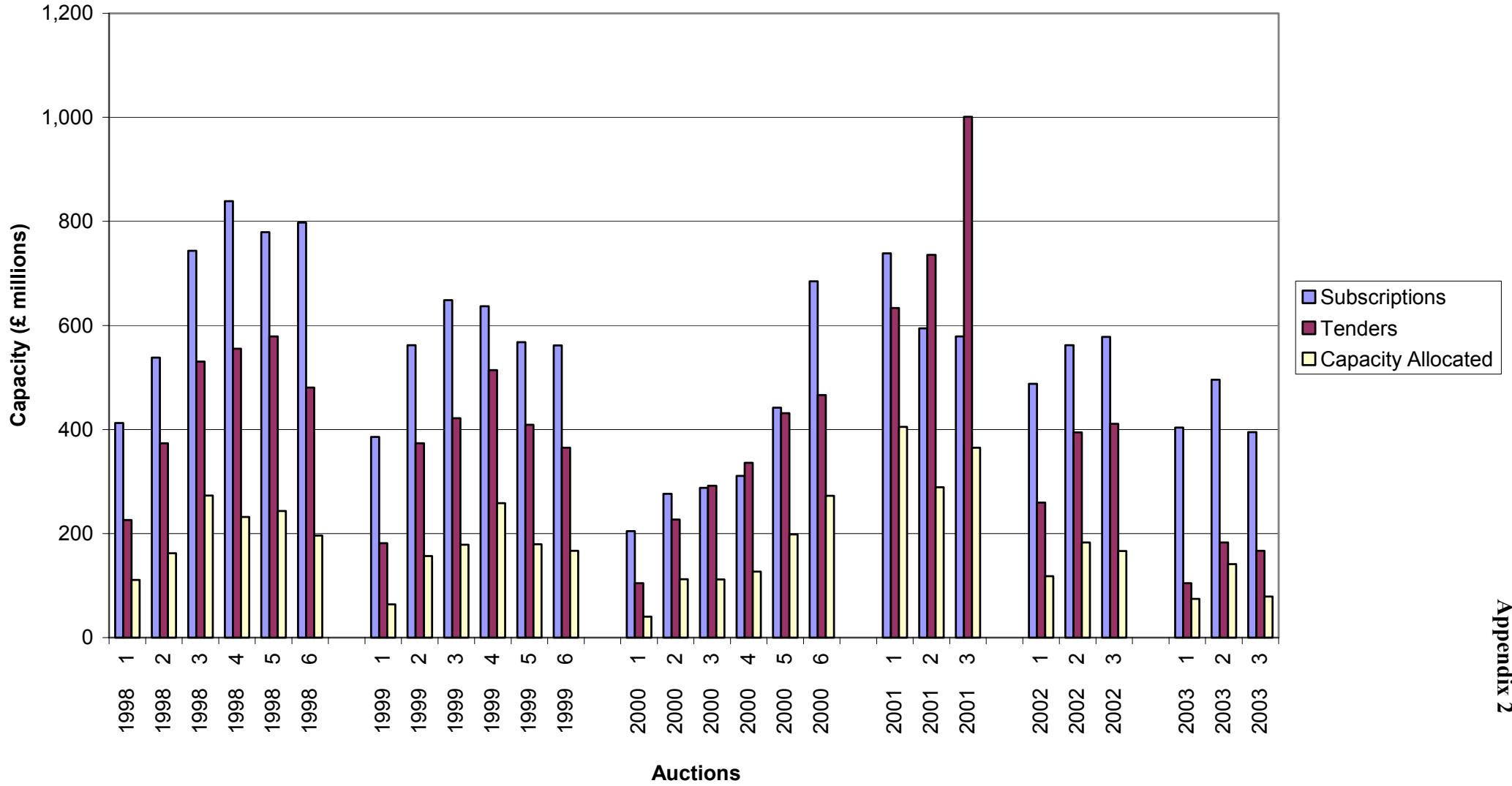
CAPACITY TRANSFER 2000 to 2003

<u>Transfer Summary</u>	2003 Capacity £m	2002 Capacity £m	2001 Capacity £m	2000 Capacity £m
Auction activity				
Announced auction offers (AAOs)	1	28	255	66
Auction (excluding DNA ¹ , AAOs & bilaterals)	293	439	792	790
Interaction with bilaterals	---	---	12	6
Total auction	<u>294</u>	<u>467</u>	<u>1,059</u>	<u>862</u>
Bilaterals (excluding interaction)	3	5	12	43
Total auction and bilaterals	<u>297</u>	<u>472</u>	<u>1,071</u>	<u>905</u>
Formal offers	31	286	---	11
Conversion	17	4	20	73
Total transferred	<u>345</u>	<u>762</u>	<u>1,091</u>	<u>989</u>

<u>Offer summary</u>	No.	2003 Capacity £m	No.	2002 Capacity £m	No.	2001 Capacity £m	No.	2000 Capacity £m
Voluntary	0	0	4	285	1	137	1	11
Mandatory	2	32	5	29	8	118	11	66
	<u>2</u>	<u>32</u>	<u>9</u>	<u>314</u>	<u>9</u>	<u>255</u>	<u>12</u>	<u>77</u>

¹ Capacity transferred through the DNA was: £6m in 2003, £27m in 2002; £4m in 2001; and £7m in 2000.

Summary of Auction Activity 1998 to 2003 (excluding Deceased Names Auctions)



OFFER SUMMARY

1. Mandatory offers deferred from 2002 and made during 2003

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
1007	SVB	Obligation satisfied by AAO in auction 2

2. Voluntary offers made in 2003

None

3. Mandatory offer obligations incurred and satisfied during 2003

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
1084	Chaucer	Obligation satisfied by formal offer made in September 2003

4. Mandatory offer obligations incurred during 2003 and deferred to 2004

None

5. Syndicates where the mandatory offer obligation has been waived by the members

None

CAPACITY OFFERS IN 2003

Offeror	Managing Agent	Syndicate	Offer price pence	Offer type Formal / AAO ¹	Auction(s) in which AAO took place	Projected 2004 stamp £m	Offeror's (and associates) capacity pre-offer ² % stamp	Amount under offer ³ £m	Capacity surrendered under the offer % of offer	Offeror's (and associates) capacity exclusively as a result of the offer % stamp
SVB	SVB	1007	0.7 ⁴	AAO	2	216	79.11	45.13	3.00	79.73
ALIT	Chaucer	1084	11.0	Formal		400	90.04 ⁵	39.87 ⁶	77.08	97.72 ⁷

¹ AAO: Announced Auction Offer.

² 'Associate' has the meaning given under Mandatory Offer Byelaw.

³ Figures adjusted for pre-emptions where appropriate.

⁴ 0.7p after pre-emption, 1.0p before pre-emption.

⁵ Of the 90.04% held by Chaucer and associates, 77.29% is held by subsidiaries of Chaucer plc and 12.75% by G E Frankona Capital Limited as associates of the Chaucer corporate members within the meaning of the Mandatory Offer Byelaw.

⁶ The offer was not extended to G E Frankona Capital Limited.

⁷ Of the 97.72% held by ALIT and associates following the offer, 84.97% is held by Chaucer plc subsidiaries and 12.75% is held by G E Frankona Capital Limited.

MINORITY BUY-OUT APPLICATIONS IN 2003

Managing Agent	Offeror	Syndicate	Buy-out price	Projected 2004 stamp	Capacity under managing agent's control pre-offer	Capacity acquired under the offer	Controlled capacity prior to buy-out application	Application successful
			pence	£m	% of stamp	% of offer	% of stamp	Yes / No
Chaucer	ALIT	1084	11.0	400	77.29 ¹	77.08 ²	85.05 ³	No

¹ Capacity held by managing agent and connected companies as defined under the Major Syndicate Transactions Byelaw.

² Offer was made to £39.87m of unaligned capacity and was not made in respect of £51.02m of capacity provided by G E Frankona Capital Limited.

³ Of the 14.95% not held by Chaucer, 12.75% is held by G E Frankona Capital Limited and 2.20% is held by other members.