

FROM: Head of Capacity Markets EXTN: 5897

DATE: 29 April 2005 REF: Y3552

SUBJECT: **TRANSFERS OF UNDERWRITING CAPACITY – CAPACITY MARKET RULES FOR 2005**

SUBJECT AREA(S): Rules and guidance relating to capacity auctions, bilateral transactions in capacity and capacity offers

ATTACHMENTS:

- Capacity Auctions and Bilateral Arrangements 2005 – Explanatory Guide (“the Guide”)
- Auction Rules 2005
- Bilateral Arrangements (2005) Rules
- Capacity Offer Rules 2005

ACTION POINTS: **For information**

Summary

The rules for the 2005 capacity transfer season, with the exception of the Conversion Rules, have now been finalised and are attached. Following consultation with the market, the rules remain substantially unchanged from those in force in 2004. Such changes as have been made, other than those of a purely administrative nature, are described below.

The Guide and the three sets of rules are attached to this bulletin. They may also be found on the capacity auctions website at: <http://www.lloyds.com/index.asp?ItemId=4233>.

The Conversion Rules for 2005 should be published shortly, under cover of a separate bulletin, once the final details of any changes to the rules have been agreed.

Capacity season timetable

The timetable governing the conduct of the auctions and bilateral arrangements in 2003 is set out in Appendix 1 of the Auction Rules. Tables of prescribed dates for capacity offers this year are set out in Appendix I of the Capacity Offer Rules.

Following consultation with the market the auctions in 2005 will be held as follows:

- Auction 1 6 & 7 September
- Auction 2 15 & 16 September
- Auction 3 27 & 28 September
- Fourth Auction 17 & 18 November

For further information on the 2005 timetable for the auctions, coming into line and related matters, see Market Bulletin Y3543, issued on 18 April 2005.

Auctions and bilateral arrangements

The main changes to the rules governing the auctions and bilateral arrangements this year are the revision of the auction timetable and consequential amendments. In addition the Guide contains two changes:

- paragraph 9.7 explains that the deadline for submitting disclosures to the Auction Office is noon on the penultimate working day before an auction starts; and
- paragraph 16.3 states that the “no trading rule” applies to transfers of capacity after the Fourth Auction, except that a member who would have been able to subscribe for capacity in the Fourth Auction will also be allowed to subscribe under the arrangements permitted after the Fourth Auction.

The arrangements introduced in 2004 for the Fourth Auction remain unchanged.

Capacity offer rules

No changes of substance have been made this year to the Capacity Offer Rules. The table of prescribed dates has been updated and similar changes made of a “housekeeping” nature.

Contacts

Enquiries about any of the rules attached to this bulletin should be addressed to Richard Miller on extension 5897 (e-mail richard.a.miller@lloyds.com) or Jonathan Rees on extension 6225 (e-mail jonathan.rees@lloyds.com).

Circulation

The bulletin is being sent to all underwriting agents, corporate advisers, direct corporate members and, for information, to the LMA and the ALM.

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Legal and Compliance

LLOYD'S

Capacity auctions and bilateral arrangements 2005

Explanatory Guide

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Summary of Important Auction Dates

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Summary of Important Auction Dates in 2005

<i>Date</i>	<i>Description</i>
Friday 22 July	Deadline for submitting Form A – Declaration by Issuer Part I – Details of Issuer Part II – Issuers’ Auction Funding Account Details Part III – Representations and Undertakings Part IV – Authorised Persons
Friday 5 August	Software for 2005 auction system available
Friday 5 August	Deadline for submitting Form D – List of Connected Persons
Tuesday 6 September	Auction 1 (Day One)
Thursday 15 September	Auction 2 (Day One)
Tuesday 27 September	Auction 3 (Day One)
Friday 7 October	Statements to be issued for Auctions 1-3
Tuesday 25 October	Debit Date for Auctions 1-3
Friday 28 October	Credit Date for Auctions 1-3
Thursday 17 November	Fourth Auction (Day One)
Tuesday 29 November	Statements to be issued for Fourth Auction
Monday 12 December	Debit Date for Fourth Auction
Thursday 15 December	Credit Date for Fourth Auction

EXPLANATORY GUIDE TO CAPACITY ALLOCATION BY AUCTION AND BILATERAL ARRANGEMENTS

1. Introduction

- 1.1 This guide has been designed to assist underwriting agents and other interested parties in understanding the capacity auction process and bilateral arrangements.
- 1.2 This guide is not intended to replace the formal Auction Rules nor the formal Bilateral Arrangement Rules and should therefore only be read in conjunction with those rules. The rules take precedence in all respects over this guide and, in the case of any inconsistency, it is the rules which prevail.
- 1.3 Parties who have reached an agreement to transfer not less than £250,000 of capacity may complete that agreement provided it is registered with the Auction Office as a bilateral arrangement and mandatory interaction with the auction, described in section 14 below, takes place.
- 1.4 Auction terminology used in this guide, is as follows:

Tenderer - a member offering to dispose of capacity

Tender order - an offer to dispose of capacity

Subscriber - a person offering to acquire capacity

Subscription order - an offer to acquire capacity

Subscriber's premium - the price a subscriber is willing to pay for each £1 of capacity he offers to acquire

Floor limit - the minimum price a tenderer is prepared to accept for each £1 of capacity he offers to dispose of

Premium - the price a successful subscriber pays for each £1 of capacity

Tender premium - the price a successful tenderer receives for each £1 of capacity disposed of.

- 1.5 Bilateral terminology used in this guide, is as follows:

Nominator – the bilateral party wishing to dispose of capacity on a syndicate

Nominee – the bilateral party wishing to acquire capacity on a syndicate

Bilateral Notice – the initial notification submitted to the Auction Office detailing the proposed transaction between the bilateral parties

Unsatisfied Bids – unsuccessful auction bids that could possibly interact with bilateral arrangements

Mandatory Interaction – the process whereby certain unsatisfied auction bids interact with bilateral arrangements

Bilateral Withdrawal Form – the form submitted to the Auction Office where the interaction with unsatisfied auction bids is 15% or more of the original bilateral arrangement and either party does not wish to continue with the transaction

Bilateral Revision Form – the form submitted to the Auction Office where interaction has taken place and the parties to the bilateral arrangement wish to complete their arrangement up to, but not exceeding, the amount of capacity originally notified to the Auction Office.

- 1.6 If, having read this guide, the Auction Rules and the Bilateral Rules, agents or other Issuers have any queries on the auction process, or the process for bilateral arrangements, they should contact the Auction Office on Lloyd's extension 2486.

2. Outline of the auction

- 2.1 Lloyd's recognises that the auction process has been developed within a unique legal structure and therefore has certain limitations, some of which are identified in the Appendix. Members' agents must ensure that such limitations and potential risk factors are communicated to those intending to participate in the auction process.
- 2.2 Through the auction process participants on syndicates in 2005 may be able to realise any value attaching to the disposal of all or part of their capacity for the 2006 year of account. The auction may also enable participants to gain access to syndicates on which capacity is available. Subscribers who are successful in acquiring capacity will pay the various subscriber premiums stipulated in their subscription orders. For each syndicate the successful subscriber premiums are then added together and divided by the amount of capacity matched on the syndicate - this establishes an average tender premium which is paid to all persons who successfully tendered capacity on the syndicate.
- 2.3 The auctions to be held in 2005 deal only with the entitlement to participate on the 2006 year of account. Earlier years of account are not affected.
- 2.4 The auction process will be overseen by the Head of Capacity Markets, Richard Miller, who is known for these purposes as the Auction Official. The Auction Official is responsible for the conduct of all auctions and the interpretation of the Auction Rules. The Members' Services Unit will undertake the day-to-day administration of each auction and bilateral arrangement.

3. Participants, Issuers and qualification procedures

- 3.1 Participation as a tenderer or subscriber in the auction process is generally limited to members, candidates for membership and MAPA operators. All subscribers for capacity on a syndicate must be in compliance with requirements relating to solvency and funds at Lloyd's, and must have complied with any cash calls. Candidates for membership must be able to demonstrate that they have sufficient funds available to meet the requirements set by the Council of Lloyd's to be permitted to underwrite in 2006 up to the total amount of capacity acquired in the 2005 auctions.
- 3.2 Members of syndicates for the 2005 year of account may offer to dispose of their capacity irrespective of their compliance with solvency and other requirements.
- 3.3 If a member dies during 2005, his capacity, including any acquired in 2005 prior to his demise, may be offered for disposal by any members' agent acting on behalf of his estate. See sections 15 and 16 below for the arrangements for Names who die during the last few months of the year.
- 3.4 Issuers are the only persons permitted to submit orders on behalf of participants in an auction. The following may register as Issuers:
- ◆ members' agents;

- ◆ certain corporate members and corporate candidates;
- ◆ managing agents.

NB Those wishing to act as Issuers in 2005 must register by completing Form A which is set out at the end of the Auction Rules. This must be returned to the Auction Office by Friday 22 July 2005.

- 3.5 Capacity to be acquired pursuant to subscription orders issued on behalf of candidate corporate members, taken on its own or with other capacity already acquired in an auction earlier in 2005, cannot exceed three percent of the latest estimated syndicate stamp figure for 2006 unless the relevant managing agent gives its prior consent by signing and submitting Part I of Form C to the Auction Office.

4. Submission of orders

- 4.1 Orders to subscribe for or tender capacity will only be accepted electronically in the required form.
- 4.2 A subscription order must specify the amount which the subscriber is willing to pay in respect of each £1 of subscribed capacity (i.e. the subscriber premium), and whether the order should roll forward if unsatisfied either in whole or part.
- 4.3 A tender order must specify the minimum premium which the tenderer is willing to receive in respect of each £1 of tendered capacity (i.e. the floor limit), and whether the order should roll forward if unsatisfied either in whole or part.
- 4.4 A Windows application for systems will be available, free of charge, from the Auction Office to all Issuers from 5 August 2004. This will enable Issuers to produce ADEG formatted files containing orders which can be sent electronically to the Auction Office via MarketMail. The address is LLOYDS-AUCTIONOFFICE. Key points are as follows:
- ◆ each order must relate to a single subscriber or tenderer and syndicate;
 - ◆ each subscription/tender order must be in the Lloyd's required format;
 - ◆ orders may only specify capacity in multiples of £1; and
 - ◆ the subscriber's premium and floor limit must be in multiples of 0.1p per £1 of capacity.
- 4.5 Issuers will be provided with the software necessary to enable them to enter orders and produce the necessary bid files. A control sheet, which is produced by the auction software issued by Lloyd's when a bid file is created, should be faxed on the number notified to the Issuer by the Auction Office. The fax lines will be open for this purpose from 9am to 1pm on Day One and from 10am to 2pm on Day Two of the auction. Each faxed sheet will be receipted electronically using the MarketMail service. The receipt will confirm the time at which the order was received which will

determine the priority of the order (see 5.2 below). The Issuer must send the corresponding file to the Auction Office using MarketMail between 9am and 2pm on Day One and 10am and 3pm on Day Two of the auction for the orders to be entered into the auction. The receipt of files will be acknowledged via the MarketMail system.

- 4.6 Prior to each of the first three auctions a list of all the pre- and de-emptions that have been announced and their status in relation to necessary consents will be published by the Auction Office via the Auction Newsletter. Pre- or de-emptions will be finalised later in the season as an integral part of the 2005 business plan approval process. The relevant capacity to be entered in the orders for auctions 1 to 3 will be the underwriting capacity for the 2005 year of account i.e. the 2005 underwriting capacity before making any adjustment for pre-emption or de-emption (thus a £10,000 2005 participation with a 10% proposed pre-emption for 2006 should be entered as £10,000 in the auction).
- 4.7 Prior to the fourth auction, MSU will advise Issuers by an electronic file of any syndicate whose pre or de-emption has been approved. The file will clearly indicate the pre/de-emption percentage to be applied. The Auction/Stamp system will also reflect these changes. Consequently, capacity to be entered in the fourth auction will be the 2005 base capacity adjusted for the pre/de-emption approved in the business planning process. Thus a £10,000 2005 participation with a 10% pre-emption right approved in the business plan approval process should be entered as £11,000 in the fourth auction (subject to the relevant capacity being eligible for the fourth auction).
- 4.8 An order that has been submitted can be revised by a revision notice following the procedure outlined in 4.5 above. However, the revision notice can only be used to "improve" a previous order (i.e. to specify a higher subscriber's premium for a subscription order or a lower floor limit for a tender order). A revision notice cancels the existing order and creates a new order. The priority of the original order will be lost (see 5.2 below). A fee will be payable for each revision of a subscription order, but not a tender order.
- 4.9 When submitting a tender or subscription order, Issuers will have the option of allowing wholly or partially unsuccessful orders to roll over automatically to the next auction (up to and including, but not beyond, Auction 3), to the extent they remain unsatisfied after any mandatory interaction with any proposed bilateral arrangement - see 14 below. Unless the option to roll over is chosen, and assuming no interaction with a proposed bilateral arrangement, unmatched orders will have to be re-submitted into another auction.
- 4.10 To withdraw an order that has been marked to roll over from a previous auction, a withdrawal notice should be submitted by 2pm on Day One of an auction (again, following the procedure outlined in 4.5 above). A fee will be payable for each withdrawal of a subscription order, but not a tender order.
- 4.11 "Trading" in capacity is not permitted. Generally, persons may not, therefore, acquire or dispose of capacity in one auction and then attempt to reverse the transaction, in whole or in part, in a subsequent auction. There are, however, limited exceptions to this, for example, in the case of mandatory offers, where someone has died, where capacity is eligible to be acquired or disposed of in the Fourth Auction to be held in November 2005, and in certain other circumstances where the Auction Official has

given permission. When deciding whether or not something will amount to "trading", account will be taken of capacity acquired or disposed of through bilateral arrangements. However, no account will be taken, when considering a member's bespoke transactions, of any transactions effected by a MAPA in which the member participates.

- 4.12 If an error occurs the Issuer should contact the Auction Office to seek consent for the mistake to be rectified through the auction - see section 12 below.

5. The capacity allocation process

- 5.1 The allocation process matches the maximum number of transactions provided that successful subscribers do not pay more than the subscription premium they stated and that successful tenderers receive at least the floor limit they specified.

- 5.2 Fundamentals underlying the process are as follows:

- ◆ in respect of subscription orders, the subscription order specifying the highest subscriber premium will be satisfied first;
- ◆ in respect of tender orders, the tender order specifying the lowest floor limit will be satisfied first;
- ◆ subscription orders offering to pay the same subscriber premium are then, between themselves, ranked by time of receipt with the order having the earliest time of receipt being ranked first;
- ◆ tender orders offering to receive the same floor limit are then, between themselves, ranked by time of receipt with the order having the earliest time of receipt being ranked first;
- ◆ the time of receipt of revision orders, rather than the time of the original order, will be relevant for the matching process;
- ◆ successful subscribers will pay the subscriber premium inserted in their order; and
- ◆ successful tenderers will receive the average tender premium per £ of capacity matched – to calculate the average tender premium, the proceeds paid by the successful subscribers are added together and divided by the amount of capacity matched on the syndicate.

- 5.3 The auction process provides for the maximum amount of capacity to be matched on each syndicate and tenderers all receive the same tender premium. Subscribers should note that the premium they pay for capacity could be higher or lower than the tender premium received by members disposing of capacity.

- 5.4 Issuers need to consider carefully the floor price they place on tender orders. Factors to be taken into account include:

- ◆ A bid with a lower floor price will be ranked before one with a higher floor price, i.e. it will rank earlier in the matching process.
- ◆ If a tender is not matched in the auction it may, depending on its floor price, interact with a bilateral transaction in which case the amount receivable by the tenderer will be determined by the price of the bilateral arrangement, not the auction. However, the price will not be lower than the floor limit stipulated by the tenderer.
- ◆ If a capacity offer has been made, the auction price may be lower than the price of the offer. Auction subscribers may include the maker of the offer since, in normal circumstances, the offeror is permitted to enter the auction and acquire capacity at a price equal to or below the offer price.

6. MAPAs

Leaving a MAPA to underwrite on a bespoke basis

- 6.1 A member of a MAPA who wishes to leave the MAPA to underwrite on a bespoke basis the following year should do so by informing the MAPA operator as early in the year as possible. After the start of the auctions, the MAPA operator may start to make adjustments to the MAPA portfolio through the auction process which may reduce the capacity that the member can take with him. Having left the MAPA, the member may choose to retain some or all of his former capacity on a bespoke basis or instruct his members' agent to tender or subscribe for capacity through the auctions.

Leaving or decreasing a share of a MAPA

- 6.2 A member of a MAPA who wishes to leave a MAPA and cease underwriting or reduce his MAPA commitment may derive value for his MAPA capacity by authorising the MAPA operator to tender the underlying capacity through the auction process. However, if the member is continuing to underwrite on a bespoke basis he may wish to retain certain of his MAPA capacity.

Joining or increasing a share of a MAPA

- 6.3 In respect of a member wishing to join a MAPA, the MAPA operator can accept the member's existing capacity or acquire capacity in the auction on behalf of the member (or a combination of both) and then admit the member to the MAPA with that capacity. The MAPA operator must satisfy himself that the interests of other members of the MAPA are not prejudiced. Similar considerations will apply to a member increasing his participation in a MAPA.

Adjustment of MAPA Portfolio

- 6.3 Subject to the restrictions set out in 7.4 below, a MAPA operator may participate in the auction on behalf of its MAPA members. Funding for the difference, if any, between the value of capacity to be acquired and the value of any capacity disposed of will however need to have been agreed with the MAPA members.

7. Position of members' agents

- 7.1 With effect from midnight on 30 November 2001, the activities of members' agents, when advising their members to become or continue or cease to be a member of a particular Lloyd's syndicate, came within the regulated activities under the Financial Services and Markets Act 2000.
- 7.2 Agents must observe their obligations to achieve the best result for each member both when advising members, administering their MAPA's and also when tendering or subscribing for capacity.
- 7.3 If a members' agent participates in an auction on behalf of a bespoke member, specific authority for all transactions must have been obtained from the member concerned. This authority must include the instructions/authorisations contained in Form B.
- 7.4 The rules only allow a MAPA operator to participate in an auction on behalf of his MAPA members if he does not incur a net expenditure or has the agreement of the MAPA members to incur a net expenditure. Form E suggests some matters which a MAPA operator may wish to include in such an agreement.
- 7.5 A members' agent must assure itself at all times that a participant in the auction is able to meet all obligations arising from the process. A members' agent will be responsible for all amounts payable by the participants for whom it acts in respect of auction fees and payments for capacity acquired.
- 7.6 Members' agents proposing to submit orders must ensure that they have taken proper account of the information available in the market.
- 7.7 Members' agents should be alert to "trading" as this is not permitted (see 4.11 above). Where a member underwrites through two or more members' agents, each agent should make enquiries of the other if the member asks them to act in an auction in respect of a syndicate normally underwritten through the other agent. Special care is needed when a member changes members' agent.
- 7.8 A members' agent must ensure that any fee it proposes to charge its members for the execution of orders on their behalf is reasonable and does not discriminate unfairly between categories of member. Agents will need to take advice on their ability to recover any proposed fees under their agency agreements and should, prior to the first auction, inform all their members of any fees that will be charged.

8. Position of managing agents

- 8.1 With effect from midnight on 30 November 2001, the activities of managing agents in relation to the auctions came within the regulated activities under the Financial Services and Markets Act 2000.
- 8.2 Under Lloyd's existing requirements, managing agents are required to submit syndicate information to supporting members' agents and direct corporate members, usually in the form of business forecasts and plans, so they may make decisions about participating in the syndicate for the next year. Nothing in the auction process alters this position nor will managing agents be obliged to disseminate syndicate business forecasts to a wider audience.

9. Market conduct and disclosure of Relevant Information

Relevant Information

- 9.1 Anyone in possession of Relevant Information, which has not been made publicly available, in respect of a particular syndicate is prohibited from participating in an auction, or from entering into a bilateral arrangement, in respect of that syndicate. An Issuer in this position is unable to act as an Issuer for anybody in respect of capacity on the relevant syndicate.
- 9.2 Relevant Information for auction and bilateral purposes is defined in Auction Rule 20(8) as being, in relation to a syndicate, information which could reasonably be expected to influence the decision of any person whether to become or remain a member of that syndicate, or to increase or reduce his participation in that syndicate. That rule also lists some specific examples of such information. Issuers and auction participants need to make a judgement in each case whether particular information is Relevant Information.
- 9.3 Bilateral arrangements create additional occasions for Issuers and other auction participants to be in possession of Relevant Information. Firm detailed information about a proposed bilateral arrangement will be Relevant Information. It will be for those involved in any discussions to judge the point at which the arrangements are sufficiently firm for their knowledge of the position to constitute Relevant Information. Any Issuer who is a contact for a bilateral arrangement and has also entered bids on the relevant syndicate in the same auction should ensure that their compliance officer is able to respond to queries, if raised, by the regulators on the afternoon of Day Two of an auction. A failure to satisfy any queries of the regulators may result in auction bids being withdrawn.
- 9.4 In the context of capacity offers, those involved in any negotiations which are not public knowledge will be in possession of Relevant Information.
- 9.5 Auction Rule 20(4) imposes an obligation on managing agents to disclose Relevant Information promptly to the members of their syndicate. In addition an electronic version of the disclosure must be sent to the Auction Office via MarketMail, to the following mailbox:-

“ZAUCTION-OFFICE-INFORMATION”

The Auction Office will arrange for all disclosures to be posted to lloyds.com within three hours of receipt. Disclosures will be posted in their original form (i.e. unedited by the Auction Office).

- 9.6 Auction News, the newsletter published during the auction season, is designed to draw the market’s attention to disclosures and announcements that are made during that period (see 9.5 and 10.1). Auction News is an appropriate medium for disclosing some Relevant Information (e.g. information about proposed bilateral arrangements). However Auction News should not normally be used on its own as a substitute for other more ‘traditional’ methods e.g. direct notification to members’ agents or press releases.

- 9.7 The Auction Office will accept disclosures up to noon on the penultimate working day before an auction starts. For example, if an auction is due to commence on a Tuesday, the Auction Office will accept disclosures up to noon on the preceding Friday. If, however, a disclosure is to be listed in a regular Friday Newsletter, then the Auction Office needs to be in receipt of the disclosure by 5pm on the Thursday of the week preceding an auction.
- 9.8 The ability to leave a bid to roll forward into the next auction is an administrative convenience. When an Issuer considers the bids to be entered into a particular auction, any bids that have rolled forward should be considered too and the decision taken whether they should, in effect, be re-entered into the auction. If possession of Relevant Information would preclude the submission of a fresh bid then any bids that have rolled forward from previous auctions must be withdrawn.

Market conduct

- 9.9 Issuers and auction participants must, amongst other things, not make, and must ensure that persons who are connected with them, as defined in the Auction Rules, do not make, any statement which it or they know to be misleading or engage in any conduct which creates a false or misleading impression as to the market in or value of a syndicate, in either case with a view to any person subscribing for or tendering capacity or refraining from doing so.
- 9.10 Participation in an auction by directors or staff (or in either case, their spouses) of a members' agent, or a managing agent or by a Lloyd's Council, or Franchise Board member, or a member of the Council's or the Franchise Board's committees, is permitted. Council, Board and relevant committee members and their "connected persons" (as defined in the guidance notes that accompany their Declaration of Interests) should notify the Secretary of the Council of any proposed order in the auctions before making the order. For this purpose they are designated a 'connected person'. Disclosure of all successful orders made by such persons will be made immediately following each auction. This will be in the form of a report listing the connected person, syndicate tendered or subscribed, amount of capacity and code indicating the category of connected person.
- 9.11 Each Issuer must return to the Auction Office by 5 August 2005 Form D, reporting all persons or entities on whose behalf they act in 2005 and with whom they are "connected". Please note that the definition of "connected" was extended in 2000 to include NameCos and SLPs. Further Forms D must be completed and returned to the Auction Office in respect of any persons with whom they subsequently become "connected".
- 9.12 All persons "connected" with a managing agent must obtain prior clearance, from the compliance officer of the managing agent to which he is connected, before any order is submitted on any syndicate of which that managing agent is the managing agent. The compliance officer must not give clearance where he has reason to believe that that person or the managing agent has Relevant Information that has not been made publicly available. The compliance officer must maintain a list of all applications for clearance submitted to him. The list may be requested by the regulators at any time.
- 9.13 Disclosures need only be made in respect of bespoke participations. MAPA participations are exempt.

10. Publication of information during the auction season

Auction News

- 10.1 Auction News is produced by the Auction Office on Fridays throughout the auction season and is the key form of communication between the Auction Office and Issuers. Additional ad hoc issues of the newsletter will be produced should the need arise. It is sent to all Issuers via MarketMail, but is also available to other auction participants on lloyds.com.

Examples of the type of information that might be included in the newsletter are:-

- ◆ practical guidance from the Auction Office on auction procedures
- ◆ links to disclosure items required under Rule 20 "Relevant Information" (see 9.5 above)
- ◆ notice of anticipated pre-/de-emptions.

The newsletter highlights "Relevant Information" that has been posted on lloyds.com but publication of information in this form does not replace the obligation placed on managing agents by rule 20(4) to advise members of their own syndicate promptly of any Relevant Information.

Reports to Issuers

- 10.2 As described in 4.5 above, Issuers must submit orders to the Auction Office electronically. Upon successful loading of each order file, the Auction Office will publish to the relevant Issuer details of the bids that have been entered into the relevant auction. These reports will be sent via MarketMail. Once each auction has concluded, including any interaction with proposed bilateral arrangements, the Auction Office will forward two reports to each Issuer. The first report, the Full Results data file, will contain details of all successful bids submitted in the auction by the relevant Issuer. This will include the following:

- Bid reference
- Type of bid (subscription, tender, revision)
- Syndicate, capacity, price
- Member/MAPA
- Allocation
- Value
- Fee
- Amount due to/from Issuer

In addition, each Issuer will be sent a Rollover Bids data file which will detail any bids wholly or partially unsuccessful in the current auction that are marked to rollover to a subsequent auction.

General information

- 10.3 In order to provide the market with information about the volume and price levels of both subscription and tender orders, the Auction Office will publish in respect of each day a summary schedule of all orders submitted - the "penny bands" report. The Day One report will be made available by MarketMail to all Issuers by 8am on Day Two of an auction. The Day Two report will be made available, together with the summary results and details of unmatched bids reports by 9am on the working day following Day Two of an auction. These reports will also be made available for members on lloyds.com as soon as is practicable.
- 10.4 Information on successful subscriptions and tenders will be provided electronically after each auction. The reports will be published by 1pm on the working day following Day Two of each auction and include:-
- ◆ a summary for all syndicates confirming the volume of capacity matched, the relevant tender premium for each syndicate and the average weighted price achieved for all capacity transferred in that auction;
 - ◆ a "connected" persons report which gives the details of all successful orders made by "connected" persons;
 - ◆ a stakebuilders' report showing the percentage of capacity a member and any connected persons hold on a syndicate if it is above 25%;
 - ◆ the £100k plus report showing the members who have been involved in the successful transfer of £100,000 or more of capacity on a particular syndicate; and
 - ◆ an "all results" file. (Also available, if pre-ordered, in hard copy form at a cost of £50.)
- 10.5 The auction site at <http://www.lloyds.com/index.asp?ItemId=4228> will carry the following:
- ◆ by 8am on Day Two of each auction, the "penny bands" and "current prices summary" reports
 - ◆ by 9am on the working day following Day Two of each auction, the "penny bands", auction summary and unmatched bids reports
 - ◆ on successful completion of the auction, the first four reports referred to in 10.4
 - ◆ editions of Auction News

11. Fees and settlement

- 11.1 Fees (inclusive of VAT) will be levied as follows:

- | | |
|----------------------|-----------------|
| ◆ Subscription order | £10 per order * |
| ◆ Tender order | nil |

◆ Revision of a subscription order	£10 per notice
◆ Withdrawal of a subscription order	£10 per notice
◆ Revision of a tender order	nil
◆ Withdrawal of a tender order	nil
◆ An amendment to a file to delete an order identified by the Auction Office as invalid	£75.00 per order
◆ Successful subscription orders	0.05% of capacity matched
◆ Successful tender orders	0.05% of capacity matched

* No fee will be payable if a subscription order is removed from the auction because of a pre-emption or de-emption confirmed after the submission of the original order - see 4.9 above

- 11.2 The statement and settlement days are set out in the summary of auction dates. On the statement day the Auction Office will provide each Issuer with a detailed statement setting out the net amount payable or receivable in respect of the orders submitted. The statement will contain the order numbers, the syndicate numbers and the capacity allocated, the premiums or tender premiums payable/receivable and the Lloyd's fees. If the net amount is a deficit the Issuer will also be sent an invoice.
- 11.3 Settlement of amounts due in respect of fees and premiums payable/receivable will be the sole responsibility of the Issuer. Each Issuer will therefore need to ensure that it has the necessary systems in place to record which members have placed orders and the relevant details of those orders. Similarly, Issuers will need to develop their own systems for collecting monies required to cover fees and premiums payable. Monies must be held in a client account dedicated to holding auction monies. The distribution and collection of monies for this purpose should be reviewed by the Issuer's auditors.
- 11.4 If amounts due to Lloyd's are not fully paid by the due date, payment to Issuers who are owed monies will be reduced pro rata. Names of defaulters will be published. The defaulters will be pursued (and liable to pay interest at 3% above the base rate of National Westminster Bank plc) and a further settlement in respect of monies subsequently collected will follow. Any delay in payment by an Issuer could result in a delay in settlement to all Issuers.
- 11.5 If an Issuer fails to settle he will not be permitted to enter any further orders until he has made due payment in respect of previous auctions.
- 11.6 Issuers are reminded that, broadly, all monies payable or becoming payable to a participant are assets of the premiums trust fund. As such, they can only be released to a member in accordance with the release mechanisms in the premiums trust deed. For practical purposes therefore a member will only be entitled to receive his auction

proceeds if he has assets at Lloyd's sufficient in value under the PTD release of funds requirements to enable the auction proceeds to be released to him. The rules for MAPA auction proceeds are slightly different in that, broadly, amounts due to a member in respect of the sale of capacity within that MAPA can be released for the acquisition of other capacity within the same MAPA.

12. Rectification of errors

- 12.1 The Auction Official has the power to agree that certain administrative errors may be corrected through the auction, by, in appropriate circumstances, permitting an order to be entered to deal with capacity transferred or acquired as a result of an Issuer's error. Issuers may request the Auction Official to exercise this power by completing a form which can be obtained from the Auction Office.

13. Taxation

13.1 *Capital Gains Tax*

Individual Members

Syndicate capacity in the hands of individual members or individual partners in Scottish Limited Partnerships is an asset for capital gains tax purposes. Accordingly any disposal of capacity at auction or under a bilateral arrangement is a chargeable disposal for capital gains tax purposes and may result in a capital gain or a capital loss arising. Where the relevant conditions are satisfied, business taper relief and CGT rollover relief will be available to reduce or defer any capital gains tax charge arising on the disposal of capacity.

Corporate Members

Syndicate capacity in the hands of corporate members comes within the new intellectual property tax regime in Schedule 29 of Finance Act 2002. Accordingly, any disposal of capacity will give rise to a trading receipt or deduction. In broad terms, the profit or loss to be brought into account for tax will generally be the proceeds of the sale less the cost of the capacity, as reduced by any tax deductions previously given. If the proceeds are reinvested in a qualifying asset under the new intellectual property tax regime the taxable amount may be rolled into the new asset, so deferring the taxable receipt that would otherwise arise.

Value Added Tax

- 13.2 Customs and Excise have advised us that payments made for capacity allocated under the auction process will be exempt from VAT. Fees charged by Lloyd's in connection with the auction process are also exempt but any services provided by members' agents are standard rated at 17.5%.

14. Bilateral arrangements

- 14.1 Subject to certain conditions, a bilateral arrangement which involves the transfer of not less than £250,000 of capacity on a syndicate is allowed. For this purpose the parties to the arrangement are the person making the participation nomination ("the nominator") and the person in whose favour the participation nomination is being made ("the nominee"). The price agreed to be paid for each £ of capacity is the "bilateral price".

Interaction

- 14.2 Bilateral arrangements are subject to a mandatory form of interaction with the auctions to ensure that certain unsatisfied subscription orders and tender orders are satisfied in priority to the proposed bilateral arrangement. Interaction with the auction involves:-
- ◆ the nominee acquiring capacity (up to the amount of the proposed bilateral arrangement) specified in tender orders which were (partly or wholly) unsatisfied in the auction where the floor limit specified in those orders was below the bilateral price - the nominee will pay the relevant tenderers the bilateral price; and
 - ◆ the nominator "transferring" capacity (up to the amount of the proposed bilateral arrangement) to satisfy subscription orders which were partly or wholly unsatisfied in the auction where the subscriber's premium specified in those orders was higher than the bilateral price - the auction subscribers will pay the subscription premiums stipulated in their orders.
- 14.3 The requirement for interaction with the auction seeks to ensure that those tenderers whose orders have not been satisfied in the auction and who were willing to transfer their capacity for less than the bilateral price may achieve their objective. Equally subscribers whose subscription orders were unsatisfied in the auction and who were willing to pay a higher price than the bilateral price may achieve their objective.

Timetable

- 14.4 Proposed bilateral arrangements must be notified to the Auction Office before 2pm on Day Two of an auction. Appropriately authorised representatives of the bilateral parties must make themselves available, by providing direct phone and fax lines at their own offices, between 2pm and 4.30pm on Day Two to receive the relevant reports and complete any necessary documentation. On completion of the auction, the Auction Office will prepare a report showing unsatisfied subscription orders and tender orders to enable those who have registered bilaterals to assess the maximum interaction to which they might be subject.
- 14.5 If the amount of the potential interaction is greater than 15% of the capacity that is the subject of the proposed bilateral arrangement, the participants to the bilateral arrangement may choose to withdraw the entire arrangement. Notice of withdrawal must be given by 4.35pm on Day Two.
- 14.6 If the parties do not withdraw, they will be advised of the actual extent of the interaction in relation to their arrangement. If there has been no interaction, the arrangement will be validated by the Auction Office. If there has been interaction, the

parties will have until 4.45pm on Day Two to submit a revision notice, otherwise the capacity covered by their arrangement will be reduced to take account of the interaction.

- 14.7 By 9am on the working day after Day Two of an auction the Auction Office will publish results of the auction, the interaction and details of completed bilateral transactions

Size and frequency of transaction

- 14.8 Bilateral arrangements must be for at least £250,000 of capacity. However, smaller holdings of capacity on the same syndicate can be aggregated for the purposes of meeting the £250,000 minimum limit provided the members have a common members' agent. Managing agents are not permitted to take part in or promote such aggregation arrangements. Parties are restricted to a maximum of twenty five bilateral arrangements per syndicate in any one year of account, whether as nominator or as nominee.

Disclosure

- 14.9 Parties to bilateral transactions are subject to the same requirements under the auction rules in respect of disclosure and market conduct (see section 9).

Priority and Matching

- 14.10 The matching system generally mirrors that of the auction, but additionally:
- ◆ Bilateral arrangements will interact with unsatisfied subscription orders and tender orders in descending price order (ie the bilateral arrangement with the highest bilateral price will interact first).
 - ◆ Where two bilateral arrangements are submitted at the same price, the obligation to interact will be apportioned on a pro rata basis.
 - ◆ The auction participants whose tenders are matched in this way will be paid an average price produced by pooling the bilateral prices and dividing them pro rata among the matched auction tenders. The resultant average price will be published.
 - ◆ Where a nominator satisfies unsatisfied subscription orders, there will be no averaging of price. Each subscriber will pay the subscriber's premium stipulated in their original order and the proceeds will accrue to the nominator with whom they are matched.
- 14.11 When the Auction Office publishes all the information about auction activity at the end of an auction there may be several different prices disclosed for any syndicate. These may include the tender price resulting from the auction, the average price paid to auction tenderers interacting with any bilaterals and the prices at which any bilateral arrangements have taken place.

Forms and Administration

- 14.12 At an early stage parties considering entering a bilateral arrangement should identify a contact who will act for both parties. The contact, who will be identified on the initial notice, must establish certain essential communication links. In practice any Issuer will have the necessary links in place to send and receive messages and deal with any transfers of funds necessitated by interaction with the auction. The contact will need to have arranged with the Auction Office:-
- (i) to be issued with a unique fax number;
 - (ii) to receive reports by MarketMail;
 - (iii) the bank account that should receive any payments that may become due to the nominator from the Auction Settlement Account.
- 14.13 A bilateral notice describing the proposed bilateral arrangement should be submitted to the Auction Office before 2pm on Day Two of an auction. This must take the form of a completed Form BN (if the nominator or the nominee is more than one person, a schedule must be attached giving details (see forms BN/BSG and BN/BTG)). The form must be faxed to the Auction Office using the unique number issued to the contact. The Auction Office will automatically confirm receipt. A further confirmation will be sent to the contact once the form has been checked.
- 14.14 When faxing bilateral forms to the Auction Office, the contact should insert a reference at the top of every submission as follows:-
- BN/(Issuer ID)/(Serial No) e.g. **BN9999/01**
- This reference will identify uniquely each particular bilateral arrangement. Contacts should ensure that the reference is included on all relevant forms i.e. Bilateral Notice (BN), Bilateral Withdrawal (BW) and Bilateral Revision (BR).
- 14.15 Parties to a bilateral arrangement need to ensure that they have suitably authorised representatives available (via telephone and fax lines) to speak to, and complete and return relevant documentation to, the Auction Office between 2pm and 4.30pm on Day Two of the auction. The report showing the level of “unsatisfied” bids will enable the parties to assess whether the level of interaction with their bilateral might be greater than 15%. If the report shows a possible level of interaction greater than 15% the parties have the option to withdraw the bilateral arrangement.
- 14.16 If either party to the bilateral decides that, in view of the potential interaction being greater than 15% they wish to withdraw, a withdrawal notice, Form BW, must be submitted to the Auction Office by 4.35pm on Day Two. The signature of only one of the parties is necessary on this form
- 14.17 The Auction Office will then run the interaction with the auction and will advise the representatives of the extent of interaction, if any, between the unsatisfied auction bids and the bilateral arrangement.
- 14.18 The representatives will then need to decide whether they are content for the bilateral arrangement to be reduced by the amount of the interaction. If the parties take no further action the reduced bilateral arrangement will be validated by the Auction Office. In addition to their interaction obligations the bilateral parties may elect to

complete their original arrangement up to, but not exceeding, the amount of capacity originally notified to the Auction Office. The intention to proceed on this basis must be notified to the Auction Office by 4.45pm on Day Two of the auction. A Bilateral Revision form, (Form BR), which needs to be signed by both parties, must be used

14.19 If the bilateral has interacted with the auction so that tenders from the auction have been satisfied, the nominee under the bilateral arrangement will receive an invoice and must provide the necessary funds by the relevant auction settlement date. Any subscription premiums due to the nominator from auction participants will be paid into the account identified by the contact.

14.20 The fees for bilateral arrangements are as follows:-

◆	Bilateral Arrangement fee (payable by both parties)	£10
◆	Bilateral Withdrawal fee (payable by both parties)	£75
◆	Bilateral Revision fee	nil
◆	Successful bilateral arrangement (payable by both parties)	0.05 % of capacity matched

14.21 As has been mentioned in 4.11 “trading” in capacity is not permitted and this includes “trading” through bilateral arrangements.

14.22 Where one or more of the parties to the bilateral arrangement is resident outside the United Kingdom the parties should be aware of certain issues which may be relevant to them. Appendix 3 to the regulatory bulletin issued in May 1998 entitled “Review of Capital Rules – Bilateral Arrangements” contains a summary of certain of these – it is not intended to summarise comprehensively the position in the relevant jurisdiction or to constitute definitive legal advice as it is the primary responsibility of the bilateral parties and their advisers to ensure compliance with overseas securities laws and all other relevant legislation in the jurisdiction(s) concerned. Therefore, Lloyd’s accepts no responsibility or liability in this regard.

15. Fourth Auction

15.1 A limited auction for capacity released by the death of a member on or after 1 September 2005 will be held on 17 and 18 November 2005. This auction will also include:

- ◆ disposals of capacity in cases where the approved capacity of a syndicate for 2005 exceeds the amount indicated in the Syndicate’s Business Forecast (SBF) (such disposals being limited to a member’s share of the difference between the two amounts);
- ◆ transactions to which the Auction Official has given written consent in order to permit the correction of administrative errors in previous auctions;
- ◆ transactions in capacity on syndicates where the indicative capital ratio for the

syndicate (as output by the Risk Based Capital modelling software, adjusted for syndicate ICA submissions) has increased by 10% or more between 16 September and 9 November 2005 or, in the event that a syndicate's ratio is not recalculated on 16 September, between 24 August and 9 November 2005; and

- ◆ transactions in capacity on syndicates where after 22 September 2005 there has been a material change in the syndicate's 2006 business plan as defined in Auction Rule 4(4), that is:
 - a change in the active underwriter; or
 - the introduction of a new class of business; or
 - an increase in the ultimate loss ratio; or
 - a change in utilisation (where utilisation is the ratio of a syndicate's gross premiums written to its capacity); or
 - an increase or decrease in business from any one source; or
 - in any other circumstance where the Auction Official confirms that in his view there has been a material change to a syndicate's business plan.

- 15.2 Persons may only subscribe for capacity in this auction if they have, or expect to have, sufficient surplus FAL (as at the coming-into-line date, 29 November 2005) to support any further capacity which they acquire. No additional funds can be supplied after the coming-into-line date.

16. Transfers of capacity after the Fourth Auction

- 16.1 In September 2000, Council approved certain arrangements for transferring capacity for value where the capacity had been released by the death of a member too late in the year for it to be tendered in any auction. Under these arrangements, if a member dies so late in the year that it is impracticable for his agent to tender the capacity in an auction, the capacity can be transferred on behalf of the estate to another member or members who have the necessary FAL in place, provided the transfers are notified to the Auction Office before the following 1 January.
- 16.2 Further details of these arrangements, together with details of the notification required when a transfer of capacity under them has been successfully effected, are set out in Regulatory Bulletin 070/2000, issued on 14 September 2000. Transfers made under these arrangements will not require the consent of the managing agents of the relevant syndicates.
- 16.3 Members' agents and members participating in these arrangements should be aware that the restrictions on trading described in paragraph 4.11 above apply to these arrangements. Where, however, a member would have been able to subscribe for capacity on a syndicate in the Fourth Auction, that member may also offer to acquire the capacity of a deceased member on the same syndicate under the arrangements set out paragraph 16.1 above.

LIMITATIONS TO THE AUCTION PROCESS

Lloyd's recognises that the auction process has been developed within a unique legal structure and therefore has certain limitations. Some of these are identified below:

- There is a season consisting of three auctions to be held in September and a limited fourth auction to be held in November.
- The value realised when surrendering capacity may not reflect the capacity's "true" value since the value realised depends on supply and demand in a particular auction. Values may therefore vary substantially between auctions.
- There are now a number of ways, in addition to the auctions, in which participants may be able to achieve value for their capacity, ie conversion schemes, capacity offers and bilateral arrangements. Each of these may result in a different value being attributed to the capacity.
- The value of the capacity might be higher, lower or non-existent next year.
- The benefit being acquired is the right to underwrite on a given syndicate for the 2006 year of account. Managing agents will have produced business forecasts before the start of the auctions but many changes could take place in the intervening months before the start of the following year of account. For example, the underwriter could become incapacitated or leave, the syndicate might have to cease underwriting or a merger might become essential, the control of the managing agency could change or the underwriter might decide on a radical change of approach. In practice, all these events would probably result in the managing agent offering to release a member from his obligation to underwrite on the syndicate for the following year but the member would not be able to recover any subscription premium he has paid or agreed to pay.
- "Trading" in capacity is not generally allowed, so the auction differs from other markets.
- Capacity transactions once effected cannot be reversed.
- The information provided is not sufficient to make the auction completely transparent. On Day Two of the auction all orders are entered on the basis of the same information about Day One but the activity on Day Two is not published until after the end of the auction.
- Orders that are not satisfied in an auction may be satisfied by interaction with a proposed bilateral arrangement. Where there is interaction, the result for a subscriber will be as if the order had been successful in the auction. Tenderers however will receive an average of the bilateral prices on the syndicate. This will be at, or above, the floor price stipulated in their order but could be below the average tender price achieved in the auction.

AUCTION RULES 2005

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AUCTION RULES

These Rules are made by the Council pursuant to paragraph 2(5) of the Auction Byelaw (No. 14 of 1997) and may be cited as the Auction Rules 2005.

1 Application

These Rules shall govern the conduct of all Auctions taking place in 2005.

2 Interpretation

The Schedule to these Rules (interpretation) shall have effect.

3 The Auction Official

3(1) The Auction Official shall be responsible for the conduct of all Auctions and the interpretation of these Rules.

3(2) The decision of the Auction Official in respect of any matters arising out of the interpretation or application of these Rules, including as to whether any of the conditions or requirements imposed under these Rules has been complied with, shall be final. In particular, but without limitation, his decision shall be final as to:

- a) whether any Form has been duly completed and whether any electronic submission made pursuant to these Rules contains all necessary information and has been duly made;
- b) the Relevant Time to be attributed to an Order;
- c) the validity and/or acceptability of any Order submitted by any person; and
- d) the eligibility of any person to participate in an Auction.

3(3) a) The Auction Official may in his absolute discretion:

- (i) cancel or re-run any Auction which has been held; and
- (ii) alter or adapt the procedure for the submission of Orders including, but without limitation, the hours during which an Auction Control Sheet may be submitted to the Auction Office and Orders may be submitted by an Issuer.

b) Where the Auction Official, in exercise of his discretion under this Rule 3(3), cancels or re-runs an Auction, he may in his absolute discretion alter or adapt the procedures set out in these Rules in their application to any person.

3(4) The Auction Official shall be entitled to dispense with, in whole or in part, or modify the application of these Rules (either unconditionally or subject to conditions) in such cases and by reference to such circumstances as he considers

appropriate.

4 **Holding of Auctions**

- 4(1) A series of Auctions in respect of each syndicate shall be held on the dates referred to in the first column of Appendix 1 and, in the case of any particular syndicate, on such further date or dates as the Auction Official may in his discretion authorise, where the Relevant Agent shall have given its consent in writing.
- 4(2) An additional Auction in respect of the prospective participations of Qualifying Members who die on or after 1 September 2005, together with any other prospective participation in respect of any syndicate which the Auction Official may in his discretion authorise pursuant to Rule 4(1) and to which, where appropriate, the Relevant Agent has given its written consent, shall be held on 17 November and 18 November 2005. The Auction Official may at his discretion modify these Rules in respect of that additional Auction, in which case he shall publish no later than 31 October 2005 to all Issuers a statement as to the extent to which these Rules are so modified.
- 4(3) The additional Auction held under Rule 4(2) shall also include:
- a) disposals of prospective participations in cases where the capacity of a syndicate for the 2006 year of account, as shown in the syndicate's Approved Business Plan, exceeds the amount indicated in the Syndicate's Business Forecast (such disposals being limited to a member's share of the difference between the two amounts);
 - b) transactions in prospective participations on syndicates undertaken, with the written consent of the Auction Official, in order to rectify administrative errors which have arisen from previous auctions; and
 - c) transactions in prospective participations on syndicates where:
 - (i) the indicative risk based capital ratio for the syndicate (as output by the Risk Based Capital modelling software, adjusted for syndicate Individual Capital Adequacy (ICA) submissions) has increased by 10% or more between 16 September and 9 November 2005 or, in the event that a syndicate's ratio is not recalculated on 16 September, between 24 August and 9 November 2005; or
 - (ii) after 22 September 2005 there has been a material change in the syndicate's business plan for 2006.

Transactions in prospective participations on syndicates undertaken in the additional Auction by virtue of 4(3) a), b) and c) above will not require the prior approval of the Relevant Agent.

- 4(4) For the purpose of Rules 4(3) a) and c)(ii):
- a) a change in a syndicate's business plan for 2006 shall be measured by

comparing the information in the Approved Business Plan with the information in the Disseminated Syndicate Business Forecast;

- b) a material change in a syndicate's business plan for 2006 will have occurred where:
- (i) there has been a change in the active underwriter; or
 - (ii) the syndicate's Approved Business Plan includes a class of business that was not included in the Disseminated Syndicate Business Forecast and that class of business equates to 5% or more of the total forecast gross premiums written in the Disseminated Syndicate Business Forecast; or
 - (iii) the Approved Business Plan's gross ultimate loss ratio is five or more percentage points greater than the Disseminated Syndicate Business Forecast's gross ultimate loss ratio; or
 - (iv) the utilisation of capacity in the Approved Business Plan is either greater by 10% or more or lower by 10% or more than the utilisation of capacity in the Disseminated Syndicate Business Forecast, where utilisation of capacity ("U") is in each case calculated as follows:
$$U = \frac{\text{gross premiums written}}{\text{capacity}} \times 100\%; \text{ or}$$
 - (v) two conditions are met:
first, the amount of gross premiums written for a source of business in the Approved Business Plan is either greater by 10% or more or lower by 10% or more than the amount of gross premiums written for the same source of business in the Disseminated Syndicate Business Forecast; and
secondly, such increase or decrease in gross premiums written in the source of business is 5% or more of the total gross premiums written in the Disseminated Syndicate Business Forecast; or
 - (vi) in any other circumstance where the Auction Official confirms that, in his view, there has been a material change to a syndicate's business plan.
- c) "Approved Business Plan" means the business plan of a syndicate for the 2006 year of account that has received the approval of Lloyd's; and
- d) "Disseminated Syndicate Business Forecast" means the Syndicate Business Forecast information which Lloyd's passes to members' agents and direct corporate members or which is communicated to such members' agents and direct corporate members by other means on or before 22 September 2005.

5 **Qualifying Orders**

To qualify for inclusion in any Auction, an Order must:

- a) be submitted by a person who is permitted to do so under Rule 6(1);
- b) be submitted electronically in the form prescribed by the Auction Official (or by such other means or in such other form as the Auction Official may agree) and, in accordance with the provisions of Rule 8 and, where applicable, Rule 9; and
- c) relate exclusively to one person who is permitted to subscribe for or, as the case may be, tender prospective participations under Rule 7.

6 **Eligible Issuers**

6(1) A person may only submit an Order if:

- a) he has submitted to the Auction Official on or before 22 July 2005 a declaration on Form A, which has been duly completed and signed;
- b) he is a person to whom Rule 6(2) applies; and
- c) he has paid in full any amounts for which he is liable under Rule 18 in respect of any earlier Auction.

6(2) This Rule 6(2) applies to:

- a) (i) in the case of a Subscription Order, a members' agent provided that there is an agreement (other than an agreement under which notice of termination has been given by the Name (as defined in such agreement) or, subject to the following proviso to this clause, the members' agent) in the terms of the standard members' agent's agreement current between that members' agent and each of the persons on whose behalf a Subscription Order is submitted provided that, in circumstances where the members' agent has given notice to terminate such agreement, the Auction Official may, in his absolute discretion and on such terms and subject to such conditions as he may, in his absolute discretion, prescribe, permit the members' agent to submit a Subscription Order in any Auction where the Auction Official determines that notice to terminate has been given by the members' agent for legal, technical or procedural reasons and that it would be fair and reasonable to permit the members' agent to participate;
- (ii) in the case of a Tender Order, a members' agent provided that (other than in the case of a Tender Order submitted on behalf of the estate of a person referred to in paragraph 2(5) of the Second Nomination Byelaw or who until the time of his death was a member of the Relevant Syndicate for the 2005 year of account) there is (or is

deemed to be) an agreement in the terms of the standard members' agent's agreement current between that members' agent (or a substitute agent appointed by the Council) and each of the persons on whose behalf a Tender Order is submitted;

- b) a members' agent in respect of an Order submitted on behalf of a corporate candidate by which it has been appointed;
- c) a corporate member or corporate candidate which, the Council shall pursuant to paragraph 13 of the Membership Byelaw have agreed, does not have to appoint a members' agent, provided that, in the case of a corporate candidate, it has submitted to the Auction Official prior to the submission of an Order those undertakings, deeds, agreements and other documentation and information relating to its application for membership of the Society and for permission to underwrite insurance business at Lloyd's which the Auction Official at his discretion may from time to time require and including the following documents:
 - (i) a duly completed undertaking by the corporate candidate in a form prescribed by the Auction Official; and
 - (ii) an application for membership of the Society and for permission to underwrite insurance business at Lloyd's, each duly completed in the form required by the Membership and Underwriting Requirements (Corporate Member);
- d) the Relevant Agent in relation to a syndicate in respect of which the Relevant Agent acts (or is to act) both as the managing agent and the members' agent of the person on whose behalf the Order is submitted.

7 Eligible Participants

7(1) A person may only subscribe for prospective participations in an Auction if he is:

- a) a member:
 - (i) who is in compliance with all applicable requirements of the Council relating to solvency and funds at Lloyd's;
 - (ii) who is not a person who has failed and continues to fail to comply with a request for funds made under clause 9.1 of an agreement in the terms of the standard members' agent's agreement or clause 7.1 of an agreement in the terms of the standard managing agent's agreement (general) or the standard managing agent's agreement (corporate member) to which he is a party, or under any other provision to the like effect contained in any agreement with an underwriting agent to which he is a party;
 - (iii) who, if he is a member of the Relevant Syndicate for the 2005 year of account, is a Qualifying Member; and

- (iv) who, if not himself the Issuer, has given instructions and authority in the terms set out in Form B to the Issuer.
- b) a corporate candidate provided that, unless the Relevant Agent has (by completing, signing and submitting to the Auction Official Part I of a Form C) agreed otherwise:
 - (i) the Issuer has given the confirmation at Part II of a Form C; and
 - (ii) in the case of a corporate candidate which does not have a members' agent, it has submitted to the Auction Official the undertakings, deeds, agreements, documentation and information required to be submitted under Rule 6(2)(d); or
- c) an Authorised MAPA Operator.

7(2) A person may only tender prospective participations in an Auction if he is:

- a) a Qualifying Member who, if not himself the Issuer, has given instructions and authority in the terms set out in Form B to the Issuer;
- b) a members' agent acting on behalf of the estate of a deceased member or on behalf of the estate of a person referred to in paragraph 2(5) of the Second Nomination Byelaw; or
- c) an Authorised MAPA Operator.

7(3) Subject to paragraphs 2(4) and (5) of the Second Nomination Byelaw and to Rule 7(4):

- a) a person falling within Rule 7(2)(a) may only tender prospective participations in an Auction of an amount equal to the whole or part of the prospective participations (other than any participation through a MAPA) of that person;
- b) a members' agent acting on behalf of the estate of a deceased member or on behalf of the estate of a person referred to in paragraph 2(5) of the Second Nomination Byelaw may only tender prospective participations in an Auction of an amount equal to the whole or part of the prospective participations (other than any participation through a MAPA) of that deceased member or person; and
- c) an Authorised MAPA Operator may only tender prospective participations in an Auction equal to the whole or part of the prospective participations through any MAPA operated by that MAPA Operator.

7(4) No Order may be submitted on behalf of:

- a) a Staff Member of the Relevant Agent if it is a Tender Order in respect of the Relevant Syndicate and that Staff Member is a person to whom there is to be

allocated any part of any increase in the syndicate allocated capacity for the 2006 year of account of the Relevant Syndicate pursuant to paragraph 7(2) of the Pre-emption Byelaw; or

- b) a particular person in a particular Auction if it is a Tender Order, and (subject to Rules 7(5) and 7(6)):
 - (i) a Subscription Order in respect of the same syndicate is being or has been submitted on behalf of that person in that Auction;
 - (ii) a Subscription Order has previously been submitted on behalf of that person in any earlier Auction in 2005 and been satisfied (in whole or in part); or
 - (iii) a participation nomination or second nomination in respect of the same syndicate has previously been made in 2005 in favour of that person under a permitted bilateral arrangement; or
- c) a particular person in a particular Auction if it is a Subscription Order, and (subject to Rule 7(5)):
 - (i) a Tender Order in respect of the same syndicate is being or has been submitted on behalf of that person in that Auction;
 - (ii) a Tender Order has previously been submitted on behalf of that person in any earlier Auction in 2005 and been satisfied (in whole or in part); or
 - (iii) a participation nomination in respect of the same syndicate has previously been made in 2005 by that person under a permitted bilateral arrangement.

7(5) Where a person participates in a syndicate both through a MAPA and otherwise, Rules 7(4)(b) and (c) shall apply to that person only in respect of his participations otherwise than through the MAPA.

7(6) Rules 7(4)(b)(ii) and (iii) shall not apply in respect of a Tender Order which is submitted in response to an invitation made in accordance with Schedule 2 to the Mandatory Offer Byelaw or which is made by a members' agent acting on behalf of the estate of a deceased member or on behalf of the estate of a person referred to in paragraph 2(5) of the Second Nomination Byelaw.

7(7) Rules 7(4)(b) and 7(4)(c) shall also not apply to members' orders submitted by members who are otherwise eligible to participate in the additional Auction held under Rule 4(2).

8 Procedure for submission of Orders

- 8(1) Subscription Orders and Tender Orders shall be submitted to the Auction Office electronically, or in such other form or by such other means as the Auction Official

may agree.

8(2) An Order shall relate to:

- a) a single syndicate; and
- b) a single Subscriber or Tenderer, as the case may be.

8(3) A Tender Order shall specify the minimum premium (the "Floor Limit") which the Tenderer requires to receive in respect of each £1 of Tendered Capacity.

8(4) A Subscription Order shall specify the premium (the "Subscriber's Premium") which the Subscriber is willing to pay in respect of each £1 of Subscribed Capacity.

8(5) The amount of all Floor Limits and Subscribers' Premiums shall be equal to 0.1p or an integral multiple of 0.1p.

8(6) An Order shall specify an amount of Tendered Capacity or Subscribed Capacity equal to £1 or an integral multiple of £1.

8(7) The person submitting an Order shall sign and submit by fax (or by such other means as the Auction Official may agree) to the Auction Office, between 9.00am and 1.00pm on Day One of an Auction or between 10.00am and 2.00pm on Day Two of an Auction, an Auction Control Sheet in respect of the electronic file in which the Order is submitted and the Auction Official shall cause the time at which each Auction Control Sheet is received at the Auction Office to be recorded electronically.

8(8) The time at which the Auction Official shall treat an Order as having been received is the recorded time of receipt of the relevant Auction Control Sheet (the "Relevant Time").

8(9) The Auction Official shall cause there to be sent to the relevant Issuer an acknowledgement of receipt of an Auction Control Sheet, stating the Relevant Time.

8(10) An Issuer may only submit an Order between 9.00am and 2.00pm on the same Day One of an Auction or between 10.00am and 3.00pm on the same Day Two of an Auction as the relevant Auction Control Sheet was submitted to the Auction Office under Rule 8(7).

9 Significant Participations

9(1) In the circumstances specified in Rule 9(2), a Subscription Order may only be submitted if the Relevant Agent has given his consent by completing, signing and submitting to the Auction Official Part I of a Form C.

9(2) The circumstances referred to in Rule 9(1) are where the amount of the prospective participation specified by a corporate candidate in the Subscription Order, when

taken together with each prospective participation allocated to the corporate candidate pursuant to all Subscription Orders previously submitted by or on behalf of that candidate in 2005, would account for more than 3% of the Relevant Capacity of the Relevant Syndicate.

10 **Publication of Orders**

The Auction Official shall cause there to be made available electronically, or by such other means as the Auction Official may agree, before 8.00am on each Day Two of an Auction and 9.00am on the working day after Day Two of each Auction, such details as the Auction Official may determine of the Orders submitted in respect of each syndicate.

11 **Revision of Orders**

The person submitting an Order may submit electronically in a form prescribed by the Auction Official, or by such other means or in such other form as the Auction Official may agree, a notice (a "Revision Notice") revising a Subscription Order or, as the case may be, a Tender Order by specifying a higher Subscriber's Premium or, as the case may be, a lower Floor Limit, but subject to Rule 12, may not cancel or otherwise alter an Order after it shall have been submitted. The Relevant Time attributable to a revised Order shall be the time at which any Revision Notice delivered in respect of that Order is marked as received by the Auction Official and not the Relevant Time originally attributed to the Order. A Revision Notice may be submitted on any Day One or Day Two of an Auction.

12 **Rollover of Orders**

12(1) The person submitting an Order may state or make a statement (a "Rollover Statement") in the place indicated for this purpose in the electronic file submitted to the Auction Office, or in such other manner as the Auction Official may agree, that it wishes any part of the Order which is not satisfied in the Auction in respect of which it is submitted to be rolled over into following Auctions in the manner specified in Rule 12(2).

12(2) Subject to Rule 12(3):

- a) where an Order submitted in either Auction 1 or 2 in respect of which an Issuer has made a Rollover Statement and has not subsequently given a Withdrawal Notice pursuant to Rule 12(3)(a), has not been satisfied or has been satisfied only in part the Order shall, to the extent that it has not been satisfied, be rolled over into the next following Auction, and if not satisfied in full in that Auction shall, to the extent not satisfied, be rolled over into the next following Auction and so on up to and including Auction 3;
- b) the person submitting an Order in respect of which a Rollover Statement has been made and no Withdrawal Notice has subsequently been given pursuant to Rule 12(3)(a) and which is still not satisfied in full after having been rolled over into Auction 3, shall be notified within 2 working days of the last day of Auction 3 of the extent to which the Order was not satisfied.

- 12(3) a) The person submitting an Order may by 2.00pm on Day One of the Auction into which the Order is to be rolled over (the "Following Auction"), submit electronically in a form prescribed by the Auction Official or by such other means or in such other form as the Auction Official may agree a notice (a "Withdrawal Notice") dis-applying the rollover provisions in Rules 12(1) and (2) in respect of all (but not part only) of an Order, so that all of the Order is withdrawn from the following Auction and each subsequent Auction.
- b) An Order will not be rolled over pursuant to Rules 12(1) and (2) where the person submitting that Order has not paid in full any amounts for which he is liable under Rule 18 in respect of any earlier Auction.
- c) *This paragraph has been deleted.*

13 **Allocation of Capacity**

- 13(1) The Subscription Orders submitted in any Auction in respect of a particular syndicate shall be ranked in order of their respective Subscriber's Premiums with the Subscription Order specifying the highest Subscriber's Premium ranking first in order of priority.
- 13(2) Any Subscription Orders specifying the same Subscriber's Premium shall be ranked according to the Relevant Time attributable to those Orders with the Order attributed the earliest Relevant Time being accorded priority.
- 13(3) The Tender Orders submitted in any Auction in respect of a particular syndicate shall be ranked in order of their respective Floor Limits with the Tender Order specifying the lowest Floor Limit ranking first in order of priority.
- 13(4) Any Tender Orders specifying the same Floor Limit shall be ranked according to the Relevant Time attributable to those Orders with the Order attributed the earliest Relevant Time being accorded priority.
- 13(5) Each Order shall be satisfied up to the amount of the Available Capacity, if any. In these Rules, the term Available Capacity means:
- a) in relation to a Subscription Order, the amount of Tendered Capacity tendered in the relevant Auction at a Floor Limit less than or equal to the Subscriber's Premium specified in the Subscription Order after each Subscription Order ranking higher in order of priority shall have been satisfied; and
- b) in relation to a Tender Order, the amount of Subscribed Capacity subscribed in the relevant Auction at a Subscriber's Premium higher than or equal to the Floor Limit specified in the Tender Order after each Tender Order ranking higher in order of priority shall have been satisfied.
- 13(6) The premium payable by a Subscriber in respect of any Order satisfied pursuant to Rule 13(5) shall be the Subscriber's Premium specified in that Subscription Order.

- 13(7) The premium per £1 of capacity to be paid to a Tenderer in respect of any Order satisfied pursuant to Rule 13(5) shall be an amount equal to:

A
B

where:

A = the aggregate of the amounts payable by all Subscribers whose Subscription Orders for prospective participations in the Relevant Syndicate tendered in the relevant Auction have been satisfied.

B = the total amount of prospective participations in the Relevant Syndicate which has been successfully allocated in the relevant Auction.

14 **Publication of Results**

The Auction Official shall cause there to be made available electronically in a form prescribed by the Auction Official or by such other means or in such other form as the Auction Official may agree before 9.00am on the working day after Day Two of an Auction details of the allocation of prospective participations pursuant to the Auction which shall include those details specified in Appendix 2.

15 **Fees**

- 15(1) Subject to Rule 15(5), a fee of a fixed amount prescribed by the Auction Official (inclusive of VAT) shall be payable by an Issuer in respect of each Subscription Order submitted.
- 15(2) An additional fee shall be payable by an Issuer in respect of each Subscription Order submitted which is satisfied in whole or in part. The amount of the fee shall be equal to a percentage figure prescribed by the Auction Official multiplied by the total amount of prospective participations acquired on satisfaction in whole or in part of the relevant Subscription Order.
- 15(3) For each Revision Notice or Withdrawal Notice submitted in respect of a Subscription Order, the relevant Issuer shall pay a fee of a fixed amount (inclusive of VAT) prescribed by the Auction Official.
- 15(4) A fee shall be payable by an Issuer in respect of each Tender Order submitted which is satisfied in whole or in part. The amount of the fee shall be equal to a percentage figure prescribed by the Auction Official multiplied by the total amount of prospective participations surrendered on satisfaction in whole or in part of the relevant Tender Order.
- 15(5) Where an Issuer makes a Rollover Statement in respect of a Subscription Order, no fee shall be payable by that Issuer under Rule 15(1) in respect of that Subscription Order if, pursuant to Rule 12(3)(c), it is not rolled over.

16 **Relevant Arrangements**

The allocation of a person's prospective participation pursuant to the satisfaction in whole or part of any Tender Order shall take precedence over any agreement to surrender or otherwise dispose of such prospective participation made by that person under a Relevant Arrangement, regardless of the time at which such agreement is made.

17 **Permitted Bilateral Arrangements**

Any Orders which are not satisfied in the Auction may be satisfied either in whole or in part by a party to a permitted bilateral arrangement in accordance with conditions and requirements made pursuant to the Bilateral Arrangements Byelaw (No. 4 of 1999).

18 **Settlement**

- 18(1) The Auction Official shall no later than the date specified in the second column of Appendix 1 (the "Statement Date") cause there to be issued to each Issuer a statement as to the net amount (the "Net Amount") payable or receivable by that Issuer in respect of the Orders submitted by it in the Auctions specified in the first column of Appendix 1 immediately adjacent to that date (the "Relevant Auctions"). The Net Amount ("NA") shall be calculated as follows:

$$NA = A - B - C - D - E - F$$

Where:

A = the aggregate amount of all premiums receivable pursuant to Tender Orders submitted by that Issuer in the Relevant Auctions.

B = the aggregate amount of all premiums payable pursuant to Subscription Orders submitted by that Issuer in the Relevant Auctions.

C = the fixed amount prescribed by the Auction Official pursuant to Rule 15(1) (but subject to Rule 15(5)) multiplied by the number of Subscription Orders submitted by that Issuer in the Relevant Auctions.

D = the fixed amount prescribed by the Auction Official pursuant to Rule 15(3) multiplied by the number of Revision Notices and/or Withdrawal Notices submitted by the Issuer in the Relevant Auctions.

E = an amount equal to the percentage figure prescribed by the Auction Official pursuant to Rule 15(2) multiplied by the total amount of prospective participations acquired on satisfaction in whole or in part of Subscription Orders submitted by that Issuer in the Relevant Auctions.

F = an amount equal to the percentage figure prescribed by the Auction Official pursuant to Rule 15(4) multiplied by the total amount of prospective participations surrendered on satisfaction in whole or in part of Tender Orders submitted by that Issuer in the Relevant Auctions.

- 18(2) Where the Net Amount is a negative amount, it is referred to below as a Debit Amount and the statement as a Debit Statement and, where it is a positive amount, it is referred to below as a Credit Amount and the statement as a Credit Statement.

- 18(3) Each Issuer in receipt of a Debit Statement shall cause the Debit Amount to be credited in cleared funds to the Lloyd's Auction Settlement Account no later than close of business on the relevant debit date specified in the third column of Appendix 1 (the "Relevant Debit Date").
- 18(4) Subject to Rules 18(5) and 18(6), the Auction Official shall cause the Credit Amount payable to each Issuer in receipt of a Credit Statement to be credited to the relevant account (the "Issuer's Account") specified in the Declaration in Form A submitted by that Issuer in cleared funds no later than close of business on the relevant credit date specified in the fourth column of Appendix 1 (the "Relevant Credit Date").
- 18(5) If any Debit Amount is not paid in full by the Relevant Debit Date, the Auction Official shall only be obliged to pay in respect of any Credit Statement an amount (the "Actual Credit Amount") equal to:

$$A \times \frac{(C - B)}{C}$$

Where :

A = the Credit Amount specified in the Credit Statement

B = the aggregate of any Debit Amounts which have not been credited to the Lloyd's Auction Settlement Account in cleared funds by the Relevant Debit Date

C = the aggregate of all Credit Amounts.

- 18(6) A Participant who is not himself an Issuer shall, subject to Rule 18(7), be entitled to receive from or, as the case may be, liable to pay to an Issuer an amount equal to:

$$T - S - F$$

Where:

T = the aggregate amount of all premiums receivable pursuant to Tender Orders submitted on behalf of that Participant by that Issuer in the Relevant Auctions

S = the aggregate amount of all premiums payable pursuant to Subscription Orders so submitted

F = the amount payable under terms agreed with the Issuer in respect of Auction Fees in respect of Orders so submitted.

- 18(7) Where the amount determined in accordance with Rule 18(6) is positive, it is referred to below as the Individual Credit Amount of the relevant Participant.
- 18(8) If any Debit Amount is not paid in full by the Relevant Debit Date, an Issuer in receipt of a Credit Statement shall only be obliged to pay to a Participant on whose behalf he has submitted a Tender Order a part of that Participant's Individual Credit Amount equal to:

$$I \times \frac{(A - S)}{A}$$

Where:

I = the Individual Credit Amount

A = the aggregate of all Individual Credit Amounts payable by that Issuer

S = the amount by which the Actual Credit Amount paid to that Issuer is less than the Credit Amount.

- 18(9) Subject to Rule 18(15), the Individual Credit Amount, or such part of the Individual Credit Amount as shall be payable in accordance with Rule 18(8), shall be the only amount to which any Participant shall be entitled.
- 18(10) Subject to Rule 18(11), Lloyd's shall hold the benefit of amounts standing to the credit of the Lloyd's Auction Settlement Account and amounts receivable in respect of Debit Statements on trust for the benefit of those Participants on whose behalf Tender Orders shall have been submitted which have been satisfied in whole or in part.
- 18(11) Lloyd's shall be entitled to deduct an amount equal to the aggregate of all Auction Fees from the amount standing to the credit of the Lloyd's Auction Settlement Account before distributing the balance in accordance with Rule 18(4).
- 18(12) Subject to Rule 18(15), neither Lloyd's, nor the Auction Official, shall have any liability to any Issuer in receipt of a Credit Statement or any Participant in respect of the difference between the amount specified in that Credit Statement and the amount payable in accordance with Rules 18(5), 18(8) and 18(16).
- 18(13) Interest at a rate equal to 3% above the base rate of National Westminster Bank Plc from time to time shall be payable on each Debit Amount from the Relevant Debit Date until the date on which payment is actually received in full.
- 18(14) The Auction Official shall cause there to be made available electronically or by some other means the name of any Issuer who fails to credit to the Lloyd's Auction Settlement Account the Debit Amount payable by that Issuer in cleared funds by the Relevant Debit Date.
- 18(15) If any Debit Amount is not paid in full by the Relevant Debit Date, the Auction Official shall cause there to be credited to each Issuer's Account by 31 March 2006 an amount equal to:

$$R \times \frac{A}{C}$$

Where A and C have the significance given in Rule 18(5) and R is the amount paid or recovered in respect of any Debit Statement after the Relevant Debit Date, together with such interest as shall have accrued thereon.

- 18(16) If before any credit date the Auction Official becomes aware that an Issuer is

unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986, the Auction Official shall not cause the Credit Amount to be credited to that person's Issuer's Account but shall instead cause that amount, or, as the case may be, Actual Credit Amount, to be paid, at its discretion, either to an account opened in the name of any Substitute Agent appointed pursuant to paragraph 1 of the Substitute Agents Byelaw (No. 20 of 1983) or to the relevant Participants directly.

- 18(17) An Issuer shall ensure that all amounts received from or payable to Participants under this Rule 18 are held in a bank account set up for the purpose which is designated a client account and the title of which contains words which clearly indicate that the account is for the purpose of holding the Auction monies of Participants.

19 **Nomination**

- 19(1) For the purposes of Clause 11A.3 of any agreement in terms of the standard managing agent's agreement (general) and the standard managing agent's agreement (corporate member), the Auction Official shall be and is hereby nominated by the Council as a person in favour of whom authority may be given to sign nominations on behalf of any member under Clause 11A.
- 19(2) For the purposes of paragraph 2(2) of the Second Nomination Byelaw, the Auction Official shall be and is hereby nominated by the Council as a person in favour of whom authority may be given to sign second nominations (within the meaning of that byelaw) on behalf of any person entitled to make such a nomination under that byelaw.
- 19(3) The submission of a Subscription Order on behalf of a Subscriber shall constitute an offer on the part of the Subscriber made to the Auction Official to pay an amount equal to the Subscriber's Premium to the Auction Official, in its capacity as trustee for all Tenderers whose Orders shall be satisfied in whole or in part, in consideration of acquiring an entitlement to participate in the Relevant Syndicate with a member's syndicate premium limit equal to, or increased by, the amount of Subscribed Capacity.
- 19(4) The submission of a Tender Order on behalf of a Tenderer shall constitute an offer on the part of the Tenderer made to the Auction Official to reduce the member's syndicate premium limit with which he would otherwise be entitled to participate in the Relevant Syndicate by the amount specified in the Tender Order in consideration of receipt of a payment of an amount of not less than the Floor Limit, in respect of each £1 of Tendered Capacity.
- 19(5) The Relevant Agent shall do all such acts and things and execute all such documents as shall be necessary or expedient on its part to give effect to any Order which is satisfied in whole or in part, and in particular but without limitation:
- a) to enable any Subscriber, to whom any Relevant Capacity has been allocated to underwrite as a member of the Relevant Syndicate for the 2006 year of account with a member's syndicate premium limit equal to, or if he is otherwise entitled to participate in that syndicate, with a member's syndicate premium limit

increased by, the amount of Relevant Capacity allocated to him;

- b) the Relevant Agent shall enter into an agreement in the terms of the standard managing agent's agreement (general) or the standard managing agent's agreement (corporate member) with any Subscriber to whom any Relevant Capacity is allocated if there is no such agreement current between the Relevant Agent and that Subscriber;
- c) the Relevant Agent, unless the Council agrees otherwise, shall enter into an agreement in the terms of the standard agents' agreement with the members' agent of any Subscriber to whom any Relevant Capacity is allocated if there is no such agreement current between the Relevant Agent and that members' agent; and
- d) where the amount of the Relevant Capacity surrendered by a Tenderer is less than the amount of the prospective participation of the Tenderer, to enable that Tenderer to underwrite as a member of the Relevant Syndicate for the 2006 year of account with a member's syndicate premium limit equal to the difference between those amounts.

20 **Disclosure and Market Conduct**

- 20(1) No person shall subscribe for or tender any prospective participation or submit an Order if he is in possession of Relevant Information which has not been made publicly available.
- 20(2) Each Issuer shall prepare and deliver to the Auction Official on or before 5 August 2005 a Form D giving details of all persons, on whose behalf it may submit Orders, who are connected with any underwriting agent. Each Issuer shall prepare and deliver to the Auction Official a further Form D in respect of each such person who becomes connected with any underwriting agent after 5 August 200 and such Form D shall be delivered to the Auction Official within 5 days of that person becoming so connected.
- 20(3) Each managing agent shall ensure that it has procedures in place such that no Order shall be submitted on behalf of any person connected with that managing agent unless clearance from the Compliance Officer of that managing agent has been obtained. The Compliance Officer shall not give clearance where he has reason to believe that the managing agent or that person may have, in its or his possession, Relevant Information which has not been made publicly available. The Compliance Officer shall keep a record of all applications for clearance submitted to him and his decision in respect of each application. The Compliance Officer shall comply within 2 working days with any request for copies of such record made by the Auction Official.
- 20(4) Without limiting the provision made in paragraph (i) of Clause 4.2 of any agreement in the terms of the standard managing agent's agreement (general) or standard managing agent's agreement (corporate member), each Relevant Agent shall ensure that any Relevant Information which comes into its possession shall be disclosed promptly to the members of the Relevant Syndicate and shall promptly

provide to the Auction Official at the same time particulars of any such disclosure in the form required by the Auction Official from time to time. The Auction Official shall prepare a register in which he shall include the particulars provided to him for each syndicate. That register shall be open for public inspection during Business Hours in each week in which an Auction is held. The Auction Official shall also cause to be published in such form and in such manner as he may from time to time determine the particulars provided to him for each syndicate.

20(5) No Issuer or Participant shall (and each Issuer and Participant shall use its reasonable endeavours to ensure that no person connected with it shall):

- a) make any statement, promise or forecast which it knows to be misleading, false or deceptive or dishonestly conceal any material facts; or
- b) do any act or engage in any course of conduct which creates a false or misleading impression as to the market in or value of Relevant Capacity

with a view to any other person issuing an Order or subscribing for or tendering any prospective participation in any Auction or refraining from doing so.

20(6) Each managing agent shall ensure that no person connected with it shall submit an Order unless the managing agent has submitted a Syndicate Business Forecast in respect of the Relevant Syndicate prior to the commencement of the Auction in which the Order is to be submitted.

20(7) A managing agent shall not publish a Syndicate Business Forecast in respect of any of its syndicates on the working day before Day One of an Auction, Day One of an Auction and Day Two of an Auction.

20(8) In this Rule 20:-

"Relevant Information" means, in relation to a syndicate, information which could reasonably be expected to influence the decision of any person whether to become or remain a member of that syndicate, or to increase or reduce his participation in that syndicate and shall include any information relating to:

- a) any change of active underwriter or the deputy of the active underwriter or other personnel responsible for key roles in the business of the syndicate, including but not limited to the purchase and vetting of reinsurance and cash and investment management; or
- b) any sale of the goodwill of the business of acting as managing agent of that syndicate, any sale of the benefit or burden of the contracts relating to the management of that syndicate, any cessation of acceptance of new or renewal business on behalf of that syndicate by the managing agent of that syndicate or any syndicate merger (within the meaning of paragraph 1(2) of the Major Syndicate Transactions Byelaw (No. 18 of 1997)) in which the syndicate is either a ceasing syndicate (within the meaning of that paragraph) or the successor syndicate (within the meaning of that paragraph); or

- c) any proposal to effect a transaction, arrangement or matter described in b) above, where a firm intention to effect such transaction, arrangement or matter has been formed; or
- d) any material change in the nature or scope of the underwriting or reinsurance accepted or effected on behalf of the syndicate; or
- e) any material change in the geographical split of syndicate business being written; or
- f) the identity of any person which the Relevant Agent is aware is proposing to acquire control of the Relevant Agent; or
- g) any material change in the risk-based capital ratio applicable to the syndicate; or
- h) any material change in the participation in the syndicate of the active underwriter or in any shareholding or interest the active underwriter may have in any corporate member which is a member of the syndicate; or
- i) any material change in a syndicate's business plan for 2006 as set out in Rule 4(3) c)(ii) and 4(4) above.

20(9) For the purposes of Rule 20, Appendix 2 and Form D, a person is "connected" with an underwriting agent if he is:

- a) a director or manager of that underwriting agent;
- b) a spouse of a director or manager of that underwriting agent;
- c) any other Staff Member of that underwriting agent;
- d) a corporate member or corporate candidate which participates or is to participate exclusively or predominantly in one or more of the syndicates managed by that underwriting agent;
- e) a body corporate which controls or is controlled by or is under common control with that underwriting agent; or
- f) a corporate member or corporate candidate in respect of which any person referred to in a), b) or c) above, either alone or with that person's spouse and/or children (including step-children and adopted children) under the age of 18 years, is a 30 per cent controller.

20(10) For the purposes of Rule 20 and Appendix 2, a person ("the former") is "connected" with a person who is not an underwriting agent ("the latter") if the latter is an associate (within the meaning of the Major Syndicate Transactions Byelaw (No. 18 of 1997) of the former.

21 **Commencement**

These conditions and requirements shall come into force on 1 May 2005.

SCHEDULE INTERPRETATION

In these Rules unless the context otherwise requires:-

"active underwriter"	has the meaning given to it in the Definitions Byelaw (No. 3 of 2004);
"Agency Agreements Byelaw"	means the Agency Agreements Byelaw (No. 8 of 1988);
"agents' syndicate list"	has the meaning given to it in the Agency Agreements Byelaw;
"Auction"	in relation to a syndicate, means an auction within the meaning of paragraph 2(1) of the Auction Byelaw conducted in accordance with these Rules;
"Auction Byelaw"	means the Auction Byelaw (No. 14 of 1997);
"Auction Control Sheet"	means a summary of Orders contained in an electronic file or a summary in such other format as may be agreed by the Auction Official;
"Auction Fee"	means a fee payable pursuant to Rule 15;
"Auction Office"	means such electronic site as the Auction Official may designate for the receipt of all notices, orders and other submissions to be given or made electronically, and, in relation to notices, forms and other submissions to be given or made to the Auction Official in physical form, means the designated officials in the, Membership Services Unit;
"Auction Official"	means the person appointed pursuant to paragraph 3(1) of the Auction Byelaw and shall include, in respect of and to the extent of the powers and duties so delegated, any person to whom the Auction Official shall have delegated any of his powers or duties for the time being pursuant to paragraph 3(3) of the Auction Byelaw;
"Authorised MAPA Operator"	<p>means a MAPA Operator who has obtained authority in the terms set out in Form E from each of the members of the MAPA as shall participate through the MAPA for the 2006 year of account or who submits Orders in respect of a MAPA operated by it on the basis that:-</p> <p>(i) the aggregate amount of all premiums payable by it pursuant to Subscription Orders submitted by it in 2005 in respect of that MAPA does not exceed the aggregate amount of premiums receivable by it pursuant to Tender</p>

Orders submitted by it in 2005 in respect of that MAPA;
and

- (ii) the aggregate of the member's syndicate premium limits of each member of that MAPA (disregarding any part of such limits allocated otherwise than through that MAPA) for all syndicates for the 2006 year of account will not, unless the member has agreed otherwise, be less than that member's aggregate for the 2005 year of account;

"Available Capacity"	has the meaning given in Rule 13(5);
"body corporate"	has the meaning given in the Companies Act 1985;
"Business Hours"	means the hours from 9.00am to 2.00pm on Day One of an Auction and 10.00am to 3.00pm on Day Two of an Auction;
"business plan"	has the meaning given in the Definitions Byelaw (No. 3 of 2004)
"control"	has the meaning given in the Definitions Byelaw (No. 3 of 2004) and "controlled" shall be construed accordingly;
"corporate candidate"	means a candidate, within the meaning of paragraph 3(2)(c) of the Membership Byelaw, which is a body corporate or a Scottish limited partnership;
"corporate member"	means a member of Lloyd's which is a body corporate or a Scottish limited partnership;
"Council"	means the Council of Lloyd's constituted by Section 3 of Lloyd's Act 1982 and includes its delegates and persons by whom it acts;
"Credit Amount"	shall be construed in accordance with Rule 18(2);
"Credit Statement"	shall be construed in accordance with Rule 18(2);
"Debit Amount"	shall be construed in accordance with Rule 18(2);
"Debit Statement"	shall be construed in accordance with Rule 18(2);
"deceased member"	means a person who has died during 2005 but who until the time of his death was a Qualifying Member;
"electronic file"	means an electronic file containing one or more Orders relating to one or more persons;
"Floor Limit"	has the meaning given in Rule 8(3);

"Form"	means a notice or other document, the form and contents of which is to be prescribed by the Auction Official pursuant to paragraph 3(3) of the Auction Byelaw for the purposes of a particular Rule;
"individual member"	means a member of Lloyd's who is an individual;
"Issuer"	means a person who is permitted pursuant to Rule 6 to submit an Order qualifying for inclusion in an Auction;
"Lloyd's Auction Settlement Account"	means the Corporation of Lloyd's Account entitled "Lloyd's Auction Settlement Account";
"Mandatory Offer Byelaw"	means the Mandatory Offer Byelaw (No. 5 of 1999);
"MAPA"	means a members' agents pooling arrangement within paragraph 10(2) of the Agency Agreements Byelaw;
"MAPA Operator"	in relation to a MAPA, means a members' agent which operates that MAPA within the meaning of paragraph 1(2) of the Agency Agreements Byelaw;
"member"	means as the context requires, an individual member or a corporate member;
"member's syndicate premium limit"	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
"Membership Byelaw"	means the Membership Byelaw (No. 17 of 1993);
"Order"	means an offer submitted to the Auction Official in accordance with the requirements of these Rules;
"Participant"	means a Tenderer or Subscriber;
"participation nomination"	means a nomination such as is referred to in clause 11A.2 of an agreement in the terms of the standard managing agent's agreement (general) or the standard managing agent's agreement (corporate member);
"permitted bilateral arrangement"	has the meaning given in the Bilateral Arrangements Byelaw (No. 4 of 1999);
"Pre-emption Byelaw"	means the Syndicate Pre-emption Byelaw (No. 19 of 1997);
"prospective participation"	means in relation to any syndicate, the amount of the member's syndicate premium limit with which a person will for the time being be entitled to participate as a member of that syndicate for the 2006 year of account;

"Qualifying Member"	means in relation to any syndicate, a person who is a qualifying member within the meaning of paragraph 2(2) of the Pre-emption Byelaw save that the reference to the date on which an offer is made in paragraph 2(2)(a) shall be construed instead as a reference to the date on which an Order is submitted on behalf of that person;
"Relevant Agent"	in relation to any syndicate, means the managing agent of that syndicate;
"Relevant Arrangement"	means a conversion arrangement, share swap arrangement or surrender arrangement each as defined in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);
"Relevant Capacity"	in relation to any syndicate, means the aggregate of the prospective participations of the persons entitled to participate in the syndicate for the next following year of account;
"Relevant Debit Date"	has the meaning given in Rule 18(3);
"Relevant Syndicate"	means in relation to any managing agent, any Order and any person, a syndicate which that managing agent manages, to which that Order relates or of which that person is a member;
"Relevant Time"	the time of receipt of an Order as determined by the Auction Official pursuant to Rules 8(8) and 11;
"requirements of the Council"	means any requirement imposed by any byelaw or regulation made under Lloyd's Acts 1871 to 1982, or under any authority given by any premiums trust deed, any code of practice, underwriting guidance, condition or requirement made or imposed or direction given under any such byelaw, regulation or authority or, any direction given under Section 6 of Lloyd's Act 1982, any requirement imposed by or under any agreement, deed or other instrument between Lloyd's or the Council and any member, underwriting agent or any trustee of any premiums trust deed, or by any undertaking in favour of Lloyd's or the Council given by a member, an underwriting agent or any trustee or any premiums trust deed and any other requirement imposed or direction given by the Council under Lloyd's Acts 1871 to 1982; and the phrase "required by the Council" and similar phrases shall be construed accordingly;
"Revision Notice"	has the meaning given in Rule 11;
"Rollover Statement"	has the meaning given in Rule 12(1);
"Scottish limited partnership"	means a limited partnership constituted in Scotland under the Limited Partnerships Act 1907;

"second nomination"	has the meaning given in the Second Nomination Byelaw;
"Second Nomination Byelaw"	means the Assignment of Syndicate Participations (Second Nomination) Byelaw (No. 6 of 2000);
"Staff Member"	in relation to any members' agent or managing agent, means any partner in or director, employee or officer of that members' agent or managing agent and any person engaged on a full-time basis under a contract for services by that members' agent or managing agent;
"standard members' agent's agreement", "standard agent's agreement", "standard managing agent's agreement (general)" and "standard managing agent's agreement (corporate member)"	have the meanings respectively given in the Agency Agreements Byelaw;
"Statement Date"	has the meaning given in Rule 18(1);
"Subscribed Capacity"	means the amount of the prospective participation specified in a Subscription Order;
"Subscriber"	means a person on whose behalf a Subscription Order is submitted;
"Subscriber's Premium"	has the meaning given in Rule 8(4);
"Subscription Order"	means an order qualifying for inclusion in an Auction pursuant to Rule 5 subscribing for prospective participations;
"syndicate allocated capacity "	means, in relation to a syndicate, the aggregate of the member's syndicate premium limits of all the members for the time being of the syndicate together with the member's syndicate premium limit of any person who was a member of the syndicate on 1 January 2005 but who has subsequently died;
"Syndicate Business Forecast"	means a business forecast prepared by the managing agent of a syndicate in respect of the following year of account for circulation to members of the syndicate and supporting members' agents;
"syndicate list"	has the meaning given in the Agency Agreements Byelaw;
"Tender Order"	means an order qualifying for inclusion in an Auction pursuant to Rule 5 tendering prospective participations;

"Tendered Capacity"	means the amount of the prospective participation specified in a Tender Order;
"Tenderer"	means a person on whose behalf a Tender Order is submitted;
"30 per cent controller"	means a controller (within the meaning given in paragraph 2 of the Schedule to the Membership Byelaw) in whose case the percentage referred to in paragraphs 2(d) and 2(da) of that Schedule is 30 or more;
"Withdrawal Notice"	has the meaning given in Rule 12(3)(a); and
"working day"	means any day other than a Saturday, a Sunday or bank or public holiday in England.

In these Rules, any reference to:

- (a) a person subscribing for prospective participations shall be construed as a reference to that person making an offer falling within Rule 19(3);
- (b) a person tendering prospective participations shall be construed as a reference to that person making an offer falling within Rule 19(4);
- (c) a person being allocated prospective participations shall be construed as a reference to a Subscription Order submitted on behalf of that person being satisfied in whole or in part pursuant to Rule 13(5); and
- (d) a person surrendering prospective participations shall be construed as a reference to a Tender Order submitted on behalf of that person being satisfied in whole or in part pursuant to Rule 13(5).

Any reference in these Rules to a byelaw is a reference to it as already amended and in force from time to time and to any byelaw that re-makes or consolidates, with or without amendment, any such byelaw.

In these Rules, use of any gender includes the other genders.

The expressions "Issuer", "Lloyd's Auction Settlement Account" and "Participant" are used in the Lloyd's Premiums Trust Deeds (PTD G 2002 (MEM 656A) and PTD L 2002 (MEM 657B))

Relevant Dates 2005**APPENDIX 1**

Auction		Statement Date	Debit Date	Credit Date
Auction 1: Day One Tuesday 6 September Day Two Wednesday 7 September				
Auction 2: Day One Thursday 15 September Day Two Friday 16 September		Auctions 1, 2 and 3 7 October	Auctions 1, 2 and 3 25 October	Auctions 1, 2 and 3 28 October]
Auction 3: Day One Tuesday 27 September Day Two Wednesday 28 September				
Fourth Auction: Day One Thursday 17 November Day Two Friday 18 November		29 November	12 December	15 December

PUBLICATION OF RESULTS

The information to be published by the Auction Official on the allocation of prospective participations in any Auction shall include the following details:

- Auction number
- Syndicate number
- Total amount of prospective participations surrendered or allocated
- The identity of successful Tenderers and Subscribers where:
 - the amount of prospective participations surrendered or allocated exceeds £100,000;
 - the successful Tenderer or Subscriber is "connected" with an underwriting agent for the purposes of Rule 20
- The identity of each Subscriber who, on satisfaction in whole or in part of a Subscription Order, holds 25% or more of the syndicate allocated capacity of the syndicate (when taken with any other prospective participation held by each person connected with it) ("25% Subscriber")
- The identity of each 25% Subscriber who, on satisfaction in whole or in part of a Subscription Order (and when taken with any other prospective participation held by each person connected with it) increases its percentage holding in respect of that syndicate through a whole percentage point (e.g. 26%, 27% etc)

FORM A**DECLARATION BY ISSUER****Part I : Details of Issuer**

Name of Issuer	Agent Code
Address	
Telephone	
Fax	
Market Mail or E-Mail Address	

Part II : Issuer's Auction Funding Account Details

(account where net proceeds are to be credited)

Account Number
Title *
Bank
Branch
Sort Code

[* Account should be a designated client account and its title should indicate that the account holds Lloyd's Auction monies.]

Please indicate below which versions of the individual issuer results reports you wish to receive and your preferences for which medium you access general information and newsletters:

Issuer Results Files
(please tick preference)

CSV layout

XLS layout

WK1 layout

Auction Newsletter
(please tick preference)

Send via
E-mail

Don't send via E-mail
Will access direct on Internet

**Additional reports
(please tick preference)

Send via
E-mail

Don't send via E-mail
Will access direct on Internet

** (Connected persons, Stakebuilder's Report, Bids in excess of £100,000)

Part III : Representations and Undertakings

- 1 The following representations and undertakings ("the undertakings") shall, subject to paragraph 2 below, apply in respect of each Order which we submit and (other than undertaking A which is given in favour of all Tenderers) are given in favour of the Relevant Agent of each syndicate to which an Order submitted by us relates:
 - A We undertake to pay the amount specified in any Debit Statement issued to us in cleared funds by the Relevant Debit Date.
 - B We confirm that we have taken proper account of the information contained in the Syndicate Business Forecast of each Relevant Syndicate.
 - C The person named in a Subscription Order will be a person who is permitted to subscribe for prospective participations under Rule 7(1) and the person named in a Tender Order will be a person who is permitted to tender prospective participations under Rule 7(2).
 - D We irrevocably undertake that we will when called upon to do so execute, in respect of a syndicate to which any Order submitted by us relates, an agents' syndicate list in a form complying with the requirements of the Council and including, in respect of the Relevant Participant on whose behalf we submit an Order, a member's syndicate premium limit equal to the prospective participation of that Relevant Participant (a Relevant Participant being for this purpose a Participant (other than a Participant who terminates the appointment of the Relevant Agent pursuant to clause 11.5 of an agreement in the terms of the standard managing agent's agreement (general) or standard managing agent's agreement (corporate member))).
 - E We shall enter into an agreement with the Relevant Agent in the terms of the standard managing agent's agreement (general) or standard managing agent's agreement (corporate member) (as the case may be) on behalf of any Subscriber to whom any Relevant Capacity is allocated if there is no such agreement current between the Relevant Agent and the Subscriber.
 - F We agree that, save for any Subscriber which is a corporate candidate, each Subscriber to whom any Relevant Capacity is allocated shall be a Provisional Insurer within the meaning of clause 8.2 of an agreement in the terms of the standard managing agent's agreement (general) or standard managing agent's agreement (corporate member) if the conditions set out in that clause are satisfied in respect of that Subscriber and that the amount of each Relevant Participant's overall premium limit to be allocated to the Provisional Syndicate (within the meaning of clause 2.3 of the standard agent's agreement) shall be an amount equal to the prospective participation of the Relevant Participant.
 - G We will, when called upon to do so, execute an agents' syndicate list in a form complying with the requirements of the Council and including prospective participations by the members of the MAPA for the 2006 year of account such that their member's syndicate premium limits (disregarding any part of such limits allocated otherwise than through the MAPA) amount in aggregate to not less than the prospective MAPA participation (but excluding the prospective participations of those members of the MAPA who are members of the syndicate in that capacity for the 2005 but not the

2006 year of account) and agree that, if the managing agent so requires, the managing agent will be entitled to an annual fee for the 2006 year of account on the basis of those member's syndicate premium limits.

- 2 The undertakings lettered A and C above shall apply to all Orders submitted by us. The undertaking lettered B above shall apply to all Orders submitted by us except for any Order relating to the syndicate of a Relevant Agent which, at the time the Order is issued by us, has not yet issued its Syndicate Business Forecast. The undertakings lettered D, E and F above shall apply to all Orders submitted by a members' agent acting on behalf of Participants in respect of prospective participations otherwise than through a MAPA. The undertaking lettered G above shall apply to all Orders submitted by a member's agent in its capacity as an Authorised MAPA Operator.
- 3 The terms used in this form shall have the meanings given to them in the Auction Rules 2005.

Part IV : Authorised Persons

The persons identified below have been duly authorised to submit Orders on behalf of the Issuer :

	Name	Title	Signature
A*			
B*			

* "A" should be the main contact for the purposes of the auction.

We hereby confirm that all the statements made in this Declaration are true and accurate.

.....

Partner/Director

.....

Partner/Director/Secretary

FORM B

INSTRUCTIONS AND AUTHORITY TO TENDER/SUBSCRIBE

Name

Membership Number

[for subscriptions, insert syndicate number(s), amount of capacity and subscriber's premium]

[for tenders, insert syndicate number(s), amount of capacity and floor limit]

Authority

You are authorised to act on my/our¹ behalf in the auctions to be held in respect of the syndicates listed above (or as otherwise advised by me/us¹ to you in writing (whether by letter, fax or otherwise) or over the telephone) to, as the case may be, subscribe for prospective participations at a premium equal to the Subscriber's Premium specified above or tender prospective participations at a premium equal to the Floor Limit specified above (or, in either case, as otherwise advised by me/us¹ to you in writing (whether by letter, fax or otherwise) or over the telephone) and to agree, if the managing agent of the relevant syndicate so requires, that that managing agent will be entitled to an annual fee for the 2006 and subsequent years of account on the basis of my/our¹ member's syndicate premium limit.

Undertaking

I/We¹ hereby irrevocably undertake to execute, in respect of each syndicate to which any Subscription Order or Tender Order submitted on my/our¹ behalf relates, a syndicate list, complying with the requirements of the Council and including a member's syndicate premium limit equal to my/our¹ prospective participation (see note below).

Provisional Syndicate

You are hereby authorised to enter into an agreement on my/our¹ behalf in the terms of the standard managing agent's agreement (general) or the standard managing agent's agreement (corporate member) with the relevant agent of any syndicate in respect of which I/we¹ subscribe for prospective participations if there is no such agreement current between that managing agent and myself/us¹.

You are hereby authorised to agree that the amount of my/our¹ overall premium limit to be

¹The use of "our", "we" and "us" only applies where these instructions are being given by a corporate member or a corporate candidate (which in each case includes a Scottish limited partnership).

allocated to any Provisional Syndicate (within the meaning of clause 2.3 of the standard agent's agreement) shall be an amount equal to my/our¹ prospective participation.

Acknowledgement

I/We¹ acknowledge that I/we¹ have read the Appendix to the Explanatory Guide (Limitations to the auction process) and understand the limitations of the auction process.

Signed² Date

Signed by³ Date
for and on behalf of []

Note: prospective participation refers to the amount of the member's syndicate premium income limit with which you will be entitled to participate on a particular syndicate for the next following year of account.

Note

In the interest of administrative efficiency, it was agreed that, from 1 January 2003, any instruction or authority given by a member in the form of Form B above would be “evergreen”, that is it would remain in force until revoked, modified or subsequently withdrawn by the relevant member. Any member therefore who wishes his or her instruction or authority to be valid only for one particular year’s auctions should indicate that fact clearly on the Form B submitted to their members’ agent. For the avoidance of doubt, members and their advisers should note that any Form B which contains specific instructions (as to syndicates, amounts of capacity and/or prices) with regard to subscriptions or tenders of capacity will be deemed to be valid only for the year in which it is completed (determined, where necessary, by reference to the date on which it was signed by the relevant member or his/her representative).

²For use by individuals.

³For use by corporate members or corporate candidates - insert name.

FORM C

Part I : Consent of Relevant Agent

Issuer Name/Code:

Membership Number:

Syndicate Number:

We hereby give our consent for the purpose of Rule 7(1)(b) (candidates for membership) or 9 (significant participations) or Rule 3(2)(e) of the Bilateral Arrangements (2005) Rules.*

Managing Agency	Name	Title	Signature	Telephone No

*Delete as appropriate

Part II : Additional Confirmation

Issuer Name/Code:

Membership Number:

Syndicate Number:

We hereby confirm that the candidate for membership has available sufficient funds to be able to provide funds at Lloyd's in the amount required for the candidate to be permitted under requirements of the Council to participate in the Relevant Syndicate for the 2006 year of account with a member's syndicate premium limit equal to the amount of Subscribed Capacity taking into account any other Subscription Orders which have been submitted on his behalf in respect of that or any other syndicate.

	Name	Title	Signature
Authorised Person			

TO BE COMPLETED BY AUCTION OFFICE

Task:					
Initials:					

Date:

Bid No:

FORM D**LIST OF CONNECTED PERSONS**

Issuer Name/Code	Member Agent/Managing Agent/Corporate Member/Adviser
------------------	--

Connected Person ¹	Membership No. ²	Category ³

Notes for completion

NB Disclosure is not required in respect of MAPA participations.

1. Provide details for connected persons by 5 August 2005 to the Auction Office.
2. Complete where applicable.
3. Complete as appropriate:
D/M = director or manager falling within Rule 20(9)(a)
S = spouse of director or manager falling within Rule 20(9)(b)
SM = Staff Member falling within Rule 20(9)(c)
CM/CC = a corporate member or corporate candidate falling within Rule 20(9)(d)
C = controller which is a body corporate falling within Rule 20(9)(e)
CBC = controlled body corporate falling within Rule 20(9)(e)
CC = body corporate under common control falling within Rule 20(9)(e)
30%= a corporate member or corporate candidate falling within Rule 20(9)(f)

Confirmation

We hereby confirm that each of the statements made in the Declaration is true and accurate in respect of this Notice.

	Name	Title	Signature
Authorised Person			

FORM E

AUTHORITY OF A MAPA OPERATOR

MAPA operators may wish to develop their own detailed agreements in connection with the Auctions. Depending on the circumstances, such agreements are likely to include the following:

- 1 Authority to tender prospective participations and to authorise the Auction Official to make any nomination pursuant to Clause 11A.2 of each agreement in the terms of the standard managing agent's agreement (general) or standard managing agent's agreement (corporate member) to which that member is party.
- 2 Authority to subscribe for prospective participations.
- 3 Authority to incur expenditure of up to a specified amount.

BILATERAL ARRANGEMENTS (2005) RULES

Contents

Rule

- 1 Citation
- 2 Interpretation
- 3 Validation
- 4 Fees
- 5 Unsatisfied auction orders
- 6 Withdrawal and revision of notices
- 7 Settlement of auction orders
- 8 Nomination
- 9 Overseas jurisdictions
- 10 Restrictions on advertisements
- 11 Commencement

Prescribed Forms

Form BN: Bilateral Notice (including Form BN/BTG -/- and Form BN/BSG -/-)

Form BW: Bilateral Withdrawal Notice

Form BR: Bilateral Revision Notice

BILATERAL ARRANGEMENTS (2005) RULES

The Council of Lloyd's in exercise of its powers under section 6(1) of Lloyd's Act 1982, paragraph 2(5) of the Auction Byelaw (No. 14 of 1997) and paragraphs 5 and 8 of the Bilateral Arrangements Byelaw (No. 4 of 1999) hereby prescribes the following conditions and requirements.

1. Citation

These conditions and requirements may be cited as the Bilateral Arrangements (2005) Rules.

2. Interpretation

2(1) Subject to Rule 2(2), except where the context otherwise requires, words and phrases defined in the Bilateral Arrangements Byelaw (No. 4 of 1999) and the Auction Rules 2005 have the same meanings where used in these Rules.

2(2) In these Rules:

- (a) “connected company” means, in relation to a body corporate, any other body corporate which controls or is controlled by or is under common control with that body corporate;
- (b) any reference to a byelaw is a reference to it as already amended and in force from time to time and to any byelaw that re-makes or consolidates, with or without amendment, any such byelaw;
- (c) use of any gender includes the other genders.

3. Validation

3(1) A permitted bilateral arrangement may be validated only on Day Two or the working day after Day Two of an auction and shall not be validated later than 1.00pm on the working day after Day Two of an Auction unless the Auction Official otherwise agrees.

3(2) A permitted bilateral arrangement shall not be validated unless -

- (a) the prospective participation to which the arrangement relates is not less than £250,000;

(b) by 2.00pm (or such later time as the Auction Official may permit) on Day Two of an auction there has been submitted to the Auction Office notice of the proposed arrangement in Form BN (a "bilateral notice") containing a statement signed by or on behalf of each of the parties to the arrangement and giving particulars of -

- (i) the parties to the arrangement, stating which of them is making a participation nomination and/or a second nomination;
- (ii) the syndicate concerned;
- (iii) the amount of prospective participation on the syndicate in respect of which a participation nomination and/or a second nomination is to be made;
- (iv) the price to be paid in respect of each £1 of the prospective participation which is the subject of the arrangement (the "bilateral price");
- (v) such other particulars as the Auction Official may require, whether generally or in relation to the particular arrangement;

and certifying

- (vi) that the only consideration for any participation nomination and any second nomination is cash;
- (vii) that in respect of the syndicate concerned -
 - (aa) no subscription order previously submitted by or on behalf of the party making the participation nomination in any auction during 2005 has been satisfied (in whole or in part);
 - (ab) the party making the participation nomination has not had a participation nomination or a second nomination made in his favour under a permitted bilateral arrangement made during 2005;
 - (ac) no tender order previously submitted by or on behalf of the nominee in any auction during 2005 has been satisfied (in whole or in part); and
 - (ad) the nominee has not previously made during 2005 a participation nomination under a permitted bilateral

arrangement;

- (viii) that, to the extent the proposed arrangement involves the making of a second nomination, the person making the second nomination is entitled to do so under the Second Nomination Byelaw and, in particular, paragraph 2(5) of that byelaw;
 - (ix) that neither party to the proposed arrangement is in possession of any Relevant Information which has not been made publicly available; and
 - (x) where a party to the proposed arrangement is resident in a jurisdiction other than the United Kingdom, that all local laws (including any applicable securities laws) have been and will be complied with;
- (c) the prospective participation on the syndicate concerned of the person making any participation nomination is not less than the amount of the prospective participation that is subject to the arrangement or, where the party making any participation nomination and any second nomination is doing so on behalf of the estate of someone who has died, the prospective participation on the syndicate concerned of the deceased person would, but for his death, be not less than the amount of the prospective participation that is subject to the arrangement;
- (d) the nominee has complied with his funding obligations under Rule 5(1); and
- (e) where the nominee is a corporate candidate and the prospective participation to which the proposed arrangement relates is, on its own or when taken with each other prospective participation allocated to the corporate candidate pursuant to all bilateral notices previously submitted by or on behalf of that candidate in 2005, more than 3% of the Relevant Capacity, the consent of the managing agent of the syndicate concerned has been given by that managing agent completing, signing and submitting to the Auction Official Part I of Form C to the Auction Rules.

3(3) For the purposes of Rule 3(2)(a) -

- (a) an arrangement made in respect of prospective participations through a single MAPA shall be treated as a single arrangement and the respective amounts of those prospective participations shall be aggregated in determining whether the condition specified in that Rule is fulfilled;
- (b) save where one party to the arrangement is a connected company of the

managing agent of the syndicate concerned, an arrangement made by a members' agent on behalf of members for whom it acts as such in respect of the prospective participations of those members shall be treated as a single arrangement and the respective amounts of those participations shall be aggregated in determining whether the condition specified in that Rule is fulfilled;

- (c) the amount of any prospective participation satisfied by a party to the proposed arrangement pursuant to Rule 6 below shall be taken into account in determining whether the condition specified in Rule 3(2)(a) is fulfilled.

- 3(4) Notwithstanding Form BN, the Auction Official may prescribe any form, whether electronic or otherwise, to be used for the submission of any notice or information to the Auction Office for the purposes of this Rule 3.
- 3(5) No later than 9.00am (or such later time as the Auction Official may permit) on the working day after Day Two of an Auction the Auction Official shall cause there to be published electronically in a form prescribed by him, or by such other means as he may agree, particulars of any permitted bilateral arrangement which has been validated, including those particulars submitted under Rule 3(2).

4. **Fees**

- 4(1) A fee of £10 (inclusive of VAT) shall be payable by each party by whom or on whose behalf a bilateral notice is submitted.
- 4(2) An additional fee shall be payable by each party to a permitted bilateral arrangement in respect of each arrangement which is validated. The amount of the fee shall be equal to 0.05% of the amount of prospective participation acquired (in the case of a nominee) or in respect of which any participation nomination and any second nomination is made (in the case of the party making any participation nomination and any second nomination).
- 4(3) A fee of £75 (inclusive of VAT) shall be payable by each party by whom or on whose behalf a withdrawal notice pursuant to Rule 6 is submitted.

5. **Unsatisfied auction orders**

- 5(1) Where a bilateral notice concerns the same syndicate as that specified in any unsatisfied tender orders and the bilateral price specified in that notice exceeds the respective floor limits of those unsatisfied orders -

- (a) subject to the following provisions of this Rule 5, a nominee shall satisfy those tender orders in priority to the prospective participation which is the subject of the proposed arrangement;
- (b) the bilateral notices, if there is more than one, shall be ranked in order of their respective bilateral prices with the notice specifying the highest bilateral price ranking first in order of priority;
- (c) any bilateral notices, if there is more than one, specifying the same bilateral price shall be ranked equally and, subject to Rules 5(1)(d) and 5(1)(e), any orders shall be satisfied pro rata to the amount of the prospective participations specified in the respective notices;
- (d) the unsatisfied tender orders shall be ranked in order of their respective floor limits with the tender order specifying the lowest floor limit ranking first in order of priority;
- (e) any unsatisfied tender orders specifying the same floor limit shall be ranked according to the Relevant Time attributable to those orders with the tender order attributed the earliest Relevant Time being accorded priority;
- (f) the price per £1 of prospective participation to be paid to the tenderer in respect of any tender order satisfied by a nominee shall be an amount equal to:

$$\frac{A}{B}$$

where:

A = the aggregate of the amounts payable by all nominees for prospective participations to which the tender order relates; and

B = the total amount of prospective participations to which the tender order relates which have been satisfied by the nominees.

5(2) Where a bilateral notice concerns the same syndicate as that specified in any unsatisfied subscription orders and the bilateral price specified in that notice is less than the respective subscriber's premium of those unsatisfied subscription orders -

- (a) subject to the following provisions of this Rule 5, a party making a participation nomination and/or second nomination shall satisfy those subscription orders in priority to the prospective participation which is the subject of the proposed arrangement;

- (b) the bilateral notices, if there is more than one, shall be ranked in order of their respective bilateral prices with the notice specifying the highest bilateral price ranking first in order of priority;
 - (c) any bilateral notices, if there is more than one, specifying the same bilateral price shall be ranked equally and, subject to Rules 5(2)(d) and 5(2)(e), any orders shall be satisfied pro rata to the amount of the prospective participations specified in the respective notices;
 - (d) the unsatisfied subscription orders shall be ranked in order of their respective subscriber's premium with the subscription order specifying the highest subscriber's premium ranking first in order of priority;
 - (e) any unsatisfied subscription orders specifying the same subscriber's premium shall be ranked according to the Relevant Time attributable to those orders with the subscription order attributed the earliest Relevant Time being accorded priority;
 - (f) the price to be paid by a subscriber in respect of any subscription order satisfied by a party making a participation nomination and/or a second nomination shall be the subscriber's premium.
- 5(3) For the avoidance of doubt, nothing in this Rule 5 shall oblige or entitle a party to a proposed arrangement to, as the case may be, acquire a prospective participation or make any participation nomination and any second nomination which, in aggregate, is in excess of the amount specified in that party's bilateral notice.
- 5(4) No later than 4.30pm (or such later time as the Auction Official may permit) on Day Two of an auction the Auction Official shall cause there to be published electronically in a form prescribed by him, or by such other means as he may agree, to each party to whom Rules 5(1) and 5(2) apply particulars of any prospective participations allocated in or towards satisfaction of any orders pursuant to this Rule 5.

6. **Withdrawal and revision of notices**

- 6(1) Subject to the following provisions of this Rule 6, no bilateral notice may be withdrawn or altered after it has been submitted.
- 6(2) A bilateral notice may be withdrawn where -
- (a) the amount of the prospective participation which a party to the proposed arrangement may be obliged to, as the case may be, acquire or make any participation nomination and any second nomination in respect of pursuant to

Rule 5, exceeds 15% of the amount of prospective participation specified in the bilateral notice; and

- (b) notice in Form BW is given to the Auction Office by or on behalf of either party to the proposed arrangement of that party's intention to withdraw from the proposed arrangement (a "withdrawal notice") by no later than 4.35pm on Day Two of the relevant auction.
- 6(3) Where a subscription order or a tender order is satisfied in whole or in part by a party to a proposed arrangement pursuant to Rule 5, unless the parties to the proposed arrangement submit a revision notice in accordance with Rule 6(4), the amount of the prospective participation specified in their bilateral notice shall be treated as having been reduced to the extent that that subscription order or tender order has been so satisfied.
- 6(4) Subject to Rules 6(5) and 6(6), where a party to a proposed arrangement has satisfied in whole or in part a subscription order or a tender order pursuant to Rule 5, the parties to the proposed arrangement may submit a notice in Form BR (a "revision notice") revising their bilateral notice by specifying an amount of prospective participation greater than that specified in the bilateral notice.
- 6(5) The amount of prospective participation specified in the revision notice shall not exceed in aggregate the amount specified in the bilateral notice and any amount satisfied pursuant to Rule 5.
- 6(6) A revision notice shall be submitted to the Auction Office by no later than 4.45pm on Day Two of the relevant auction.
- 6(7) In order to give a withdrawal notice or a revision notice in accordance with the requirements of Rule 6(2)(b) and Rule 6(6), the relevant parties shall arrange for duly authorised representatives to be available to the Auction Office (by providing to the Auction Office direct phone and fax lines) between 2pm and 4.30pm on Day Two of the auction. Such notices, in Form BW or Form BR as the case may be, may be faxed by the duly authorised representative to the Auction Office.

7. **Settlement of auction orders**

- 7(1) The Auction Official shall no later than each Statement Date cause there to be issued to each party to a permitted bilateral arrangement who has satisfied any subscription orders or tender orders pursuant to Rule 5 a statement as to the net amount ("the Net Amount") payable or receivable by that party in respect of those orders. The Net Amount ("NA") shall be calculated as follows:

$$NA = U - V - W - X - Y$$

Where:

- U = the amount of all premiums receivable by that party in respect of subscription orders satisfied under Rule 5.
- V = the amount of all premiums payable by that party in respect of tender orders satisfied pursuant to Rule 5.
- W = the fee of £10 due pursuant to Rule 4(1).
- X = the amount of the fee due pursuant to Rule 4(2).
- Y = the amount of the fee, if any, due pursuant to Rule 4(3).

- 7(2) Where the Net Amount is a negative amount, it is referred to below as a Debit Amount and the statement as a Debit Statement and, where it is a positive amount, it is referred to below as a Credit Amount and the statement as a Credit Statement.
- 7(3) Subject to Auction Rule 18(5) which shall apply *mutatis mutandis*, the Auction Official shall cause the Credit Amount payable to each nominee in receipt of a Credit Statement to be credited to the relevant nominee's Auction Funding Account in cleared funds no later than close of business on the Relevant Credit Date.
- 7(4) Subject to Auction Rule 18(5) which shall apply *mutatis mutandis*, the Auction Official shall cause the Credit Amount payable to a party making a participation nomination and/or a second nomination in receipt of a Credit Statement to be credited to such account as that party may specify in cleared funds no later than close of business on the Relevant Credit Date or within 14 days after details of such account are notified to the Auction Official, whichever is the later.
- 7(5) Each party in receipt of a Debit Statement shall cause the Debit Amount to be credited in cleared funds to the Lloyd's Auction Settlement Account no later than close of business on the Relevant Debit Date.
- 7(6) Rules 18(10), 18(11), 18(12), 18(13), 18(14) and 18(15) of the Auction Rules shall apply *mutatis mutandis*.

8. **Nomination**

- 8(1) For the purposes of Clause 11A.3 of any agreement in terms of the standard managing agent's agreement (general) and the standard managing agent's agreement (corporate member), the Auction Official shall be and is hereby nominated by the Council as a person in favour of whom authority may be given to sign nominations on behalf of any member under Clause 11.

- 8(2) For the purposes of paragraph 2(2) of the Second Nomination Byelaw, the Auction Official shall be and is hereby nominated by the Council as a person in favour of whom authority may be given to sign second nominations (within the meaning of that byelaw) on behalf of any person entitled to make such a nomination under that byelaw

9. **Overseas jurisdictions**

- 9(1) No permitted bilateral arrangement may be made by or to a person resident in a prohibited territory.
- 9(2) The Auction Official shall give not less than 15 business days notice of any change in the list of prohibited territories.
- 9(3) For the purposes of this Rule 9, a "prohibited territory" means Singapore and such other territories as may be prescribed as prohibited territories by the Auction Official from time to time.

10. **Restrictions on advertisements**

No underwriting agent, connected company of an underwriting agent, person connected with an underwriting agent, member or any other person involved directly or indirectly (other than in any case a person wishing to make a participation nomination and/or a second nomination) shall issue or cause to be issued any advertisement which relates to a participation nomination and/or a second nomination.

11. **Commencement**

These conditions and requirements shall come into force on 1 May 2005.

CAPACITY AUCTION FAX

BILATERAL NOTICE (by 2.00 pm on Day Two)

Form BN ____/____

To Lloyd's Auction Official:

1. Prospective participation subject to the participation nomination and/or second nomination

Amount of prospective participation:

Syndicate No:

Bilateral price per £ of prospective participation:

Total consideration:

2. Declaration by the Nominator

Name of Nominator:

Issuer No:

Member No:

I/We hereby confirm that no subscription order in respect of the above syndicate previously submitted by me/us or on my/our behalf in any auction this year has been satisfied (in whole or in part) and that no participation nomination or second nomination in respect of the above syndicate has been made in my/our favour under a permitted bilateral arrangement this year.

I/We hereby confirm that, in respect of any second nomination being made by me/us, I/we are entitled to make such nomination under the Second Nomination Byelaw (as defined in the Auction Rules 2005) and, in particular, paragraph 2(5) of that byelaw.

Nominator Signatory

Date

3. Declaration by the Nominee

Name of Nominee:

Issuer No:

Member No:

I/We hereby confirm that I/we have not disposed of any prospective participation on the above syndicate in a previous auction this year or under a permitted bilateral arrangement this year.

We confirm that the consent referred to in rule 3(2)(e) of the Bilateral Arrangements (2005) has been given by the relevant managing agent.*

* delete if not applicable

Nominee Signatory

Date

4. Declaration by the Nominator and the Nominee

We each severally hereby certify that:

- a) the only consideration for any participation nomination and any second nomination is cash;
- b) we are not in possession of any Relevant Information (as defined in the Auction Rules 2005) which has not been made publicly available; and
- c) in respect of the proposed arrangement referred to in this notice, all local laws (including any applicable securities laws) have been and will be complied with.*

* delete if both/all parties are resident in the United Kingdom

Nominator Signatory/Date

Nominee Signatory/Date

5. Contact

The person to whom all queries/information in respect of this Notice should be addressed to

Contact Name:

Phone No:

Market Mail address:

Fax No:

For Auction Office use only

Validation Successful (Yes/No)

Fax confirmation to Contact Name

CAPACITY AUCTION FAX
BILATERAL NOMINEE GROUP DATA

Form BN/BSG____/____

To Lloyd's Auction Official:

1. As advised on the Bilateral Notice

Amount of prospective participation:

Bilateral price per £ of prospective participation:

Syndicate No:

Total consideration:

	<u>Member No</u>	<u>Prospective Participation</u>	(AUCTION OFFICE USE ONLY)
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

Contact Name:

Market Mail address:

Phone No:

Fax No:

For Auction Office use only

Validation Successful (Yes/No)

Fax confirmation to Contact name

CAPACITY AUCTION FAX BILATERAL NOMINATOR GROUP DATA

Form BN/BTG____/____

To Lloyd's Auction Official:

1. As advised on the Bilateral Notice

Amount of prospective participation:

Syndicate No:

Bilateral price per £ of prospective participation:

Total consideration:

Member No

Prospective Participation

(AUCTION OFFICE USE ONLY)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Contact Name:

Phone No:

Market Mail address:

Fax No:

For Auction Office use only

Validation Successful (Yes/No)

Fax confirmation to Contact name

CAPACITY AUCTION FAX

Form BR____/____

BILATERAL REVISION NOTICE (by 4.45pm on Day Two)

To Lloyd's Auction Official:

1. As advised on the Bilateral Notice

Amount of prospective participation:

Bilateral price per £ of prospective participation:

Syndicate No:

Total consideration:

2. Declaration by the Nominator

Name of Nominator:

--

Issuer No:

Member No:

I/We hereby wish to revise the amount of prospective participation to be transferred in the above bilateral arrangement to

--

(Revised amount of prospective participation)

Nominator Signatory

Date

3. Declaration by the Nominee

Name of Nominee:

--

Issuer No:

Member No:

I/We hereby wish to revise the amount of prospective participation to be transferred in the above bilateral arrangement to that stated above.

Nominee Signatory

Date

4. Contact

As advised in the Bilateral Notice

Contact Name:

Market Mail address:

Phone No:

Fax No:

For Auction Office use only

Validation Successful (Yes/No)

Fax confirmation to Contact name

CAPACITY AUCTION FAX

Form BW____/____

BILATERAL WITHDRAWAL NOTICE (by 4.35pm on Day Two)

To Lloyd's Auction Official:

1. As advised on the Bilateral Notice

Amount of prospective participation:

Bilateral price per £ of prospective participation:

Syndicate No:

Total consideration:

2. Declaration by the Nominator

Name of Nominator:

--

Issuer No:

Member No:

I/We hereby wish to withdraw from the above bilateral arrangement.

AND/OR

3. Declaration by the Nominee

Name of Nominee:

--

Issuer No:

Member No:

I/We hereby wish to withdraw from the above bilateral arrangement.

4. Contact

As advised in the Bilateral Notice

Contact Name:

Market Mail address:

Phone No:

Fax No:

For Auction Office use only

Validation Successful (Yes/No)

Fax confirmation to Contact name

LLOYD'S

CAPACITY OFFER RULES 2005

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PRELIMINARY

INTRODUCTION

- 1 These conditions and requirements are made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) and may be cited as the Capacity Offer Rules 2005.
- 2 The purpose of these **Rules** is to set out the method by which a **capacity offer** may be made (which may be a **surrender offer**, an **announced auction offer** or a **competing offer**). In respect of a **surrender offer**, a **cash offer** may have a **share alternative** but a **share offer** must have a **cash alternative**. A **competing offer** may only be for cash. The provisions relating to **limited offers**, **unlimited offers**, **increasing offers**, **reducing offers** and **stepped offers** are also set out in these **Rules**.
- 3 As a general principle, a **capacity offer** must be made to all persons entitled to participate in the arrangement which is the subject of that offer. However, it is possible for certain exclusions to be made.
- 4 When a **managing agent** wishes to effect a **minority buy-out** he must comply with these **Rules** as well as with the **Major Syndicate Transactions Byelaw**. A **mandatory offer** must be made by a **member** who has acquired the right to participate in a **syndicate** for the next following **year of account** with a **member's syndicate premium limit** not less than 75 per cent. of the **syndicate allocated capacity** for the next following **year of account**. A **mandatory offer** is also required to be made in other circumstances specified in the **Mandatory Offer Byelaw**. A **mandatory offer** must be made in accordance with these **Rules** and the **Mandatory Offer Byelaw**.
- 5 A **formal offer** may be subject to conditions but an **announced auction offer** must be made in an **auction** in accordance with the **Auction Byelaw** and **Auction Rules** and therefore cannot generally be subject to any conditions.
- 6 The **Council** has made these **Rules** to stipulate:-
 - (1) the requirements relating to the persons to whom a **capacity offer** may be made;
 - (2) the requirements relating to the different types of **capacity offer**;
 - (3) the conditions, requirements and procedures which must be complied with in connection with the promotion of a **capacity offer** and/or the issue of any documentation in connection with a **capacity offer** and/or the acceptance of a **capacity offer**;
 - (4) the qualifying criteria for a person who seeks to act as a sponsor and the responsibilities of such a person; and
 - (5) the qualifying criteria for a person who seeks to act as an offeror and the responsibilities of such a person.
- 7 All references in these **Rules** to the promotion of a **capacity offer** shall include:-
 - (1) issuing or causing to be issued any **advertisement** inviting a person to accept or participate in a **capacity offer** or containing information calculated to lead directly or indirectly to a person doing so; or

(2) advising or procuring a person to accept or participate in a **capacity offer**.

8 Appendix I sets out the **prescribed dates** for 2005.

9 In general, the **Conversion Official** no longer requires submission of a formal legal opinion concerning the making of a **capacity offer** in any jurisdiction. However, where an **offeror** proposes to offer securities to **US persons** (either by way of a **share offer** or a **share alternative**) a legal opinion will be required. An **offeror** is responsible for ensuring compliance with local laws (including securities laws) in all jurisdictions. **Lloyd's** accepts no responsibility or liability in this regard. **Offerors** are recommended to consult overseas lawyers who have appropriate experience. Appendix II contains a list of overseas law firms/lawyers from whom **Lloyd's** has taken advice from time to time and who may therefore be considered to be familiar with the issues involved. None of these law firms/lawyers is obliged to provide advice but **Lloyd's** has no objection to advice being given by them. By including these law firms/lawyers on the list, Lloyd's is not, however, recommending their services.

INTERPRETATION

The **Conversion Official** shall be entitled, in his absolute discretion, to determine all questions of interpretation relating to these **Rules** and any such decision of the **Conversion Official** shall be final. The **Conversion Official** shall also be entitled to dispense with (in whole or in part) or modify the application of these **Rules** (either unconditionally or subject to conditions) in such cases and by reference to such circumstances as he considers appropriate.

The **Conversion Official** shall be entitled, in his absolute discretion, to impose any condition on a **sponsor** or an **offeror** or in relation to any **capacity offer** which he considers appropriate in the interests of protecting **Lloyd's**.

These **Rules** shall include each of the Appendices and any document referred to in these **Rules** as being in the **prescribed form**. The **Conversion Official** shall be entitled to prescribe the form of documents or other additional documents or requirements referred to in these **Rules** and to amend such documents, additional documents or requirements from time to time. Any additions or amendments to any documents or requirements which are of general application and which are prescribed from time to time will be issued in, or referred to in, Lloyd's Market Bulletins.

SECTION 1

GENERAL PRINCIPLES

Scope of this section

This section sets out certain general principles which must be observed by any person undertaking any activity which is regulated by the **Rules**. It sets out the particular activities which are regulated by the **Rules** and certain provisions relating to the making of a **capacity offer** which may be a **surrender offer**, a **competing offer** or an **announced auction offer**. An offer may be a **limited offer** or an **unlimited offer** and/or may be an **increasing offer** or a **reducing offer** or a **stepped offer**. However, an **announced auction offer** cannot be a **reducing offer** or a **stepped offer**. A **formal offer** can be either a **surrender offer** or a **competing offer** but cannot be an **announced auction offer**. This section also sets out certain general principles relating to the issue of **capacity advertisements** as well as provisions relating to the submission of documents to the **Conversion Official**. The section sets out the charges which may be made by the **Council** and gives the **Conversion Official** power, in certain circumstances, to refuse an application made under the **Rules**.

1(1) Regulated activities

- (a) These **Rules** regulate the following activities:-
 - (i) promoting a **capacity offer**;
 - (ii) making or procuring the making of a **capacity offer**;
 - (iii) making arrangements with a view to any person accepting or participating in a **capacity offer**;
 - (iv) advising or offering to advise any person on the merits of accepting or participating in a **capacity offer**; and
 - (v) procuring a person to accept or participate in a **capacity offer**.
- (b) No person who is, or has agreed to be, subject to the **Rules** may undertake any of the activities referred to in paragraph 1(1) other than in accordance with the **Rules**.
- (c) Any activities regulated by the **Rules** which relate to **US persons** or persons resident in other jurisdictions (other than the United Kingdom) must be undertaken in accordance with any requirements issued by **Lloyd's** from time to time and in compliance with all relevant overseas securities laws and other relevant legislation.

1(2) Offerors

- (a) No person other than a **managing agent** (or a **connected company** of such **managing agent**) or such other person which has been approved by the **Conversion Official** to act as an **offeror** shall be permitted to make, or procure another person to make on its behalf, a **surrender offer**.
- (b) Any person who is subject to the **Rules** may make a **competing offer** provided that such **competing offer** is made in accordance with the **Rules** and, in particular, paragraph 1(4).

1(3) **Types of capacity arrangements**

The **Conversion Official** will only consider an application for approval under the **Rules** which relates to:-

- (a) a **surrender offer** which:-
 - (i) is a **cash offer** (which may have a **share alternative**); or
 - (ii) is a **share offer** (which must have a **cash alternative**);but which may be
 - (iii) a **stepped offer**; and/or
 - (iv) a **limited offer** or an **unlimited offer**; and
 - (v) if it is a **limited offer**, may be a **reducing offer** or an **increasing offer**;
- (b) an **announced auction offer** which may only be for cash but which may be:-
 - (i) a **limited offer** or an **unlimited offer**; and
 - (ii) if it is a **limited offer**, may be an **increasing offer**;
- (c) a **competing offer** which may only be for cash but which may be:-
 - (i) a **stepped offer**; and/or
 - (ii) a **limited offer** or an **unlimited offer**; and
 - (iii) if it is a **limited offer**, may be a **reducing offer** or an **increasing offer**.

1(4) **Competing offers**

- (a) Any **offeror** who makes a **competing offer** must make it:
 - (i) within 10 **US business days** of the date on which the **offer document** containing the relevant **surrender offer** was first issued;
 - (ii) to the same persons to whom that **surrender offer** was made;
 - (iii) on terms no less favourable than that **surrender offer**; and
 - (iv) in respect of the **prospective participations** which were the subject of that **surrender offer**.
- (b) A **managing agent** (or a **connected company** of such **managing agent**) which has made a **surrender offer** shall take such steps as are required to facilitate or implement any **competing offer** which becomes unconditional in all respects.

1(5) **Obligations of offerors**

(a) Any **offeror** who:-

- (i) has made a **surrender offer** or a **competing offer**; and
- (ii) during the time when such offer remains open for acceptance makes (or a **connected company** of that **offeror** makes) an offer for the **prospective participations** on the **syndicate** which are the subject of the **surrender offer** or the **competing offer** in an **auction** or pursuant to any other means permitted by **Lloyd's** from time to time

must increase the consideration payable under the **surrender offer** or the **competing offer** to the same level as the highest price which he has offered for those **prospective participations** during the period in which the **surrender offer** or the **competing offer** (as the case may be) has been open for acceptance.

(b) Any **offeror** who extends the **offer period** for a **formal offer** must forthwith make an announcement of the new closing date which must:-

- (i) comply with paragraph 10(5); and
- (ii) disclose the aggregate amount of the **prospective participations** on the **syndicate** which are the subject of the **formal offer** in respect of which acceptances at the date of such announcement have been received.

(c) Any **offeror** who extends the **announced auction offer** to additional **auctions** beyond those stated in the **circular** or any **revised circular** must forthwith make an announcement of the dates of the additional **auctions** which must:-

- (i) comply with paragraph 10(5); and
- (ii) disclose the aggregate amount of the **prospective participations** on the **syndicate** which are the subject of the **announced auction offer** which the **offeror** has acquired at the date of such announcement.

(d) Subject to paragraph 9(3)(h), an **offeror** may during an **offer period**, but in any event not less than 10 **US business days** before the final closing date of a **formal offer**, increase the consideration being offered under a **formal offer** provided that the **offeror**:-

- (i) forthwith sends a notice in writing to each person to whom the **formal offer** has been made setting out the increase in consideration being offered; and
- (ii) as soon as reasonably practicable, makes an announcement of the increase in the consideration being offered in accordance with paragraph 10(5).

(e) An **offeror** who makes a **cash offer** (whether **limited** or **unlimited**) (which is not a **reducing offer**) is permitted to make an **auction offer** for the **prospective participations** which are the subject of the **cash offer** for a consideration which is equal to, higher or lower than the consideration being offered under the **cash offer** provided that:-

- (i) forthwith upon deciding to make such **auction offer**, the **offeror** makes an

announcement of such fact which complies with paragraph 10(5); and

- (ii) such announcement is made not less than 5 **business days** before the date on which the **cash offer** is due to close.

1(6) Prospective participations

- (a) A **capacity offer** may only be made to a person in respect of a particular **syndicate** in relation to that person's **prospective participation** for the next following **year of account**.
- (b) Subject to paragraph 1(6)(d), a person to whom a **capacity offer** is made may NOT transfer his **prospective participation**:-
 - (i) if, for any reason, he has ceased to be a member of the relevant **syndicate**; or
 - (ii) (subject to any conditions or requirements to the contrary imposed or made by the **Council** under paragraph 11B of the **Agency Agreements Byelaw**) if his membership of the relevant **syndicate** is to terminate at the end of the **year of account** during which the **capacity offer** is made pursuant to a notice given by the **managing agent** of the relevant **syndicate** under clause 11.6 of the **standard managing agent's agreement** unless he has also received an invitation to participate in that **syndicate** for the next following **year of account**; or
 - (iii) if his membership of the relevant **syndicate** is to terminate at the end of the **year of account** during which the **capacity offer** is made pursuant to a notice given by him pursuant to clause 11.5 of the **standard managing agent's agreement** unless the **managing agent** gives its written consent to the transfer of any such **prospective participation** after the **prescribed date** in any **year of account**.
- (c) For the purposes of paragraph 1(6)(b), a person:-
 - (i) who is a member of a **syndicate** for the **year of account** during which the **capacity offer** is made; and
 - (ii) whose participation in that **syndicate** is to terminate at the end of that **year of account** pursuant to a notice of the kind referred to in paragraph 1(6)(b)(ii); and
 - (iii) who has received an invitation from the **managing agent** of that **syndicate** to participate in another **syndicate** for the **year of account** following the **year of account** during which the **capacity offer** is made

shall be deemed to be a member of the latter **syndicate** for the **year of account** during which the **capacity offer** is made.

- (d) Notwithstanding paragraph 1(6)(b), a person to whom a **capacity offer** is made may make a **second nomination** in response to that offer to the extent he is entitled to do so under the **Second Nomination Byelaw**.

1(7) **Equal treatment**

- (a) No **sponsor** or **offeror** (or any **connected company** or **associate** of any such **sponsor** or **offeror**) shall furnish any material information to any person entitled to participate in a **capacity arrangement** concerning that **capacity arrangement** unless such information is furnished to all such persons to whom the **capacity offer** relating to such arrangement has been, or is proposed to be, made.
- (b) Save as provided in paragraphs 1(7)(c), (d), (e) and (f) and 1(8), no **sponsor** or **offeror** shall sponsor or make any **capacity offer** which relates to a particular **syndicate** unless such **capacity offer**:-
 - (i) is open for participation in or acceptance by all the persons entitled to participate in or accept such offer (other than any **connected company** of the **offeror**); and
 - (ii) is made in identical terms to all such persons.
- (c) Once an **offeror** (or a person acting on its behalf) has made a **capacity offer** in respect of any **prospective participations** on any particular **syndicate** in any particular **year of account**, no further **capacity offer** (other than a revision or extension of the original **capacity offer**) shall (unless the **Conversion Official** so consents in writing) be made by or on behalf of that **offeror** (or any **connected company** of that **offeror**) in respect of those **prospective participations** during the same **year of account**.
- (ca) Once an **offeror** (or a person acting on its behalf) has made a **capacity offer** in respect of any **prospective participations** on any particular **syndicate** in any particular **year of account**, neither the **offeror** (nor any **connected company** of the **offeror**, nor any associate of the **offeror** within the meaning of the **Mandatory Offer Byelaw**) may in that same **year of account**, unless the **Conversion Official** so consents in writing, make an offer for the **prospective participations** which are the subject of the **capacity offer** in an **auction** or pursuant to any other means permitted by Lloyd's from time to time on better terms than those available under the **capacity offer**.
- (d) An **offeror** need not make a **capacity offer** in a particular jurisdiction when the aggregate **prospective participations** of the persons entitled to participate in or accept such offer who are resident in that jurisdiction (who participate other than solely through a **MAPA**) is less than £200,000 (or the local currency equivalent).
- (e) Subject to paragraph 1(7)(f), an **offeror** shall not make a **surrender offer** comprising a **share offer** or having a **share alternative** to the persons entitled to participate in or accept such offer who are resident in any jurisdiction unless that **share offer** or **share alternative** is made to all such persons resident in the **approved jurisdictions**.
- (f) An **offeror** is not required to make a **surrender offer** comprising a **share offer** or having a **share alternative** to the persons entitled to participate in or accept such offer who are resident in a particular **approved jurisdiction** where:-
 - (i) the aggregate **prospective participations** of such persons resident in that particular **approved jurisdiction** (who participate other than solely through a **MAPA**) is less than £200,000 (or the local currency equivalent); or
 - (ii) the **offeror** demonstrates to the satisfaction of the **Conversion Official** that to make such an offer would require the **offeror** to comply with conditions with

which he is unable to comply or which are unduly onerous.

1(8) **Prohibited territories**

- (a) A person who is, or has agreed to be, subject to the **Rules** shall not make a **capacity offer** or issue any **capacity advertisement** in any of the **prohibited territories**.
- (b) The **Conversion Official** will give not less than 15 **business days** notice of any change in the list of the **prohibited territories**.

1(9) **Capacity offers to US persons**

Capacity offers which are made to **US persons** must comply with the following additional requirements:-

- (a) Part II of Appendix II;
- (b) the **offer document, revised offer document, circular or revised circular** must make proper disclosures which satisfy US anti-fraud standards;
- (c) the consideration for the **prospective participations** acquired pursuant to a **formal offer** must be paid promptly after the **formal offer** closes;
- (d) **sponsors** and **offerors** should not pay any transaction based compensation to persons other than US registered broker dealers in connection with their solicitation of acceptances of (or participation in) the **capacity offer** by **US persons**;
- (e) **offerors** should consult US counsel in connection with the extension of a **capacity offer** to **US persons**; and
- (f) where the **offeror** proposes to offer securities to **US persons**, either by way of a **share offer** or a **cash offer** having a **share alternative**, a legal opinion from US counsel in the form satisfactory to the **Conversion Official** and addressed to **Lloyd's** must be submitted to **Lloyd's** in accordance with section 8.

1(10) **Reducing Offers**

- (a) An **offeror** may reduce the amount of **prospective participations** sought pursuant to the terms of a **formal offer** during an **offer period**, if the **offeror** or a **connected company** of that **offeror** acquires the same **prospective participations** in an **auction** or pursuant to any other means permitted by **Lloyd's** from time to time provided that:-
 - (i) disclosure of the possibility of the reduction was made in the relevant **offer document**; and
 - (ii) forthwith upon deciding to make a reduction, the **offeror** makes an announcement which complies with paragraph 10(5).
- (b) An **offeror** who makes a **formal offer** which is a **reducing offer** is permitted to make an **auction offer** for the **prospective participations** which are the subject of the **formal offer** for a consideration which is not less than the consideration offered in the **formal offer**.

1(11) **Increasing Offers**

An **offeror** may increase the amount of **prospective participations** sought pursuant to the terms of a **capacity offer** during an **offer period** provided that:-

- (a) disclosure of the possibility of the increase was made in the relevant **offer document** or **circular**; and
- (b) forthwith upon deciding to make an increase, the **offeror** makes an announcement which complies with paragraph 10(5).

1(12) **Confidentiality**

- (a) A person who is, or who has agreed to be, subject to the **Rules** must not, subject to paragraph 1(12)(c), disclose any information (other than information of a general nature) concerning any proposed **capacity offer** to any person (other than to a professional adviser instructed to assist in the development or implementation of such proposed **capacity offer**) prior to the **Conversion Official** approving an **application in principle** to make such a **capacity offer** pursuant to section 5.
- (b) A person who is, or who has agreed to be, subject to the **Rules** must, subject to paragraph 1(12)(c), keep details of all dealings with **Lloyd's** and/or the **Conversion Official** in relation to matters covered by the **Rules** confidential unless the **Conversion Official** agrees in writing to the form and content of any disclosure.
- (c) Paragraphs 1(12)(a) and 1(12)(b) shall not apply to any information which is within the public domain and shall not prevent the disclosure of any information which any person is required to make by law or in accordance with the rules of any regulatory body (including any stock exchange).
- (d) **Lloyd's** is bound by paragraphs 3 and 4 of the Information and Confidentiality Byelaw (No. 21 of 1993) in respect of all information obtained pursuant to any provisions of the **Rules**.
- (e) The **sponsor** of a **surrender offer** or an **announced auction offer** (or, in the absence of a sponsor, the offeror itself) will be provided with the names and addresses of the persons entitled to participate in or accept such offer, subject to the **sponsor** having executed a confidentiality undertaking in favour of **Lloyd's**, in the form set out in Appendix III. The making of a **competing offer** will be facilitated in such manner as the **Conversion Official** shall determine.

1(13) **Issuing capacity advertisements**

- (a) This paragraph 1(13) shall apply to any **capacity advertisement**.
- (b) An **offeror** is responsible for ensuring that any person who issues a **capacity advertisement**:-
 - (i) applies appropriate expertise;
 - (ii) is satisfied that the relevant requirements of the **Rules** have been fully and properly complied with;

- (iii) is satisfied that any requirements relating to **advertisements** issued by **Lloyd's** from time to time, have been fully and properly complied with; and
 - (iv) is able to show that it believes on reasonable grounds that the **capacity advertisement** is fair and not misleading.
- (c) An **offeror** is responsible for ensuring that any **capacity advertisement** which is issued or circulated in the United Kingdom:-
 - (i) complies with section 21 of **FSMA**;
 - (ii) states on its face who is the issuer and, if applicable, who has approved such **advertisement** for the purposes of section 21 of the **FSMA**;
 - (iii) identifies both the **sponsor** and the **offeror** of the **capacity offer** to which it relates;
 - (iv) *This paragraph has been deleted.*
 - (v) contains in clearly visible form the statements and risk warnings relating to **advertisements** which are prescribed by the **Rules** and that these are not obscured or disguised in any way by the content, design or format of the **advertisement**; and
 - (vi) does not disguise in any way the purpose of any promotional material included.
- (d) An **offeror** is responsible for ensuring that any **capacity advertisement** which is issued or circulated outside the United Kingdom:-
 - (i) complies with paragraph 1(13)(c);
 - (ii) is issued in accordance with legal advice obtained from a lawyer of good standing qualified to practice in the jurisdiction in which the **advertisement** is issued or circulated;
 - (iii) does not breach any securities or other law or any order, regulation, restriction or prohibition applying in any jurisdiction in which the **advertisement** is issued or circulated;
 - (iv) contains appropriate statements about the taxation implications of accepting (or participating in) the **capacity offer** or a statement recommending the taking of tax advice; and
 - (v) if applicable, contains the prescribed wording set out in Appendix X.
- (e) **Offerors** may wish to take legal advice from the overseas law firms listed in Part I of Appendix II.
- (f) If so required by the **Conversion Official**, the **offeror** shall confirm in writing to the **Conversion Official** that in relation to any particular jurisdiction it has complied with this paragraph 1(13).

1(14) **Independent advice**

When a **members' agent** proposes to advise or make arrangements with a view to a person accepting (or participating in) a **capacity offer** (irrespective of whether that **members' agent** (or an **associate** or **connected company** of that **members' agent**) is the **offeror** of such **capacity offer** or whether that **members' agent** has been appointed by the relevant person under an agreement in the terms of the **standard members' agent agreement** or will be so appointed in the next following **year of account**) the **members' agent** must observe the Lloyd's Code for Members' Agents: Responsibilities to Members, as amended from time to time.

1(15) **MAPA operators**

- (a) A **MAPA operator** is entitled to accept (or participate in) a **capacity offer** on behalf of a member within that **MAPA** (other than a member to whom such **capacity offer** is not made by virtue of paragraphs 1(7)(d), (e) or 1(8)) provided that the **MAPA operator** has been properly authorised to act on that member's behalf with respect to such **capacity offer** whether under the terms of a **standard member's agents agreement** or otherwise.
- (b) A **MAPA operator** who receives an **offer document**, **revised offer document**, **circular** or **revised circular** must forward a copy of that document to each member of that **MAPA** unless the **MAPA operator** has been properly authorised to act on that member's behalf as referred to in paragraph 1(15)(a) or that member has indicated in writing to the **MAPA operator** that he does not wish to receive a copy of such document.

1(16) **Relevant information**

- (a) Any person who is, or has agreed to be, subject to the **Rules** must make himself aware of, and at all times comply with, any applicable rules relating to the disclosure of **relevant information**.
- (b) No person who is, or has agreed to be, subject to the **Rules** shall sponsor or make a **capacity offer** when he is in possession of **relevant information** which has not been made publicly available.
- (c) No person who is, or has agreed to be, subject to the **Rules** shall:
 - (i) make any statement, promise or forecast which he knows to be misleading, false or deceptive or dishonestly conceal any material facts; or
 - (ii) do any act or engage in any course of conduct which creates a false or misleading impression as to the market in or value of any particular **prospective participation**

with a view to any person making a **capacity offer** or refraining from doing so.

1(17) **Timing**

- (a) An **unlimited offer** may close after the last **auction** in the year provided that it closes no later than the **prescribed date**.
- (b) A **limited offer** must close on or before the **prescribed date**.

- (c) When a **managing agent** wishes to effect a **minority buy-out** of **prospective participations** on a **syndicate**, the **capacity offer** which precedes the **minority buy-out** must be completed and closed to further acceptances and the **minority buy-out** application must be submitted to Lloyd's by no later than 31 August 2005.

1(18) **Submission of documentation**

- (a) All documentation (whether in draft or final form) which is submitted to the **Conversion Official** for approval pursuant to the **Rules** must:-
 - (i) be clear, fair and readily comprehensible;
 - (ii) be annotated in the margin to indicate the particular paragraph in the **Rules** (or in any Appendix to the **Rules**) with which compliance is being made; and
 - (iii) be marked up to show the changes from the previous draft submitted which have been made to conform with comments from the **Conversion Official** together with any other changes from the previous draft submitted.
- (b) The **Conversion Official** may refuse to review any documentation which does not comply with paragraph 1(18)(a) or which he considers is not of a standard which is appropriate for review.

1(19) **Refusal to consider a capacity arrangement**

The **Conversion Official** may refuse, in his absolute discretion, an application under the **Rules** which relates to a **capacity arrangement**. In particular, no application will be considered if he is of the view that:-

- (a) the **capacity arrangement** or any documentation relating thereto does not comply with the **Rules** or with any particular condition imposed by him in relation thereto; or
- (b) any **sponsor** or **offeror** is not complying, or has not complied, with the **Rules** or with any particular condition imposed upon it by him; or
- (c) the terms of the **capacity arrangement** do not fall within the **Rules**; or
- (d) the terms of the **capacity arrangement** would be detrimental, in some respect, to the interests of **Lloyd's**.

1(20) **Costs and charges**

- (a) The **Council** may from time to time levy such charges as it shall determine in connection with the consideration of a **capacity arrangement**.
- (b) An **offeror** of a **capacity offer** must, if and to the extent requested by the **Conversion Official**, pay or reimburse such costs and disbursements (whether external or internal) as **Lloyd's** may incur relating to:-
 - (i) the provision of advice or guidance to the **offeror** about, or any documentation relating to, the **capacity offer**; and/or
 - (ii) the review or approval (whether in principle or otherwise) of any

documentation relating to the **capacity offer**; and/or

(iii) any ongoing administration relating to the **capacity offer**.

1(21) **Value added tax**

- (a) Where any amount payable to **Lloyd's** under the **Rules** constitutes the (or part of the) consideration for a supply which is subject to value added tax, an amount equal to the amount of such tax shall be paid in addition.
- (b) Reference to costs and disbursements incurred by **Lloyd's** and to be paid or reimbursed by any person are to such costs and disbursements net of such amount as **Lloyd's** shall determine it can recover or obtain credit for under the value added tax rules for crediting input tax against output tax.

SECTION 2

COMPLIANCE AND ENFORCEMENT

Scope of this section

This section contains rules regarding compliance with, and enforcement of, the **Rules**. It also sets out the sanctions which may be imposed against a person who is in breach of the **Rules**.

2(1) Compliance with the Rules

- (a) All **underwriting agents, connected companies or associates** of any **underwriting agent**, and **members** must comply with the **Rules**. **Sponsors** and **offerors** must comply with, and ensure that any **capacity offer** which they either sponsor or make complies with, and is promoted in accordance with, the **Rules**.
- (b) **Sponsors** and **offerors** must provide to the **Conversion Official** without delay:
 - (i) all information, documentation and explanations as the **Conversion Official** may require for the purpose of deciding whether or not to approve any application (whether in principle or otherwise) for, or any documentation relating to, a **capacity offer**;
 - (ii) all information, documentation and explanations as the **Conversion Official** may require for the purpose of verifying whether the **Rules** are being or have been complied with; and
 - (iii) all other information, documentation and explanations relating to a **capacity arrangement** as the **Conversion Official** considers appropriate in order to protect the interests of **Lloyd's**.
- (c) **Sponsors** and **offerors** must liaise with the **Conversion Official** in relation to all aspects of any **capacity arrangement** which they are proposing to sponsor or make.

2(2) Enforcement

- (a) The **Conversion Official** may, at any time, require a **sponsor** and/or an **offeror** or any other person who is subject to the **Rules**, to issue such information in connection with matters regulated by the **Rules**, in such form and to such persons and within such time limits as he considers appropriate for the purpose of protecting the interests of **Lloyd's**.
- (b) If a **sponsor** and/or an **offeror** and/or any other person who is subject to the **Rules** fails to comply with any requirement of the **Conversion Official** under paragraph 2(2)(a), the **Conversion Official** may decide, in his absolute discretion, to issue such information in such form and manner as he may think fit at the cost of the **sponsor** and/or the **offeror** and/or any other person who is subject to the **Rules**.

2(3) **Sanctions**

- (a) Any breach of the **Rules** not remedied to the satisfaction of the **Conversion Official** or incapable of remedy will constitute **misconduct** for the purposes of the Misconduct and Penalties Byelaw (No. 30 of 1996) and will be subject to the penalties set out in that byelaw.
- (b) If the **Conversion Official** considers that a **sponsor** and/or an **offeror** has contravened any of the **Rules** he shall notify the **sponsor** and/or the **offeror** accordingly and shall be entitled to refer the matter to the **Lloyd's Compliance Officer** who may:-
 - (i) in the case of an **offeror**, take such regulatory action as may be appropriate; and
 - (ii) in the case of a **sponsor**:-
 - (aa) report the matter to the regulating organisation of which the **sponsor** is a member; and/or
 - (bb) direct the **Conversion Official** to remove the name of any defaulting **sponsor** from the **Register of Sponsors**.

2(4) **Disciplinary procedures**

Any disciplinary procedures undertaken for the purposes of the **Rules** will be undertaken in accordance with the Disciplinary Committees Byelaw (No. 31 of 1996).

SECTION 3

SPONSORS

Scope of this section

This section sets out the requirements relating to **sponsors**. A **capacity offer** may only be promoted or made if a person has agreed to act as the sponsor of such **capacity offer**, unless the **Conversion Official** has given his permission for the offer to be made without there being a **sponsor**. The guidelines which the **Conversion Official** will take into account in determining whether to give such permission are set out in regulatory bulletin Y936 dated 24 July 1997 entitled “Mandatory Offer Requirements: Need for a Sponsor”. **Sponsors** will normally be corporate brokers or investment banks but may also be other professional advisers. A **sponsor** must undertake to **Lloyd’s** to accept certain responsibilities and agree to be bound by the **Rules**. If the **sponsor** fails to carry out these responsibilities the **Conversion Official** may seek to impose any of the sanctions, applicable to **sponsors**, referred to in paragraph 2(3)(b)(ii). **Lloyd’s** will expect **sponsors** and/or their professional advisers to be persons who have experience of the Lloyd’s market.

3(1) Qualifications

A **sponsor** must:

- (a) be a person who is:-
 - (i) an **authorised person**; or
 - (ii) resident in a jurisdiction other than the United Kingdom, who the **Conversion Official** may approve as being appropriately qualified to act as a **sponsor** in that jurisdiction;
- (b) satisfy the **Conversion Official** that it is competent and sufficiently experienced to discharge the responsibilities of a sponsor;
- (c) undertake in writing to **Lloyd’s** on Form SP1 (set out in Appendix IV) to:-
 - (i) accept the responsibilities of a sponsor and to discharge those responsibilities at all times with due skill and care and to the reasonable satisfaction of **Lloyd’s**;
 - (ii) comply at all times with the **Rules**;
 - (iii) ensure that any **capacity offer** which he sponsors complies at all times with the **Rules**;
 - (iv) use reasonable endeavours to ensure that the **offeror** and any other person concerned with the promotion or making of a **capacity offer** is properly guided and advised as to their respective obligations under the **Rules**; and
 - (v) notify the **Conversion Official** in writing forthwith upon its ceasing to be a sponsor of any **capacity offer**; and
- (d) be entered on the **Register of Sponsors**, having completed all necessary application forms prescribed by the **Council**.

3(2) Appointment

- (a) A person shall not become a sponsor until its name has been entered into the **Register of Sponsors** and it has received notification in writing from the **Conversion Official** to that effect.
- (b) A person who has previously executed a Lloyd's sponsor questionnaire and undertaking shall, unless the **Conversion Official** otherwise determines, in his absolute discretion, remain in the **Register of Sponsors**.
- (c) The **Conversion Official** will use reasonable endeavours to approve a person as a **sponsor** not more than 3 **business days** after receipt of a completed Form SP1 duly executed by such person.
- (d) A **sponsor** who wishes to sponsor a particular **capacity offer** will not be approved as the sponsor of that **capacity offer** until an **application in principle** in respect of that **capacity offer** has been approved by the **Conversion Official** in accordance with section 5.

3(3) **Prohibition**

Subject to paragraph 3(5), no **capacity offer** may be promoted or made unless a person who has been registered as a sponsor for the purposes of paragraph 3(2) has received the written approval of the **Conversion Official** to act as the sponsor of that particular **capacity offer**.

3(4) **Responsibilities**

- (a) The responsibilities of the **sponsor**, which are owed to **Lloyd's**, are set out in this section 3 and in any undertakings or other documents which the **sponsor** is required to execute pursuant to the provisions of this section 3. Failure to carry out these responsibilities may result in the **Conversion Official** taking any of the steps, applicable to a sponsor, referred to in paragraph 2(3)(b)(ii).
- (b) A **sponsor** (jointly with the **offeror** of a **capacity offer**) must:-
 - i) in relation to any proposed **capacity offer**, submit an **application in principle** in accordance with section 5;
 - ii) satisfy itself that any **capacity advertisement** complies, to the best of its knowledge and belief, having made due and careful enquiry, with all relevant requirements of the **Rules**;
 - iii) in relation to any proposed **capacity offer**, submit an application for approval in accordance with section 8; and
 - iv) confirm to **Lloyd's** in writing on Form AP2 (Capacity Offer Rules) (set out in Appendix XII) that it is satisfied (having taken all reasonable steps to ensure that such is the case), that sufficient resources are, or will be, available to the **offeror** to satisfy full acceptance of (or participation in) such **capacity offer**.
- (c) A **sponsor** of an **announced auction offer** must use its reasonable endeavours to ensure that the **offeror** of an **announced auction offer** is properly guided and advised as to its obligations under the **Auction Rules**.

3(5) **Dispensation for mandatory offers being made through announced auction offers**

- (a) The **Conversion Official** may, in his absolute discretion, permit a **mandatory offer** proposed to be made by means of an **announced auction offer** to be promoted or made without any person having agreed to act as the sponsor of such offer.
- (b) In giving such permission, the **Conversion Official** may impose any condition on the proposed **offeror** of the proposed **announced auction offer** and/or in relation to the proposed **announced auction offer** which he considers appropriate.

SECTION 4

OFFERORS

Scope of this section

This section sets out the requirements relating to **offerors**. A **capacity offer** may only be promoted or made if a person has agreed to act as the offeror of such **capacity offer**. Only **managing agents** (or a **connected company** of such **managing agent** which is a **corporate member** or a **corporate candidate**) or such other persons as the **Conversion Official** may approve may act as an offeror. An **offeror** must undertake to **Lloyd's** to accept certain responsibilities. If the **offeror** fails to carry out these responsibilities the **Conversion Official** may seek to invoke any of the sanctions, applicable to **offerors**, referred to in paragraph 2(3)(b)(i).

4(1) Qualifications

An **offeror** must:-

- (a) be a **managing agent** (or a **connected company** of a **managing agent** which is a **corporate member** or a **corporate candidate**) or such other person as the **Conversion Official** may approve;
- (b) undertake in writing to **Lloyd's** on Form P1 (Capacity Offer Rules) (set out in Appendix V) to:-
 - (i) accept the responsibilities of an offeror and to discharge those responsibilities at all times with due skill and care and to the reasonable satisfaction of **Lloyd's**;
 - (ii) comply at all times with the **Rules**;
 - (iii) ensure that the promotion or making of any **capacity offer** of which it is the offeror complies at all times with the **Rules**;
 - (iv) use reasonable endeavours to ensure that any other person concerned with the promotion or making of such **capacity offer** is properly guided and advised as to its obligations under the **Rules**; and
 - (v) notify the **Conversion Official** in writing forthwith upon its ceasing to be an offeror of any **capacity offer**.

4(2) Appointment

A person who wishes to make a **capacity offer** will not be approved as the offeror of that **capacity offer** until an **application in principle** in respect of that **capacity offer** has been approved by the **Conversion Official** in accordance with section 5.

4(3) Prohibition

No **capacity offer** may be promoted or made unless a person who has applied to become an offeror for the purposes of paragraph 4(2) has received the written approval of the **Conversion Official** to act as the offeror of that **capacity offer**.

4(4) Responsibilities

- (a) The responsibilities of an **offeror**, which are owed to **Lloyd's**, are set out in this section 4 and in any undertaking or other documents which the **offeror** is required to execute pursuant to the provisions of this section 4. Failure to carry out these responsibilities may result in the **Conversion Official** taking any of the steps, applicable to an offeror, referred to in paragraph 2(3)(b)(i).
- (b) An **offeror** (jointly with the **sponsor** of a **capacity offer**) must:-
 - (i) in relation to any proposed **capacity offer**, submit an **application in principle** in accordance with section 5;
 - (ii) satisfy itself that any **capacity advertisement** complies, to the best of its knowledge and belief, having made due and careful enquiry, with all relevant requirements of the **Rules**;
 - (iii) in relation to any proposed **capacity offer**, submit an application for approval in accordance with section 8; and
 - (iv) confirm to **Lloyd's** in writing on Form AP2 (Capacity Offer Rules) (set out in Appendix XII) that it has, or will have, sufficient resources available to satisfy full acceptance of (or participation in) the **capacity offer** and, in the case of an **announced auction offer**, that it will also comply with its obligations under the **Auction Rules**.
- (c) An **offeror**:-
 - (i) must confirm to **Lloyd's** in writing in Form AP2 (Capacity Offer Rules) (set out in Appendix XII) that, to the best of its knowledge, information and belief (having made due and careful enquiry), and, after having consulted with the **sponsor** (if any), all material facts relating to the **capacity offer** which it is making have been properly disclosed to the **Conversion Official** and in the **offer document** or the **circular** (as the case may be) and there are no matters (other than those disclosed in the **offer document** or the **circular** (as the case may be)) which are or could be material to a person proposing to accept (or participate in) that particular **capacity offer**;
 - (ii) must provide details to **Lloyd's** of any commission payable to it or similar arrangements agreed by it in relation to the **capacity offer**;
 - (iii) must, in relation to any **offer document** or any **circular** (as the case may be), provide, or cause to be provided, a **derogation letter** (substantially in the form set out in Appendix VI) setting out details of any part of section 7 or Appendix VII or VIII (as the case may be) or other paragraph of the **Rules** which has not been fully complied with and explaining the reason for such omission, signed by a director or other duly authorised signatory of the **offeror**;
 - (iv) must, if so required by the **Conversion Official**, confirm to the **Conversion Official** in writing that any **capacity advertisement** which it is proposed should be issued or circulated outside the United Kingdom, fully and properly complies with paragraph 1(13)(d);
 - (v) must at all times observe the principles set out in any applicable code of

practice issued by **Lloyd's** from time to time; and

- (vi) is responsible for submitting draft documentation to the **Conversion Official** and must at all times communicate and liaise with the **Conversion Official** in relation to the making of a **capacity offer**.

SECTION 5

APPLICATION IN PRINCIPLE

Scope of this section

This section sets out the requirements relating to making an **application in principle** for approval of a **capacity offer**. There is no requirement to submit draft documentation with an **application in principle** although an **offeror** may wish to do so. No **capacity offer** will be approved by the **Conversion Official** and no **offer document** or **circular** may be issued unless an **application in principle** is made to the **Conversion Official**. Approval for the making of a **capacity offer** in accordance with section 8 will not be given by the **Conversion Official** unless **approval in principle** has already been given.

5(1) Procedure

- (a) An **application in principle** for approval of a **capacity offer** shall be made to the **Conversion Official** on Form AP1 (Capacity Offer Rules) (set out in Appendix IX) and must be signed by a director or other duly authorised signatory of each of the **sponsor** (if any) and the **offeror**.
- (b) No **application in principle** will be considered by the **Conversion Official** unless it is submitted prior to the **prescribed date** in a particular year.
- (c) The **Conversion Official** will use reasonable endeavours to grant an **approval in principle** no more than 3 **business days** after the **application in principle** has been made to him.

5(2) Approval

An **application in principle** will be approved by the **Conversion Official** only when he notifies the **sponsor** (if any) and **offeror** of the **capacity offer** of such **approval in principle** in writing.

SECTION 6

INITIAL ADVERTISEMENTS

Scope of this section

This section sets out the requirements relating to the contents and issue of an **initial advertisement**.

6(1) Conditions to issue

An **initial advertisement** must not be issued to any person unless:-

- (a) an **application in principle** in respect of the proposed **capacity offer** which is the subject of the **initial advertisement** has been approved by the **Conversion Official** in accordance with paragraph 5(2);
- (b) the **initial advertisement** has been prepared in accordance with paragraph 6(2);
- (c) the **offeror** has complied with its obligations under paragraph 1(13) in relation to the **initial advertisement**;
- (d) the **initial advertisement** has been approved in writing by both the **sponsor** (if any) and the **offeror** of the proposed **capacity offer**;
- (e) both the **sponsor** (if any) and the **offeror** are satisfied that a **capacity offer** will be made on substantially the same terms as those set out in the **initial advertisement**; and
- (f) both the **sponsor** (if any) and the **offeror** believe, on reasonable grounds, that the **capacity offer** being advertised will be implemented in substantially the form set out in the **initial advertisement**.

6(2) Form and content

An **initial advertisement** must:-

- (a) clearly identify the consideration proposed to be offered under the **capacity offer** (including in the case of a **share offer** or a **share alternative** the nature of any securities proposed to be issued);
- (b) state whether the **offeror** intends to reserve the right to make the proposed **capacity offer**, an **increasing offer** or, in the case of a **surrender offer** and **competing offer** only, a **reducing offer**;
- (c) state clearly that it relates to proposals only, that it does not contain or constitute a **capacity offer** and that any **formal offer** will only be made in an **offer document** which will be issued in accordance with provisions of the **Rules** and that any **announced auction offer** will only be made in accordance with the **Rules** and the **Auction Rules**; and
- (d) contain the statements and risk warnings set out in Appendix X.

6(3) **Submission to Conversion Official**

Immediately following the issue of any **initial advertisement**, the **offeror** of any proposed **capacity offer** to which the **initial advertisement** relates must submit, or cause to be submitted, to the **Conversion Official**, 2 copies of the **initial advertisement** together with a letter in the form set out in Appendix XI.

SECTION 7

REQUIREMENTS FOR CAPACITY OFFERS

Scope of this section

This section sets out the requirements relating to the making of **capacity offers**. No **offeror** may make a **formal offer** unless **approval in principle** has been given and an **offer document** is issued. No **offeror** may make an **announced auction offer** unless **approval in principle** has been given, a **circular** has been issued and the relevant **syndicate business forecast** is available. An **offer document** must contain the information required by this section 7 and Appendix VII and must be issued in accordance with the provisions of section 9. A **circular** must contain the information required by this section 7 and Appendix VIII and must be issued in accordance with the provisions of section 9. If any information required by the **Rules** is not to be included, details of the omission and the reasons for it must be set out in a **derogation letter**. Any **offeror** who makes or promotes a **capacity arrangement** or issues, or causes the issue of, an **offer document**, a **revised offer document**, a **circular** or a **revised circular**, as the case may be, otherwise than in accordance with the **Rules**, will be guilty of **misconduct**.

7(1) Requirements for capacity offers

Notwithstanding that **approval in principle** to the making of a **capacity offer** has been granted by the **Conversion Official**, no **offeror** may make a **capacity offer** unless:-

- (a) in the case of a **formal offer**, compliance is made with paragraph 7(2); and
- (b) in the case of an **announced auction offer**, compliance is made with paragraph 7(3).

7(2) Requirements for formal offers

The **offeror** of a **formal offer** must:-

- (a) prepare an **offer document** which complies with this section 7 and Appendix VII;
- (b) not issue an **offer document** unless it has been stamped by the **Conversion Official**;
- (c) issue the **offer document** in accordance with section 9; and
- (d) as soon as reasonably practicable after the issue of the **offer document**, make an **offer announcement** in accordance with section 10.

7(3) Requirements for announced auction offers

The **offeror** of an **announced auction offer** must:-

- (a) prepare a **circular** which complies with this section 7 and Appendix VIII;
- (b) not issue the **circular** unless it has been stamped by the **Conversion Official**;
- (c) issue the **circular** in accordance with section 9;
- (d) issue the circular not less than 20 **US business days** before the first day of the first, or only, **auction** in which the **announced auction offer** will be made;

- (e) as soon as reasonably practicable after the issue of the **circular**, make a **circular announcement** in accordance with section 10;
- (f) ensure that all **relevant information** concerning the proposed **announced auction offer** is properly disclosed to all persons entitled to participate in or accept that offer by:-
 - (i) sending each of them a copy of the **circular**;
 - (ii) making available to each of them, free of charge on request, the **syndicate business forecast** of each **syndicate** in respect of which it is proposed to make the **announced auction offer**; and
- (g) make the **announced auction offer** in an **auction** in compliance with the **Auction Byelaw** and the **Auction Rules**.

7(4) **Responsibility for offer documents and circulars**

An **offer document** or a **circular** must include a responsibility statement in the form set out in paragraph 2 of Appendix VII or paragraph 2 of Appendix VIII, as applicable. If responsibility is to be accepted by any other person(s) or responsibility is to be shared, the **Conversion Official** should be consulted at an early stage and the statement amended accordingly. The **Conversion Official** may require responsibility to be extended to additional persons in which case the statement must be amended to reflect such extension.

7(5) **Form and content of offer documents and circulars**

- (a) An **offer document** or a **circular** must:-
 - (i) be in the format set out in Appendix VII or Appendix VIII, as applicable, and include the statements which are prescribed therein;
 - (ii) in relation to each **syndicate** in respect of which the **capacity offer** is being made, contain as at the latest practicable date prior to the printing of the **offer document** or the **circular**, as the case may be:-
 - (aa) all **relevant information** in relation to the next following **year of account**; and
 - (bb) a fair summary of the key information set out in the **syndicate business forecast** for the next **year of account**, or if a **syndicate business forecast** has been published at the date of issue of the **offer document** or **circular**, as the case may be, a reference to where the **syndicate business forecast** can be inspected and obtained free of charge;
 - (iii) in the case of a **formal offer**, contain such other information as persons to whom the **formal offer** is made and their professional advisers would reasonably require and reasonably expect to find there for the purpose of making an informed assessment of:-
 - (aa) the terms and conditions of the **formal offer**;

- (bb) the rights and obligations attaching to any securities proposed to be issued or transferred to any person in exchange for or in consideration of the **prospective participation** to be acquired;
 - (cc) the assets and liabilities and financial position of the issuer of the securities referred to in paragraph (bb) above; and
 - (dd) the UK taxation implications of accepting a **formal offer**;
 - (iv) in the case of an **announced auction offer**, contain such other information as persons to whom the **announced auction offer** is proposed to be made and their professional advisers would reasonably require and reasonably expect to find there for the purpose of making an informed assessment of:-
 - (aa) the terms and conditions of the proposed **announced auction offer**; and
 - (bb) the UK taxation implications of participating in an **announced auction offer**;
 - (v) contain such additional information as the **Conversion Official** may from time to time prescribe or require, in his absolute discretion; and
 - (vi) contain such additional or other risk warnings as may be prescribed or approved by the **Conversion Official** from time to time together with such other warnings as to risks which the **sponsor** (if any) and the **offeror** consider should reasonably be brought to the attention of any person to whom the **formal offer** is, or the **announced auction offer** is to be, made.
- (b) Irrespective of whether a prospectus is required to be published pursuant to the **POS Regulations**, where a **surrender offer** comprises a **share offer** or has a **share alternative** which involves the offer of **unlisted securities**, the **offer document** shall, in addition to containing the information required by the **Rules**, also contain the information which would be required by the **POS Regulations** if such a prospectus were so required.
- (c) The **Conversion Official** may require that prominence be given in an **offer document** or a **circular** to important information in such manner as he considers appropriate.
- (d) **Offerors** should discuss with the **Conversion Official** as early as possible the conditions, if any, to which the **formal offer** or **announced auction offer** is proposed to be subject.
- (e) The information to be included in an **offer document** or a **circular** by virtue of paragraph 7(5)(a)(iii) or (iv), as the case may be, shall be such information as is required by such paragraphs which is within the knowledge of any person responsible for the **offer document** or the **circular**, as the case may be, or which would be reasonable for him to obtain by making enquiries.
- (f) In determining what information is required to be included in an **offer document** or a **circular** by virtue of paragraph 7(5)(a)(iii) or (iv), as the case may be, regard shall be had:-
- (i) to the nature of any securities and the issuer of those securities;

- (ii) to the nature of the persons likely to consider the acquisition of such securities;
- (iii) to the fact that certain matters may reasonably be expected to be within the knowledge of professional advisers of any kind which those persons may reasonably be expected to consult; and
- (iv) to any information available to those persons or their professional advisers by virtue of requirements imposed by the **FSMA** or by or under any other enactment or by virtue of requirements imposed by any stock exchange.

7(6) Illustrations and covers

- (a) No graphs, charts or other illustrations may be included in an **offer document** or a **circular** unless the **Conversion Official** is satisfied that they are a reasonable way in which relevant factual information can be clearly and fairly presented.
- (b) Apart from the illustrations referred to in paragraph 7(6)(c), the cover of any **offer document** or **circular** may only contain:-
 - (i) the names of the **sponsor** (if any) and the **offeror**; and
 - (ii) an accurate description of the **capacity offer**.
- (c) Any illustrations on the cover must not be likely, in the opinion of the **Conversion Official**, to influence the judgment of any person to whom the **capacity offer** is, or is proposed to be, made.

7(7) Derogation

- (a) If any information required by this section 7 or Appendix VII or VIII, as the case may be, or elsewhere in the **Rules** is not applicable, and no equivalent information is available, it need not be included in the **offer document** or **circular** (as the case may be) provided the **Conversion Official** is informed in writing (by a **derogation letter**) and the **Conversion Official** approves the contents of such **derogation letter**.
- (b) Information which is relevant to a person in connection with a **capacity offer** which has:-
 - (i) been published in Auction News; or
 - (ii) has been sent to the persons or **MAPA operators** (on behalf of the members of a **MAPA**) to whom the **capacity offer** is addressed

need not be included in the **offer document** or **circular** provided that details of how and when it has previously been published or issued is set out in the **derogation letter** and the **Conversion Official** approves the omission proposed in such **derogation letter**.

7(8) Delay in issuing an offer document or circular

- (a) If an **offer document** or a **circular** relating to a particular **capacity offer** has not been issued before the 42nd **business day** following the issue of the first **initial advertisement** relating to that **capacity offer**, or, if earlier, before the 25th **business**

day before the first day of the last **auction** in which persons could tender their **prospective participations**, the **offeror** shall give written notice to each of the persons to whom the **offer document** or **circular** should otherwise have been sent:-

- (i) as to whether, in its reasonable opinion, the **capacity offer** is likely to be implemented; and
 - (ii) giving details of the dates of any remaining **auctions**.
- (b) Where an **advertisement** relating to a particular **capacity offer** has been issued and the **offeror** believes that there is no reasonable prospect of that **capacity offer** being implemented in substantially the form advertised, the **offeror** shall forthwith:-
- (i) notify the **Conversion Official** in writing thereof;
 - (ii) notify each of the persons to whom the **advertisement** was sent in writing thereof; and
 - (iii) make an announcement to such effect, in such terms and in such manner as may be approved by the **Conversion Official**.

7(9) **Approval process**

- (a) The first draft of any **offer document** or **circular** (together with a **derogation letter** (if applicable)) must be submitted to the **Conversion Official** no later than the **prescribed date**.
- (b) The **Conversion Official** will use reasonable endeavours to provide preliminary comments on the first draft of an **offer document** or **circular** (and any related **derogation letter**) not more than 5 **business days** after the documentation has been submitted to him.
- (c) If so requested by the **Conversion Official**, the **sponsor** (if any) and **offeror** of a **capacity offer** shall attend meetings at Lloyd's to discuss any requirements or conditions which the **Conversion Official** may:-
 - (i) wish to impose in respect of the **capacity offer**; or
 - (ii) require to be included in the **offer document** or **circular**, as the case may be.

SECTION 8

APPROVAL PROCEDURE

Scope of this section

This section sets out the procedure which must be followed before the **Conversion Official** will give consent to the making of a **capacity offer**.

8(1) General

- (a) An application for approval to make a **capacity offer** will only be approved by the **Conversion Official** when the relevant **offer document** or **circular**, as the case may be, has been stamped by the **Conversion Official**.
- (b) The **Conversion Official** will not grant approval for the making of a **capacity offer** until each of the documents referred to in paragraph 8(2) has been lodged with him.

8(2) Approval documents

The following documents must be submitted in final form to the **Conversion Official** no later than 2 **business days** prior to the date on which it is proposed to issue the **offer document** or **circular**.

(a) Application for approval

An application for approval to make a **capacity offer** on Form AP2 (Capacity Offer Rules) (set out in Appendix XII) signed by a director or other duly authorised signatory of each of the **sponsor** (if any) and the **offeror**.

(b) Offer document/circular

3 copies of the **offer document** or **circular**, as appropriate, satisfying all relevant requirements for the contents of such document.

(c) Form of acceptance

3 copies of the form of acceptance relating to the **formal offer**.

(d) Derogation letter

If applicable, a derogation letter.

(e) Payment

A cheque payable to the Corporation of Lloyd's for the **prescribed fee**.

(f) Legal opinion

If applicable, pursuant to paragraph 1(9)(f), an appropriate legal opinion signed by US counsel.

SECTION 9

ISSUE OF OFFER DOCUMENTS AND CIRCULARS

Scope of section

This section sets out the requirements which must be satisfied before an **offer document** or a **circular** can be issued. In certain circumstances, an obligation to issue a **revised offer document** or a **revised circular** setting out additional or amended information may arise.

9(1) Conditions to issue

An **offer document** or a **circular** must not be issued to any person unless:-

- (a) such document has been stamped by the **Conversion Official**;
- (b) the **offer document** or the **circular** (as the case may be) has been prepared in accordance with section 7 and either Appendix VII or Appendix VIII (as the case may be); and
- (c) such document is issued to:-
 - (i) all persons entitled to participate in or accept the **capacity offer** referred to in the **offer document** or **circular**; or
 - (ii) to the **MAPA operator** on behalf of any members of the **syndicate** who currently hold their **prospective participations** through the **MAPA**.

9(2) Issue of an offer document and circular

An **offer document**, a **revised offer document**, a **circular** or a **revised circular** will be issued if it is delivered by hand or posted by first class post or airmail to such persons or **MAPA operators** as are referred to in paragraph 9(1)(c).

9(3) Revised offer documents and revised circulars

- (a) The **sponsor** (if any) and the **offeror** shall notify the **Conversion Official** forthwith in writing if, at any time before the **formal offer** contained in an **offer document** closes or lapses or an **announced auction offer** referred to in a **circular** is made, either of them:-
 - (i) becomes aware that there has been a significant change affecting any matter set out in the **offer document** or the **circular**, as the case may be; or
 - (ii) becomes aware that a significant new matter has arisen, the inclusion of information in respect of which would have been required to be mentioned had it been known at the time of preparation of the **offer document** or the **circular**, as the case may be; or
 - (iii) wishes to amend any of the terms of the **capacity offer** set out in the **offer document** or referred to in the **circular**, as the case may be, or otherwise wishes to amend the amount of any fee to be paid to a US registered broker

dealer in connection with its solicitation of acceptances or participations by **US persons** in the **formal offer** or **announced auction offer**, as the case may be.

- (b) For the purpose of paragraph 9(3)(a), “significant” in relation to a **capacity offer** means significant for the purpose of making an informed assessment of the matters referred to in paragraph 7(5)(a).
- (c) If the **sponsor** (if any) and/or the **offeror** notifies the **Conversion Official** pursuant to paragraph 9(3)(a) then, subject to paragraph 9(4), the **offeror** shall, as soon as reasonably practicable following such notification, issue or procure the issue of a **revised offer document** or a **revised circular**, as the case may be, which complies with this paragraph 9(3).
- (d) Paragraphs 9(3)(a) and (c) apply also as respects matters contained in any **revised offer document** or **revised circular** previously issued in relation to any **capacity offer**.
- (e) The **sponsor** (if any) and the **offeror** shall submit or procure the submission of an application for approval to issue a **revised offer document** or **revised circular**, together with that document in final form, to the **Conversion Official** not less than 3 **business days** prior to the date on which it is proposed to issue such document.
- (f) A **revised offer document** or **revised circular** must:-
 - (i) give details of any change, new matter or amendment;
 - (ii) contain any amendments to any **relevant information**;
 - (iii) contain the responsibility statement set out in paragraph 2 of Appendix VII or paragraph 2 of Appendix VIII, as applicable;
 - (iv) contain a statement that, save as disclosed, there has been no significant change and no amendment to the terms of the **capacity offer** contained in the **offer document** or referred to in the **circular**, as the case may be, and no significant new matter has arisen since the issue of the previous **offer document**, **revised offer document**, **circular** or **revised circular**, (as the case may be); and
 - (v) be issued to each of the persons to whom the **offer document** or **circular**, as the case may be, was sent in accordance with paragraph 9(2).
- (g) A **revised offer document** or **revised circular**, as the case may be, must not be issued to any person unless it complies with paragraph 9(3)(f) and has been stamped by the **Conversion Official**.
- (h) Where an **offer document** or **circular** contains a statement that the terms of the **capacity offer** contained in it will not be extended or revised, the **Conversion Official** will not approve any extension or revision to the terms of the **capacity offer** other than in wholly exceptional circumstances and where he considers, in his absolute discretion, that such extension or revision is in the interests of the persons to whom the **offer document** or **circular** was directed.
- (i) Any **revised circular** must be issued not less than 10 **US business days** before the

first day of the next, or only, **auction** in which the relevant **announced auction offer** is to be made, and if it is not possible to issue the **revised circular** by then, the relevant **announced auction offer** must be withdrawn from that **auction**.

- (j) Paragraph 11(1)(b)(ii) sets out the period for which a **formal offer** is to remain open for acceptance following the issue of a **revised offer document**.

9(4) **Extension alone**

If the **sponsor** (if any) and/or the **offeror** notifies the **Conversion Official** pursuant to paragraph 9(3)(a)(iii) that the **offeror** wishes either to extend the **offer period** for a **formal offer** or to extend the **announced auction offer** to additional **auctions** beyond those stated in the **circular** or any **revised circular** then, provided a **revised offer document** or a **revised circular**, as the case may be, would not have to be issued for any other purpose or reason and a statement of the kind referred to in paragraph 9(3)(h) had not been made by or on behalf of the **offeror**, the **offeror** may make an announcement pursuant to paragraph 1(5)(b) or (c), as the case may be, instead of issuing or procuring the issue of a **revised offer document** or **revised circular**.

SECTION 10

OFFER, CIRCULAR AND OTHER ANNOUNCEMENTS

Scope of this section

This section sets out the requirements relating to the contents and issue of **offer announcements** and **circular announcements**. It also sets out the requirements for certain other announcements which may have to be issued. All announcements must be made in Auction News or published in such other manner as the **Conversion Official** may approve and in such other publications as the **offeror** may select. Reminders of when an offer is due to close or lapse may be made in Auction News or in such other manner as the **Conversion Official** may approve – where a particular manner is approved by the **Conversion Official** he will outline any conditions relating to his approval which could be of general application in a Lloyd's Market Bulletin.

10(1) Conditions to issue

An **offer announcement** or a **circular announcement**, as the case may be, must not be issued to any person unless:-

- (a) in the case of a **formal offer**, an **offer document** in respect of that offer has been stamped by the **Conversion Official**;
- (b) in the case of an **announced auction offer**, a **circular** in respect of that proposed offer has been stamped by the **Conversion Official**;
- (c) the **offer announcement** or the **circular announcement**, as the case may be, has been prepared in accordance with paragraph 10(2);
- (d) the **offeror** has complied with its obligations under paragraph 1(13) in relation to the **offer announcement** or the **circular announcement**, as the case may be; and
- (e) the **offer announcement** or the **circular announcement**, as the case may be, has been approved in writing by both the **sponsor** (if any) and the **offeror** of the **capacity offer**.

10(2) Form and content

An **offer announcement** or a **circular announcement**, as the case may be, must:-

- (a) in the case of a **surrender offer** comprising a **share offer** or having a **share alternative**, clearly identify the nature of any securities proposed to be issued to a person participating in or accepting the **surrender offer**;
- (b) in the case of a **formal offer**, state whether the **offeror** has reserved the right to make that offer a **reducing offer** or an **increasing offer**;
- (c) in the case of an **announced auction offer**, state whether the **offeror** has reserved the right to make that offer an **increasing offer**;
- (d) in the case of a **formal offer**, state that a **capacity offer** has been made in an **offer document** which has been issued in accordance with the **Rules**;
- (e) in the case of an **announced auction offer**, state that details of the proposed

announced auction offer have been set out in a **circular** which has been issued in accordance with the **Rules**;

- (f) state where copies of, in the case of a **formal offer**, the **offer document** (and any **revised offer document**) or, in the case of an **announced auction offer**, the **circular** (and any **revised circular**) (together with the relevant **syndicate business forecasts**) can be obtained; and
- (g) contain the statements and risk warnings set out in Appendix X.

10(3) **Submission to Conversion Official**

Immediately following the issue of any **offer announcement** or **circular announcement**, as the case may be, the **offeror** of the **capacity offer** to which that announcement relates must submit, or cause to be submitted, to the **Conversion Official** 2 copies of that announcement together with a letter in the form set out in Appendix XI.

10(4) **Requirement to issue offer announcement and circular announcement**

The **offeror** of a **capacity offer** must issue, or cause to be issued, an **offer announcement** or a **circular announcement**, as applicable, in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **offeror** may select, as soon as reasonably practicable following the date on which the **offer document**, **revised offer document**, **circular** or **revised circular**, as the case may be, was first issued.

10(5) **Requirements to make further announcements**

- (a) The **offeror** of a **capacity offer** must issue, or cause to be issued, an announcement in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **offeror** may select:-
 - (i) in the case of a **formal offer**, at least once a month after the issue of an **offer document** until (and including) the date on which that offer is declared or becomes unconditional as to acceptances, closes or lapses; and/or
 - (ii) forthwith (but in any event by no later than 2.00pm on the day after that on which the **capacity offer** was extended or varied) upon an extension or variation of any **capacity offer**; and/or
 - (iii) forthwith upon a **formal offer** being declared to be an **increasing offer** and at least once a week thereafter until the date on which that offer becomes unconditional as to acceptances, closes or lapses; and/or
 - (iv) forthwith upon an **announced auction offer** being declared to be an **increasing offer** and at least once a week thereafter until the final day of the last **auction** in which the **announced auction offer** will be made; and/or
 - (v) forthwith upon a **formal offer** being declared to be a **reducing offer** and at least once a week thereafter until the date on which that offer becomes unconditional as to acceptances, closes or lapses.
- (b) Any announcement required to be made pursuant to this paragraph 10(5) or made pursuant to paragraph 10(6) shall:

- (i) in the case of a **formal offer**, set out the level of acceptances received in respect of that **formal offer** and, in the case of an **announced auction offer**, disclose the aggregate amount of the **prospective participations** on the **syndicate** which are the subject of the **announced auction offer** which the **offeror** has acquired at the date of such announcement;
- (ii) set out any material changes to the terms and conditions of the **capacity offer**; and
- (iii) comply with the provisions of the following paragraphs as if the references therein to an **offer announcement** were to the **announcement** being made pursuant to the provisions of paragraph 10(5) or paragraph 10(6):-
 - (aa) paragraph 10(1)(d);
 - (bb) paragraph 10(1)(e);
 - (cc) paragraph 10(2); and
 - (dd) paragraph 10(3).

10(6) **Reminders**

The **offeror** of a **capacity offer** may issue, or cause to be issued, an announcement in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **offeror** may select reminding those to whom the offer has been made of the date on which the offer is due to close or lapse.

SECTION 11

CONDITIONS FOR ACCEPTANCES OF FORMAL OFFERS

Scope of this section

This section sets out the requirements relating to acceptances and the announcements which must be made in respect of acceptances.

11(1) Acceptance periods

- (a) A **formal offer** must be stated to be open for acceptance for at least 20 **US business days** following the date on which the **offer document** was first issued.
- (b) A **formal offer** must be stated to be open for acceptance for at least 10 **US business days**:-
 - (i) following the date on which it has been declared unconditional as to acceptances; and/or
 - (ii) following the date on which any **revised offer document** in relation to that offer is issued.
- (c) A **formal offer** shall lapse if it has not become or been declared unconditional as to acceptances not later than 10 **US business days** before the final closing date of the **formal offer**.

11(2) Announcement of acceptances

- (a) Following the issue of an **offer document**, if the **formal offer** fails to become unconditional or otherwise lapses, the **offeror** shall, as soon as reasonably practicable, write to any person thereby affected stating this fact.
- (b) Following the issue of an **offer document**, if the **formal offer** is declared or becomes unconditional as to acceptances, the **offeror** shall forthwith make an announcement which complies with paragraph 11(2)(c) and 11(4).
- (c) Any announcement made under paragraph 11(2)(b) must:-
 - (i) not be issued to any person unless, in the case of a **formal offer** in respect of which an obligation under paragraph 9(3) to issue a **revised offer document** arises, such **revised offer document** has been stamped by the **Conversion Official**;
 - (ii) clearly identify the **formal offer** to which the announcement relates and, in the case of a **surrender offer** containing a **share offer** or having a **share alternative**, the nature of any securities proposed to be issued to any person;
 - (iii) state that the **formal offer** has been made in an **offer document** which has been issued in accordance with the **Rules**;
 - (iv) state where copies of the **offer document** and any **revised offer document** can be obtained;

- (v) be approved in writing by both the **sponsor** (if any) and the **offeror** of the **formal offer**; and
- (vi) contain the statements and risk warnings set out in Appendix X.

11(3) Submission to Conversion Official

Immediately following the issue of any announcement pursuant to this section 11, the **offeror** of the **capacity offer** to which the announcement relates must submit, or cause to be submitted, to the **Conversion Official** 2 copies of the announcement together with a letter in the form set out in Appendix XI.

11(4) Requirement to issue announcement

An **offeror** of a **formal offer** must issue, or cause to be issued, any announcement required by this section 11 as soon as reasonably practicable following any of the events referred to in paragraph 11(2)(a) or (b) in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **offeror** may select.

SECTION 12

VALIDATION PROCEDURES

Scope of this section

This section sets out the conditions, requirements and procedures relating to the validation process following the implementation of a **formal offer**.

12(1) Validation arrangements

- (a) **MSU** will, in relation to any **syndicate** which is the subject of a **formal offer**:-
 - (i) prior to the first closing date of the **formal offer**, provide the **sponsor** or the **offeror** with an electronic spread sheet file (in either CSV or Excel) together with the opening stamp positions of the relevant **syndicate**; and
 - (ii) prior to each **auction**, pass on details of any acceptances of the **formal offer** and any problems to the relevant **members' agents**.
- (b) A **sponsor** (if any) or an **offeror** must:-
 - (i) nominate a person within their organisation who will assume responsibility for the validation process of a **formal offer** and notify the auction operation manager at **MSU** in writing of the details of the name, address, telephone, fax numbers and, where applicable, the e-mail address, of such person;
 - (ii) use their respective reasonable endeavours to complete all arrangements and documents relating to or required to implement the **formal offer**;
 - (iii) comply with all reasonable requests and directions made by the **Conversion Official** in relation to completing such matters;
 - (iv) fill in and return to **MSU** an electronic spreadsheet in a form acceptable to **MSU** not later than 12 noon on the third business day prior to each **auction** with details of all persons who have accepted the **formal offer** since the last submission made to **MSU** under this sub-paragraph; and
 - (v) supply such information as is required by the **Conversion Official** from time to time.

12(2) Information

All information supplied to **Lloyd's** for the purposes of the validation process must:-

- (a) be in such electronic form as the **Conversion Official** may prescribe from time to time;
- (b) be submitted by such time and date as the **Conversion Official** may prescribe from time to time; and
- (c) be in a processable format.

DEFINITIONS

1 In these **Rules**, unless the context otherwise requires:-

active underwriter	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
advertisement	means a financial promotion in accordance with section 21(1) of FSMA;
Agency Agreements Byelaw	means the Agency Agreements Byelaw (No. 8 of 1988);
announced auction offer	means an offer to be submitted in an auction to acquire certain prospective participations for cash consideration, which offer has been announced in accordance with paragraph 7(3);
application in principle	means an application for approval in principle of a capacity offer made in accordance with section 5;
approval in principle	means the grant by the Conversion Official of approval in principle of a capacity offer ;
approved jurisdictions	means such jurisdictions as may be prescribed as approved jurisdictions by the Conversion Official from time to time;
associate	means in relation to any person: <ul style="list-style-type: none">(a) that person's close relative; or(b) if that person is a body corporate, any director or employee of that person or any connected company of that person; or(c) any body corporate of which that person is a director or an employee; or(d) any person who is an employee or partner of that person; or(e) any connected company of that person;
auction	means an auction within the meaning of paragraph 1 of the Auction Byelaw ;
Auction Byelaw	means the Auction Byelaw (No. 14 of 1997);
auction offer	means an offer to buy certain prospective participations submitted in an auction in accordance with the Auction Byelaw and the Auction Rules ;
Auction Rules	means the rules governing the conduct of auctions

	made by the Council under the Auction Byelaw from time to time;
authorised person	means a person who is an authorised person for the purposes of FSMA (which for the avoidance of doubt shall include a member of a designated professional body);
body corporate	has the meaning given in the Companies Act 1985;
business day	means a day on which the banks in the City of London are open for the conduct of ordinary business;
capacity advertisement	means an initial advertisement , an offer document , a revised offer document , a circular , a revised circular , an offer announcement , a circular announcement or any other advertisement of any nature whatsoever which relates to a capacity offer ;
capacity arrangement	means an arrangement whereby a person entitled to participate in or accept that arrangement is invited to: <ul style="list-style-type: none"> (a) accept a surrender offer; or (b) participate in an announced auction offer by tendering his prospective participation in response to that offer; or (c) accept a competing offer;
capacity offer	means any offer to a person entitled to participate in or accept a capacity arrangement to participate in or accept that arrangement;
cash alternative	means an alternative form of consideration comprising cash;
cash offer	means a formal offer for a consideration comprising exclusively cash;
circular	means a document containing details of an announced auction offer in accordance with the Rules and, in particular, section 7 and Appendix VIII;
circular announcement	means an announcement issued by the offeror outlining the terms of any announced auction offer referred to in a circular in accordance with paragraph 10(2);
close relative	means a person's spouse, his children and step-children, his parents and step-parents, his brothers, sisters and his step-brothers and step-sisters;

competing offer	means an offer to enter into an arrangement in relation to a particular syndicate under which a person entitled to participate in or accept that arrangement makes a participation nomination and/or a second nomination in respect of the whole or any part of his prospective participation for a consideration comprising exclusively cash, which prospective participation is the subject of a surrender offer ;
connected company	means in relation to a person (“first person”) any person who is controlled by, or is under common control with, the first person;
control	has the meaning given in the Definitions Byelaw (No. 3 of 2004) and “ controlled ” shall be construed accordingly;
Conversion Official	means the person appointed pursuant to paragraph 5A(1) of the Conversion and Related Arrangements Byelaw (No. 22 of 1996) and includes, in respect of and to the extent of the powers and duties so delegated, any person to whom the Conversion Official shall have delegated any of his powers or duties for the time being pursuant to paragraph 5A(3) of that byelaw;
corporate candidate	means a candidate within the meaning of paragraph 3(2)(c) of the Membership Byelaw (No. 17 of 1993) which is a body corporate or an SLP ;
corporate member	means a member of Lloyd’s which is a body corporate or a Scottish limited partnership ;
Council	means the Council of Lloyd’s constituted by Section 3 of Lloyd’s Act 1982 and includes its delegates and persons by whom it acts;
derogation letter	means the letter (substantially in the form set out in Appendix VI) referred to in paragraph 4(4)(c);
designated professional body	means a body designated by the Treasury under section 326 of FSMA for the purposes of Part XX of FSMA;
formal offer	means a surrender offer or a competing offer ;
FSMA	means the Financial Services and Markets Act 2000;
increasing offer	means a capacity offer under which the amount of prospective participations sought pursuant to that offer is increased;

individual member	means a member of Lloyd's who is an individual;
initial advertisement	means any advertisement (other than an offer document , a revised offer document , a circular , a revised circular , an offer announcement or a circular announcement) inviting any person to accept or participate in a capacity offer or containing information calculated to lead directly or indirectly to any person doing so;
limited offer	means a capacity offer for a specified amount of the aggregate prospective participations of the persons entitled to participate in the arrangement which is the subject of the capacity offer ;
Lloyd's	means the Society incorporated by Lloyd's Act 1871 by the name of Lloyd's;
Major Syndicate Transactions Byelaw	means the Major Syndicate Transactions Byelaw (No. 18 of 1997);
managing agent	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
mandatory offer	means an offer pursuant to the Mandatory Offer Byelaw ;
Mandatory Offer Byelaw	means the Mandatory Offer Byelaw (No. 5 of 1999);
MAPA	means a members' agents pooling arrangement within paragraph 10(2) of the Agency Agreements Byelaw ;
MAPA operator	means, in relation to a MAPA , a members' agent which operates a MAPA within the meaning of paragraph 1(2) of the Agency Agreements Byelaw ;
member	means as the context requires, an individual member or a corporate member ;
members' agent	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
member's syndicate premium limit	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
minority buy-out	means a minority buy-out made pursuant to the Major Syndicate Transactions Byelaw ;
misconduct	has the meaning given in the Misconduct and Penalties Byelaw (No. 30 of 1996);
MSU	means Lloyd's Members' Services Unit;

offer announcement	means an announcement issued by the offeror outlining the terms of any formal offer contained in an offer document in accordance with paragraph 10(2);
offer document	means a document containing a formal offer in accordance with the Rules and, in particular, section 7 and Appendix VII;
offer period	means the period during which a formal offer remains open for acceptance;
offeror	means a managing agent (or a connected company of such managing agent) or such other person which has been approved by the Conversion Official to act as an offeror in accordance with section 4;
participation nomination	means a nomination such as is referred to in clause 11A.2 of an agreement in the terms of the standard managing agent's agreement ;
POS Regulations	means the Public Offers of Securities Regulations 1995;
prescribed date	means, in relation to a paragraph of the Rules , the date in each year prescribed by the Conversion Official for the purposes of that paragraph of the Rules ;
prescribed fee	means a fee prescribed by the Conversion Official for the purposes of a particular paragraph of the Rules ;
prescribed form	means in a form prescribed by the Conversion Official from time to time;
prohibited territory	means Singapore and such other territories as may be prescribed as prohibited territories by the Conversion Official from time to time;
prospective participation	means, in relation to a syndicate and a particular person, the amount of the member's syndicate premium limit with which that person will be entitled to participate as a member of that syndicate for the next following year of account ;
reducing offer	means a formal offer under which the amount of prospective participations sought pursuant to that offer is reduced by virtue of the offeror of that formal offer (or a connected company of that offeror) acquiring the same prospective participations in an auction or pursuant to any other means permitted by Lloyd's from time to time;

Register of Sponsors

means the register held by **Lloyd's** which lists all persons who are approved by the **Conversion Official** to act as **sponsors**;

relevant information

means in relation to a **syndicate**, information which could reasonably be expected to influence the decision of any person whether to become or remain a member of that **syndicate**, or to increase or reduce his **prospective participation** in that **syndicate** and shall include any information relating to:

- (a) any change of **active underwriter** or the deputy of the **active underwriter** or other personnel responsible for key roles in the business of the **syndicate**, including but not limited to the purchase and vetting of reinsurance and cash and investment management; or
- (b) any sale of the goodwill of the business of acting as managing agent of that **syndicate**, any sale of the benefit or burden of the contracts relating to the management of that **syndicate**, any cessation of acceptance of new or renewal business on behalf of that **syndicate** by the **managing agent** of that **syndicate** or any syndicate merger (within the meaning of paragraph 1(2) of the Major Syndicate Transactions Byelaw) in which the **syndicate** is either a ceasing syndicate (within the meaning of that paragraph) or the successor syndicate (within the meaning of that paragraph); or
- (c) any proposal to effect a transaction, arrangement or matter described in (b) above, where a firm intention to effect such transaction, arrangement or matter has been formed; or
- (d) any material change in the nature or scope of the underwriting or reinsurance accepted or effected on behalf of the **syndicate**; or
- (e) any material change in the geographical split of syndicate business being written; or
- (f) any material change in the **prospective participation** in the **syndicate** of the **active underwriter** or in any shareholding or interest the **active underwriter** may have in any **corporate member** which is a member of that **syndicate**; or

	<p>(g) the identity of any person which the managing agent of the syndicate is aware is proposing to acquire control of that managing agent; or</p> <p>(h) any material change in the risk-based capital ratio applicable to the syndicate;</p>
revised circular	means a document which amends and/or supplements and/or revises the information contained in a circular ;
revised offer document	means a document which amends and/or supplements and/or revises the information contained in an offer document ;
Rules	means these conditions and requirements;
Scottish limited partnership or SLP	means a limited partnership formed in Scotland under the Limited Partnerships Act 1907;
second nomination	means a nomination under paragraph 2 of the Second Nomination Byelaw ;
Second Nomination Byelaw	means the Assignment of Syndicate Participations (Second Nomination) Byelaw (No. 6 of 2000);
share alternative	means an alternative form of consideration comprising securities;
share offer	means a surrender offer for a consideration comprising exclusively securities;
sponsor	means a person who has been approved by the Conversion Official to act as a sponsor in accordance with section 3;
standard managing agent's agreement	means the form of agreement between a member and a managing agent prescribed by the Agency Agreements Byelaw and set out in Schedule 3 or 4 thereof (as appropriate);
standard members' agent's agreement	means the form of agreement between a member and a members' agent prescribed by the Agency Agreements Byelaw and set out in Schedule 1 thereof;
stepped offer	means a formal offer where the consideration payable to all those who accept such offer is increased in accordance with the amount of the prospective participations to be acquired by the offeror ;
surrender arrangement	means an arrangement in relation to a particular

	<p>syndicate under which a person entitled to participate in or accept that arrangement surrenders the whole or any part of his prospective participation for cash or other consideration in circumstances in which no participation nomination or second nomination is made and either:-</p> <ul style="list-style-type: none"> (i) the arrangement is entered into with the managing agent of that syndicate; or (ii) that managing agent agrees to permit another member to underwrite in succession to that person without the requirement for a participation nomination or a second nomination to be made;
surrender offer	means an offer to enter into a surrender arrangement ;
syndicate	means a group of members or a single corporate member underwriting insurance business at Lloyd's through the agency of a managing agent to which a particular syndicate number is assigned by or under the authority of the Council ;
syndicate allocated capacity	has the meaning given in the Definitions Byelaw (No. 3 of 2004);
syndicate business forecast	means a business forecast prepared by the managing agent of a syndicate in respect of the following year of account for circulation to members of the syndicate and supporting members' agents ;
underwriting agent	means a managing agent or a members' agent ;
United States	means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia;
unlimited offer	means a capacity offer for the aggregate prospective participations of all the persons entitled to participate in or accept the arrangement which is the subject of the capacity offer ;
unlisted security	<p>means an investment which</p> <ul style="list-style-type: none"> (a) is not admitted to official listing nor the subject of an application for listing in accordance with Part VI of FSMA; and (b) falls within paragraph 1, 2, 4 or 5 of Schedule 2 Part II to FSMA;
US business day	means any day other than a Saturday, a Sunday or a

United States federal holiday;

US person

means a person who is resident in, or incorporated under the laws of, the **United States**; and

year of account

means an accounting year at **Lloyd's**, currently the calendar year.

- 2 Any reference to any statute, statutory provision, byelaw or regulation shall include any modification, re-enactment or extension of that statute, statutory provision, byelaw or regulation from time to time.
- 3 Unless the context otherwise requires, expressions defined in Lloyd's Acts 1871 to 1982 or in the Conversion and Related Arrangements Byelaw (No. 22 of 1996) shall have the same meanings in the **Rules**.
- 4 In the **Rules**:
 - (a) use of the singular includes the plural and vice versa;
 - (b) use of any gender includes the other genders; and
 - (c) reference to a "person" includes an individual, body corporate or Scottish limited partnership.
- 5 For the purposes of the **Rules**, a person is entitled to participate in or accept a **capacity offer** or **capacity arrangement** if that person is entitled to make a **participation nomination** and/or **second nomination** in respect of the **syndicate** to which that offer or arrangement relates.

APPENDIX I

TABLE OF PRESCRIBED DATES FOR 2005

Key

CORs	Capacity Offer Rules
CO	Conversion Official

PART I

FORMAL OFFERS

Authority/Form

Earliest date to apply to become a sponsor

1 May

Form SP1

CO will use reasonable endeavours to approve sponsor not more than 3 **business days** after receipt of Form SP1

CORs 3(2)(c)

Earliest date to submit an application in principle (“AIP”)

1 May

Form AP1 (Capacity Offer Rules)

CO will use reasonable endeavours to approve the AIP not more than 3 **business days** after receipt of Form AP1 (Capacity Offer Rules)

CORs 5(1)(c)

Earliest date to submit an initial draft offer document and related documents

1 May

CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 **business days** after receipt

CORs 7(9)(b)

Earliest date to issue an initial advertisement

The day on which the AIP has been approved by the CO

CORs 6(1)(a)

Latest date to submit an application for approval (together with a final draft offer document, related documents and cheque for the prescribed fee)

2 **business days** before the proposed date of issue of the **offer document**

Form AP2 (Capacity Offer Rules)
CORs 8(2)

Latest date to make a competing offer

Within 10 US **business days** of the date on which the **offer**

CORs 1(4)(a)(i)

	Authority/Form
document containing the relevant surrender offer was first issued	
Earliest date for formal offer to close	
20 US business days after the offer document was first issued	CORs 11(1)(a)
Latest date to apply to become a sponsor of (or to submit an AIP for) a limited offer	
5 August	CORs 5(1)(b)
Latest date to submit an initial draft offer document and related documents for a limited offer	
5 August	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 business days after receipt	CORs 7(9)(b)
Latest date for an offer to close when a minority buy-out application is intended to be made	
31 August	CORs 1(17)(c)
Latest date to apply to become a sponsor of (or to submit an AIP for) an unlimited offer	
22 September	CORs 5(1)(b)
Latest date to submit an initial draft offer document and related documents for an unlimited offer	
22 September	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 business days after receipt	
Latest date by which an announcement has to be made if no offer document has been issued	
42 business days after the initial advertisement was issued or, if earlier, 22 August (being 25 business days before the first day of the third auction)	CORs 7(8)(a)

	Authority/Form
Latest date to issue a revised offer document	
10 US business days before the final closing date of the formal offer	CORs 11(1)(b)(ii)
Latest date to increase the consideration being offered under a formal offer	
10 US business days before the final closing date of the formal offer	CORs 1(5)(d)
Latest date to declare a conditional formal offer to be unconditional as to acceptances	
10 US business days before the final closing date of the formal offer	CORs 11(1)(c)
Final date to close a limited offer	
19 September	CORs 1(17)(b)
Date of third auction	
27/28 September	
Final date to close an unlimited offer	
4 November	CORs 1(17)(a)
If notice has been given under clause 11.5 of the standard managing agent's agreement, date after which no prospective participations can be transferred without the managing agent's consent	
5 November	CORs 1(6)(b)(iii)

PART II

ANNOUNCED AUCTION OFFERS

Authority/Form

Earliest date to apply to become a sponsor

1 May

Form SP1

CO will use reasonable endeavours to approve sponsor not more than 3 **business days** after receipt of Form SP1

CORs 3(2)(c)

Earliest date to submit an application in principle (“AIP”)

1 May

Form AP1 (Capacity Offer Rules)

CO will use reasonable endeavours to approve the AIP not more than 3 **business days** after receipt of Form AP1 (Capacity Offer Rules)

CORs 5(1)(c)

Earliest date to submit an initial draft circular and related documents

1 May

CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 **business days** after receipt

CORs 7(9)(b)

Earliest date to issue an initial advertisement

The day on which the AIP has been approved by the CO

CORs 6(1)(a)

Latest date to submit an application for approval (together with a final draft circular, related documents and a cheque for the prescribed fee)

2 **business days** before the proposed date of issue of the circular

Form AP2 (Capacity Offer Rules)
CORs 8(2)

Latest date to issue a circular

20 **US business days** before the first day of the first, or only, **auction** in which the **announced auction offer** will be made

CORs 7(3)(d)

Latest date to apply to become a sponsor of (or to submit an AIP for) a limited offer

5 August

CORs 5(1)(b)

Authority/Form

Latest date to submit an initial draft circular and related documents for a limited offer

5 August

CORs 7(9)(a)

CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 **business days** after receipt

CORs 7(9)(b)

Latest date to apply to become a sponsor of (or to submit an AIP for) an unlimited offer

15 August

CORs 5(1)(b)

Latest date to submit an initial draft circular and related documents for an unlimited offer

15 August

CORs 7(9)(a)

CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 **business days** after receipt

CORs 7(9)(b)

Latest date by which an announcement has to be made if no circular has been issued

42 **business days** after the **initial advertisement** was issued or, if earlier, 2 September (being 25 **business days** before the first date of the last **auction**)

CORs 7(8)(a)

Latest date to issue a revised circular

10 **US business days** before the first day of the first, or only, **auction** in which the **announced auction offer** will be made

CORs 9(3)(i)

Date of third auction

27/28 September

CORs 9(3)(i)

If notice has been given under clause 11.5 of the standard managing agent's agreement, date after which no prospective participations can be transferred without the managing agent's consent

5 November

CORs 1(6)(b)(iii)

APPENDIX II

LIST OF FOREIGN LAWYERS AND ADDITIONAL US REQUIREMENTS

PART I

LIST OF FOREIGN LAWYERS

COUNTRY	COMPANY NAME	ADDRESS	CONTACT
Australia	Freehill Hollingdale & Page	Level 30, MLC Centre 19 Martin Place Sydney NSW 2000 Australia Tel: 00612 9225 5000 Fax: 00612 9322 4000	Don Harding
Belgium	Freshfields Bruckhaus Deringer	Tel: 00322 230 0820 Fax: 00322 230 1730	Guy Schrans
Bermuda	Appleby Spurling & Kempe	Cedar House 41 Cedar Avenue Hamilton HM12 Bermuda Tel: 001441 295 2244 Fax: 001441 292 6999	Warren Cabral/ Tim Ferris
British Virgin Islands	Harney, Westwood & Riegels	Craigmuir Chambers P O Box 71 Road Town Tortola BVI Tel: 001 809 494 2233 Fax: 001 809 494 3547	Richard Parsons
Canada	Stikeman, Elliott	Suite 5300 Commerce Court West P O Box 85 Toronto, Ontario Canada M5L 1B9 Tel: 001 416 869 5500 Fax: 001 416 947 0866	Michael Rumball
	Stikeman, Elliott (London)	Cottons Centre Cottons Lane London SE1 2QL Tel: 0207 378 0880 Fax: 0207 378 0344/ 0207 865 0226	Michele J Buchignani
	M J Oppenheim CA	1155 Rue University	Vincent Gallo

COUNTRY	COMPANY NAME	ADDRESS	CONTACT
		1400 Montreal Quebec Tel: 001 514 393 5327 Fax: 001 514 861 0470	
	Borden Ladner Gervais	1000 de la Gauchetière Street West Suite 900 Montreal Quebec Tel: 001 514 879 1212 Fax: 001 514 954 1905	
Denmark	Plesner & Lunoe	Esplanaden 34 DK1283 Copenhagen Cop. K Denmark Tel: 0045 3312 1133 Fax: 0045 3312 0014	Carsten Tvede-Moller
France (Paris)	Freshfields Bruckhaus Deringer	Tel: 00331 4456 4456 Fax: 00331 4456 4400	Veronique Collin/ Jacques Bertan de Balanda
Germany (Frankfurt)	Freshfields Bruckhaus Deringer	Tel: 0049 6997 570 107 Fax: 0049 6974 8917	Joachim Kaffanke/ Matthias Fenner
Greece	Kyriakides & Partners	6 Queen Sophia Avenue 106 74 Athens Greece Tel: 00301 724 3072 Fax: 00301 725 0607	Leonidas C Georgopoulos
Guernsey	Ozannes	P O Box 186 Le Marchant Street St Peter Port Guernsey Tel: 01481 723446 Fax: 01481 714653	P A Harwood
Hong Kong	Freshfields Bruckhaus Deringer	Tel: 00852 2846 3400 Fax: 00852 2810 6192	Martin Taylor/ David Aughey
Ireland	A & L Goodbody	1 Earlsfort Centre Hatch Street Dublin 2 Ireland Tel: 3531 661 3311 Fax: 3531 661 3278	J A O'Farrell
Italy	Studio Legale Ughi E Nunziante	Via Sant'Andrea 19-20121 Milan	Michael Kirkham/ Maurizio Fraschini

COUNTRY	COMPANY NAME	ADDRESS	CONTACT
		Italy Tel: 00392 7601 3368 Fax: 00392 7600 9535	
Isle of Man	Simcocks	Ridgeway House Ridgeway Street Douglas IM99 1PY Tel: 01624 620 821 Fax: 01624 620 994	
	L J Weatherill	Top Floor Central Chambers 6 Victoria Street Douglas Isle of Man IM1 2LH Tel: 01624 674 994 Fax: 01624 674 995	Lawrence Weatherill
Japan	Mitsuhiro, Yasuda, Wanu & Maeda	Akasaka 2 Plaza Building 7 14-32 Akasaka 2-Chome Minato-ku Tokyo 107 Tel: 00813 3224 0020 Fax: 00813 3224 0030	Mitsuhiro Yasuda Akihiro Wani
Jersey	Bedell & Cristin	P O Box 75 Normandy House Grenville Street St Helier Jersey JE4 8PP Tel: 01534 72949	Simon Howard J W L L Jenkin
Luxembourg	Loesch & Wolter	11 Rue Goethe Boite Postale 1107 L-1011 Luxembourg Tel: 352 481 1481 Fax: 352 494 944	Jacques Loesch
The Netherlands/ Netherlands Antilles	Stibbe	Strawinskylaan 2001 P O Box 75640 1070 AP Amsterdam The Netherlands Tel: 00312 0546 0606 Fax: 00312 0546 0123	Jaap Willeumier
	Stibbe (London)	Tel: 020 7466 6300	

COUNTRY	COMPANY NAME	ADDRESS	CONTACT
		Fax: 020 7466 6311	
New Zealand	Minter Ellison Rudd Watts	Trust Bank Centre 125 Terrace Wellington Tel: 0064 4472 4899 Fax: 0064 4473 8232	Scott Galloway (Lloyd's Representative)
	Chapman, Tripp, Sheffield, Young	Level 35 Coopers & Lybrand Tower 23-29 Albert Street P O Box 2206 Auckland, NZ Tel: 00649 357 9000 Fax: 00649 358 0280	Mr A W Young
Portugal	AM Pereira, Saragga Leal, Oliveira Martins, Judice & Associados	Edificio Eurolex Av du Liberdade 224 1250-148 Lisbon Portugal Tel: 003511 383 2981 Fax: 003511 383 3651	Fernando Campos Ferreira
Singapore	Wong Partnership	80 Raffles Place # 58-01 UOB Plaza 1 Singapore 048624 Tel: 0065 532 7488 Fax: 0065 532 5711	Mrs Lee Suet Fern/ Mr Mark Buchanan/ Ms Phua Aik Siew
South Africa	Webber Wentzel Bowens	PO Box 61771 Marshalltown 2107 Johannesburg South Africa Tel: 002711 530 5000 Fax: 002711 530 5111	John Jarvis Murray Thompson
Spain (Madrid)	Freshfields Bruckhaus Deringer	Tel: 00341 319102 Fax: 00341 3084636	Javier Gomez Acebo
Switzerland	Lenz & Staehelin	Bleicherweg 58 CH-8002 Zurich Tel: 0041 1204 1212 Fax: 0041 1204 1200	Matthias Oertle
USA	Cleary, Gottlieb, Steen & Hamilton	City Place House 55 Basinghall Street London EC2V 5EH	Ed Greene

COUNTRY	COMPANY NAME	ADDRESS	CONTACT
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		Tel: 0207 614 2200 Fax: 02-7 600 1698	
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PART II

ADDITIONAL US REQUIREMENTS

Capacity offers must be extended to **US persons** and the following requirements apply:-

- (a) an **offeror** should ensure that documentation is reviewed by US counsel;
- (b) persons who are not US registered broker dealers should not be paid any transaction based compensation in connection with their solicitation of acceptances of (or participations in) the **capacity offer** by **US persons**.

Although Lloyd's denies that a **prospective participation** constitutes a security, **offerors**, by extending **capacity offers** to **US persons**, are utilising US jurisdictional means. **Offerors** should therefore consult with US counsel as to the legal ramifications.

APPENDIX III

Form CU

CONFIDENTIALITY UNDERTAKING

[ON LETTERHEAD OF SPONSOR]

To: The Society of Lloyd's incorporated by Lloyd's Act 1871("Lloyd's")
One Lime Street
London
EC3M 7HA

For the attention of the Conversion Official

[Date]

Dear Sir

- 1 We refer to the capacity offer to be made by [insert name of promoter of the relevant capacity arrangement] to [insert a description of those persons to whom the offer will be made e.g. those persons who underwrite on syndicates [] for the current year of account/those persons who participate on MAPA [] etc] ("the target persons"). We act as sponsor in relation to the capacity offer and, in order to facilitate the posting of a document containing the offer ("the [offer document/circular]") to the target persons, we require Lloyd's to provide us with the names and addresses of the target persons ("the information").
- 2 In consideration of Lloyd's making the information available to us, we unconditionally and irrevocably undertake to Lloyd's as follows:-
 - (a) We will keep the information confidential and ensure that it is not disclosed without the prior written consent of Lloyd's to any person other than to those of our employees to whom the information is required to be disclosed for the purpose of posting the [offer document/circular]. We may, however, disclose any of the information which we are required to disclose by law, judicial order or by any self regulating or similar organisation to whose rules we are subject.
 - (b) We will procure that each person to whom the information or any of it is disclosed is made aware of the terms of this undertaking and complies with its terms as if they were party to it.
 - (c) We will not copy or use all or any part of the information for any purpose other than to facilitate the posting of the [offer document/circular] and we acknowledge that neither we, nor any third party on whose behalf we act, shall be entitled to any right or licence in respect of the information. Accordingly, we will, upon demand at any time and, in any event, within three working days after the date on which the [offer document/circular] is posted:
 - (i) return or procure the return to Lloyd's of all copies, extracts or other reproductions (in whole or in part) of documents containing or reflecting the information without keeping copies thereof;
 - (ii) erase and destroy all data from any computer, word processor or other device

in our possession, custody or control containing or reflecting any of the information; and

- (iii) confirm to Lloyd's in writing that we have fully complied with our obligations under paragraphs 2(c)(i) and 2(c)(ii).
 - (d) We will indemnify Lloyd's against any loss, damage or expense incurred by it as a result of any breach of the terms of this undertaking.
 - (e) For the avoidance of doubt, we shall not disclose the information (or any part thereof) to [*insert name of managing agent*] or any director or employee of [*insert name of managing agent*] or any of its associates. For this purpose "associate" shall mean any person which controls, is controlled by or is under common control with [*insert name of managing agent*] and any director or employee of any such person where "control" has the meaning given in the Definitions Byelaw (No.3 of 2004).
- 3 This letter, when signed by us, shall constitute a legally binding undertaking. If any provision of this undertaking shall for any reason be unenforceable, the remainder of this undertaking shall nevertheless remain in full force and effect. This undertaking shall be governed by and construed in accordance with English law and we hereby irrevocably submit to the non-exclusive jurisdiction of the English Courts.

Yours faithfully

.....
Director
for and on behalf of [*insert name of sponsor*]

Note

In cases where the Conversion Official has agreed to an offer being made without a sponsor being appointed (see Section 3), a confidentiality undertaking will be required from the offeror which should take the form of a suitably modified version of the letter set out above. In cases of doubt, any proposed modifications should be agreed in advance with the Conversion Official.

APPENDIX IV

Form SP1

LLOYD'S SPONSOR QUESTIONNAIRE AND UNDERTAKING

Name of Sponsor
(the "*Sponsor*")

Registered number:

Any business name used:

Registered/principal address:

.....

.....

THE FOLLOWING QUESTIONS APPLY TO EVENTS WITHIN THE LAST TEN YEARS BOTH IN THE UNITED KINGDOM AND ELSEWHERE. If the answer to any question is "Yes", give details on a separate sheet of paper and attach copies of any relevant documents.

Note: If the Sponsor is a partnership, reference to "the Sponsor" in the following questions is to the partnership and to each partner (but only in their capacity as a partner in the partnership).

1. Has the Sponsor at any time been convicted of any criminal offence by any court either civil or military or been subject to penalties for deliberate tax evasion?

YES/NO*

2. Has the Sponsor been censured, disciplined, warned as to future conduct, or publicly criticised by, or made the subject of a court order at the instigation of, or been refused authorisation, registration or admittance by, or withdrawn any application for authorisation, registration or admittance to, any regulatory authority (including but not limited to Lloyd's, FSA (and any predecessor organisation), the Secretary of State for Trade and Industry and the Panel on Takeovers and Mergers) or any professional body?

YES/NO*

3. Has the Sponsor been a party to a deed of arrangement or made any other form of composition with its creditors?

YES/NO*

4. Has a petition for the bankruptcy or compulsory winding up of the Sponsor been served at any time or is such a petition pending?

YES/NO*

* Delete as appropriate

5. Has the Sponsor at any time failed to satisfy any debt adjudged due and payable by it as a judgement-debtor under an order of court?

YES/NO*
6. Has any body corporate or partnership with which the Sponsor was associated as a controller been compulsorily wound up or made any compromise or arrangement with its creditors or ceased trading in circumstances where its creditors did not receive or have not yet received full settlement of their claims, either whilst the Sponsor was associated with it or within one year after the Sponsor ceased to be associated with it?

YES/NO*
7. Has the Sponsor been adjudged civilly liable for any fraud, misfeasance or other misconduct?

YES/NO*
8. Has the Sponsor been the subject of an investigation by or at the instigation of a government department or agency, professional association or other regulatory body which has resulted in materially adverse or materially negative findings?

YES/NO*
9. Has any application by the Sponsor for a licence, recognition or equivalent authorisation to carry on any business activity in the United Kingdom or elsewhere been refused or withdrawn after it was made or any authorisation revoked?

YES/NO*
10. Have the Sponsor's affairs ever been investigated by any regulatory body of which it is, or was at the time, a member or by any other regulatory body, but excluding inspections conducted in the course of normal monitoring and surveillance procedures which did not result in materially adverse or materially negative findings?

YES/NO*
11. Has the Sponsor ever been the subject of formal investigation under any legislation?

YES/NO*
12. Have the Sponsor's books and records been requisitioned or seized by any regulatory body or other authority in exercise of its powers?

YES/NO*
13. How many directors, officers or employees of the Sponsor have experience of acting as a sponsor, or otherwise as a corporate finance or professional adviser, in relation to transactions related to the Lloyd's market and other appropriate major transactions involving listed or other public companies, including without limitation, initial public offers, demergers, or other issues of securities involving listing particulars, AIM particulars, a Companies Act prospectus or equivalent documents within the last three years?

If the number of such persons is less than 6, please supply details of such experience.

* Delete as appropriate

UNDERTAKING in favour of the Society of Lloyd's incorporated by Lloyd's Act 1871 ("**Lloyd's**").

1. **The Sponsor warrants and undertakes** that:

- (a) it reasonably believes that it has the competence and experience to discharge its responsibilities as a Lloyd's sponsor as set out herein and where relevant in the conditions and requirements prescribed by the Council of Lloyd's made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) ("**the Rules**");
- (b) having made all reasonable enquiries, the information supplied to Lloyd's in response to the attached questionnaire is, to the best of its knowledge and belief, accurate in all material respects and does not omit any information relating to itself which might reasonably be considered relevant to the application of the Sponsor for approval to act as a sponsor for one or more corporate candidates or Scottish limited partnerships ("**SLPs**") applying for membership of Lloyd's, a sponsor of a conversion scheme (as defined in the Rules) and/or a sponsor of a capacity offer (likewise as defined in the Rules);
- (c) it will notify Lloyd's in writing of any material change in the information either provided in response to the attached questionnaire or otherwise provided to Lloyd's in relation to its application for approval to act as a sponsor (as referred to in (b) above) which occurs pending approval and during the period in which the Sponsor remains so approved; and
- (d) it will, where applicable, comply with the applicable requirements of the Rules.

2. **The Sponsor authorises Lloyd's** to make such enquiries as it may consider necessary in connection with the attached questionnaire.

3. **The Sponsor undertakes** in relation to each corporate candidate or SLP applying for membership of Lloyd's, each promoter of a conversion scheme and each offeror of a capacity offer, in each case whose application the Sponsor from time to time supports (in each case the "**Candidate**") that the Sponsor will be responsible until (i) the date any offer in connection with a conversion scheme or capacity offer closes or, (ii) the date of the Candidate's admission to membership or, (iii) if admission is refused, the date of such refusal or, (iv) the date of the grant of permission to underwrite or, (v) if permission to underwrite is refused, the date of such refusal, whichever is the latest, for:

- (a) ensuring that the Candidate has been or will be properly advised as regards its formation and the distribution and marketing of its shares or, in the case of an SLP, partnership interests in it;
- (b) ensuring that all information relevant to the Candidate's application has been disclosed to the Candidate and to Lloyd's;
- (c) reviewing the Candidate's application and supporting documentation and other information which might be considered relevant to the application and satisfying itself that the application has been properly prepared after due and careful enquiry;
- (d) ensuring that the Candidate and its directors (or, in the case of an SLP, its partners, including its general partner(s)) are aware of their obligations under the membership agreement in the form prescribed by the Council of Lloyd's and to be entered into between Lloyd's and the Candidate and the other agreements and instruments to which the Candidate is required to become a party in connection with admission to membership and the grant of permission to underwrite and, if applicable, of their rights and obligations under the approved arrangement (as defined in the Conversion and Related Arrangements Byelaw (No. 22 of 1996)) and any other agreements and documents into which they are proposing to enter;

- (e) where applicable, ensuring that all relevant requirements of the Rules have been or will be complied with;
 - (f) where applicable, ensuring that the promoter of a conversion scheme and the offeror of a capacity offer and, in each case, their respective directors (or, in the case of an SLP, its partners, including its general partner(s)) or any other person concerned with the promotion or making of a conversion invitation or a capacity offer has been properly guided and advised as to their respective obligations under the Rules and, in respect of any documents, proposed to be issued, that they are prepared in accordance with the Rules and any applicable securities laws.
4. **The Sponsor will provide to Lloyd's** such further details regarding its standing, experience and understanding of Lloyd's as Lloyd's may from time to time require.
5. **The Sponsor will notify Lloyd's** in writing of its resignation as sponsor of a Candidate or of any dismissal as such and of any relevant facts or circumstances.
6. **The Sponsor acknowledges and agrees** that Lloyd's may remove the Sponsor's approval to act as a sponsor for one or more Candidates applying for membership of Lloyd's, promoters of a conversion scheme or offerors of a capacity offer if Lloyd's considers that the Sponsor is in breach of its responsibilities as set out in this undertaking and that Lloyd's may report the fact that it has done so and the reasons for its action to the Sponsor's principal regulator.
7. **The Sponsor acknowledges and agrees** that this undertaking is subject to English law and hereby submits to the exclusive jurisdiction of the English courts.

Dated this _____ day of _____ 20_____

EXECUTED as a DEED

APPENDIX V

LLOYD'S OFFEROR UNDERTAKING [To be typed on offeror's letterhead]

Form P1 (Capacity Offer Rules)

UNDERTAKING in favour of the Society of Lloyd's incorporated by Lloyd's Act 1871 ("Lloyd's").

- 1 [insert name of offeror](the "offeror") warrants and undertakes that it:
 - (a) accepts the responsibilities of an offeror set out in the Capacity Offer Rules made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) (the "Rules") and will discharge those responsibilities at all times with due skill and care and to the reasonable satisfaction of Lloyd's;
 - (b) will comply at all times with the Rules;
 - (c) will ensure that any capacity offer which it promotes or makes complies at all times with the Rules;
 - (d) will use all reasonable endeavours to ensure that any other person concerned with the promotion or making of such capacity offer is properly guided and advised as to its obligations under the Rules;
 - (e) will notify the Conversion Official in writing forthwith upon it ceasing to be an offeror of any capacity offer;
 - (f) reasonably believes that it has the competence and experience to discharge its responsibilities as an offeror as set out herein and where relevant in the Rules;
 - (g) will notify Lloyd's in writing of any material change to its circumstances or to the information provided to Lloyd's in relation to it acting as an offeror in relation to a capacity offer;
 - (h) provide details to Lloyd's of any commission payable to it or similar arrangements agreed by it in relation to the capacity offer; and
 - (i) at all times observe any applicable principles prescribed by the Council of Lloyd's from time to time.
- 2 Words and expressions used herein shall have the meaning ascribed thereto in the Rules.
- 3 The offeror acknowledges and agrees that this undertaking is subject to English law and hereby submits to the exclusive jurisdiction of the English courts.

Dated this day of [insert month and year]

EXECUTED as a Deed

APPENDIX VI

DEROGATION LETTER

Strictly Private and Confidential

The Conversion Official
 Lloyd's
 One Lime Street
 London
 EC3M 7HA

[date]

Dear Sir

[insert brief details of capacity offer] ("the capacity offer")

- (a) We (being the offeror of the capacity offer) refer to the [offer document/circular,] a final draft of which, dated [insert date], is attached and signed on our behalf by [insert name of director or other authorised signatory] (the "[offer document/circular]").
- (b) We confirm that the information required by the following paragraphs of the Capacity Offer Rules is not applicable and no equivalent information is available:

No.	Paragraph	Reason for Omission
1		
2		

- (c) We are writing as required by paragraph 4(4)(c)(iii) of the Capacity Offer Rules to request permission to omit the information required by the above paragraphs of the Capacity Offer Rules from the [offer document/circular] on the grounds set out above.

Yours faithfully
 []
 For and on behalf of
 [insert name of offeror]

APPENDIX VII
FORMAT FOR OFFER DOCUMENT

[Name of sponsor]

[Name of offeror]

[Description of the formal offer]

- 1 **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or as to the action you should take, you should consult your members' agent, or where appropriate, your MAPA operator. [You should also consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.][†]

This document contains risk warnings and you are referred to section [insert number of section in which the risk warnings appear].

- 2 The directors of [insert name of offeror] whose names appear on page [insert page number] of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

- 3 [The securities which may be issued to you pursuant to the terms of this [formal offer] may be illiquid and there may not be a market for them.][†]

- 4 ^{††} [If you are resident or domiciled in [South Africa or Israel] and wish to accept [the formal offer(s)], you must comply with all applicable [South African and Israeli] exchange control requirements. If you are in any doubt you should take professional advice from a person properly qualified to advise you].

- 5 Neither this document nor the accompanying [acceptance form] are being mailed or otherwise distributed in or into [list the prohibited territories] (collectively known as the "Prohibited Territories") or [list the excluded territories where the de minimis exemption set out in paragraph 1(7)(d) of the Capacity Offer Rules applies] (collectively known as the "Excluded Territories").

- 6 [†] [This share offer/share alternative] is not being made in [list the jurisdictions in which the share offer/share alternative is not being made] (collectively known as the "Excluded Share [Offer or Alternative] Territories"). Accordingly, neither this [offer document] nor the accompanying [acceptance form] are being mailed or otherwise distributed in or into any such territory. The [securities] have not been, and will not be, registered under the United States Securities Act of 1933, as amended, nor under any relevant securities laws of the [Prohibited Territories, the Excluded Territories or any Excluded Share Offer/Alternative Territory]. The [securities] may not be offered, sold or delivered, directly or indirectly in or into the [Prohibited Territories, the Excluded Territories or any Excluded Share Offer/Alternative Territory].^{†††}

- 7 Under its powers set out in the Conversion and Related Arrangements Byelaw (No. 22 of 1996) Lloyd's has prescribed certain conditions and requirements in relation to capacity arrangements (the "Capacity Offer Rules"). Both [insert name of sponsor] and [insert name of offeror] have confirmed to Lloyd's in writing that this document complies with the Capacity Offer Rules. Lloyd's has consented to the making of [the formal offer(s)] set out in this document within the terms of the Capacity Offer Rules. However, it must be understood that in giving its consent for the making of such [offer(s)], Lloyd's takes no responsibility for [the formal offer(s)] or for the correctness of any statements made or opinions expressed in relation thereto.

[FORMAL OFFER]

BY

[INSERT NAME OF OFFEROR]

to acquire [and accept the surrender of]^{††††}
[insert details of prospective participations being sought] at a price of [insert details]

- 7A The content of this document and the [insert name of acceptance form / letter of authority as necessary] has been approved by [insert details] for the purposes of section 21 of the Financial Services and Markets Act 2000.

- 8 This document is being sent to all persons entitled to make a participation nomination and/or a second nomination in respect of [insert details of syndicate(s)] (other than those in the [Prohibited Territories, Excluded Territories or any Excluded Share Offer/Alternative Territory]), to all MAPA operators with participations on [insert details of

[†] to be included where there is a share offer or a share alternative is offered.

^{††} to be included where the formal offer is made to persons resident in South Africa and/or Israel.

^{†††} if the formal offer is to be issued to US persons full compliance must be made with Part II of Appendix II of the Capacity Offer Rules.

^{††††} to be appropriately amended where the formal offer is a competing offer.

syndicate(s)] and to all supporting members' agents and Lloyd's advisers.

9 THE PROCEDURE FOR ACCEPTING THE OFFER IS SET OUT ON PAGE *[INSERT PAGE NUMBER]* *[AND IN THE ACCEPTANCE FORM.]* ACCEPTANCES SHOULD BE SENT TO *[INSERT DETAILS]*.

10 THE LATEST TIME FOR RECEIPT (BY HAND OR BY POST) OF ACCEPTANCES IS *[INSERT TIME]* ON *[INSERT DATE]*.

11 **Contents page**

[Insert contents page]

12 **Definitions**

Include a statement that:-

Any expression not otherwise defined in this offer document shall have the meaning given to it in the Capacity Offer Rules.

Include a definitions section using, where possible, the definitions set out in the Capacity Offer Rules.

13 **Acceptance procedure**

Set out details of the acceptance procedure including that relating to members participating through MAPAs.

14 **Key features**

Set out in summary the following information or indicate where in the offer document such information appears:-

- (a) the names of the sponsor, the offeror (and, if the offeror is a connected company of a managing agent, the name of that managing agent) and, if different, the name of the person liable to pay the consideration or provide the share offer or share alternative;
- (b) details of the formal offer being made (including details of any conditions to which it is subject);
- (c) if the formal offer is a limited offer or an unlimited offer, this fact must be stated and the implications summarised;
- (d) if the formal offer may be a reducing offer or an increasing offer, this fact must be stated and the implications summarised;
- (e) if the formal offer is a stepped offer, details of how the consideration is calculated must be given and the implications summarised;

- (f) [†] details of any securities which it is proposed any person accepting the formal offer will receive under a share offer or a share alternative;
- (g) [†] details of how any person accepting the formal offer will be able to dispose of any securities which he may receive upon accepting a share offer or a share alternative;
- (h) the taxation effects of surrendering or otherwise disposing of prospective participations for cash and/or accepting a share offer or a share alternative;
- (i) details of a helpline (if any) for enquiries on the procedure for acceptance;
- (j) details of how to accept the formal offer;
- (k) the date on which the formal offer will close;
- (l) the date on which the consideration will be paid and payment method/securities issued;
- (m) whether the offeror intends to participate in the auctions, including the details of such intentions and giving an indication of price and frequency; and
- (n) any other information that is material to any person to whom the formal offer is being made in determining whether or not to accept the formal offer;

Include a statement that:-

Although this document contains information about the position of [*insert details of syndicate(s)*], persons to whom [*the formal offer*] is being made should be aware that further information, including the relevant syndicate business forecasts, which may affect their decision as to whether to accept [*the formal offer*], may become available after the date of this document and before the final closing date of [*the formal offer*]. Such persons are advised to contact their members' agent to ensure that they receive all such further information before accepting [*the formal offer*].

15 **Timetable**

Provide an expected timetable setting out the key dates affecting the formal offer and including details of the auction timetable.

16 **Terms and conditions**

The offer document must clearly set out:-

- (a) the terms and any conditions of the formal offer (including the circumstances in which a second nomination may be made in response to the formal offer);
- (b) [†] the rights and obligations attaching to any securities which it is proposed a person accepting the formal offer will receive under a share offer or share alternative; and
- (c) any conditions to which acceptance of the formal offer is subject.

[†] to be included where there is a share offer or a share alternative is offered.

17 [†] Listing

Provide a statement from the directors of the offeror as to whether or not it is intended that any of the securities which it is proposed should be issued are to be listed or dealt in on any exchange or recognised market and, if so, when it is anticipated that such facility will commence.

18 Risk and other factors

The following statements must, where applicable, be included. Reference must be made in the derogation letter to any statements which are not included together with an explanation as to their omission.

- (a) There is no obligation on [*the offeror*] to provide a formal valuation or justification of the consideration being offered under [*the formal offer*].
- (b) In the case of a limited offer:-

If [*the formal offer*] is over subscribed, [*the offeror*] will deal with it as follows: [*set out the method opted for from the options listed in 21(a) below*]. This may result in a person who has accepted the offer [*only being successful in respect of part of the prospective participation tendered/being unsuccessful in a ballot.*]
- (c) In the case of a cash offer (whether limited or unlimited) (which is not a reducing offer):-

[*The offeror*] may decide to participate in the auctions to be held after the date of this offer document for the prospective participations which are the subject of [*the formal offer*] for a consideration which is equal to or lower than the consideration being offered under [*the formal offer*].
- (d) In the case of a mandatory offer:-

[*The offeror*] is required to make [*the formal offer*] at not less than the higher of the highest price paid by it (or the highest price paid by any associate (within the meaning of the Mandatory Offer Byelaw) of it) for prospective participations which are the subject of [*the formal offer*] in the period beginning on [*specify*] and ending on [*specify*].
- (e) [*The formal offer*] is being made for prospective participations on [*the syndicate(s)*] (which are subject to any pre-emptions or de-emptions for the following year of account). If a person to whom [*the formal offer*] is being made does not accept [*the formal offer*] and does not take up any pre-emption right, then the amount of such increase will drop back to [*the offeror/managing agent*] for nil value.
- (f) If a person to whom [*the formal offer*] is being made accepts [*the formal offer*], he will dispose of his prospective participation on [*the syndicate(s)*] at the offer price. Such persons should be aware that there may be an opportunity to dispose of such participation in an auction [or in any other way permitted by Lloyd's from time to time] at a price which is higher than the offer price.

19 Extensions and variations

State whether the capacity offer can be extended or varied.

[†] to be included where there is a share offer or a share alternative is offered.

20 **Taxation**

- (a) State the UK tax implications of accepting the formal offer or any share offer or share alternative.
- (b) Include in respect of each jurisdiction (other than the UK) into which the offer document is to be mailed or otherwise distributed, either details of the tax implications of accepting the formal offer or any share offer or share alternative or a statement that persons to whom the formal offer is being made are recommended to take their own advice.

21 **Acceptances**

- (a) The offer document must state how an over-subscription will be dealt with and must provide that:
 - (i) acceptances will be scaled down pro rata; or
 - (ii) acceptances will be balloted;or shall specify another manner of dealing with any over-subscription which has been approved by the Conversion Official.
- (b) State any conditions or other provisions relating to acceptances of the formal offer including:-
 - (i) whether or not the formal offer is conditional upon acceptances in respect of a specified proportion of prospective participations on the [syndicate(s)] or from a specified proportion of the persons to whom the formal offer has been made being received and, if it is, what the specified proportions are;
 - (ii) where the formal offer is conditional upon acceptances:
 - (aa) the date which is the latest date on which the formal offer can become unconditional as to acceptances; and
 - (bb) that, if the formal offer becomes or is declared unconditional as to acceptances, at least 10 US business days' notice will be given before it is closed;
 - (iii) whether any application has been made to Lloyd's pursuant to the Major Syndicate Transactions Byelaw for permission to make a compulsory minority buy-out and, if such an application has been made, the consequences if such permission is given; and
 - (iv) that the formal offer shall lapse if it has not become or been declared unconditional as to acceptances by not later than [insert date] in that year (or such later date as the Conversion Official may in any particular case so agree in writing).

22 **Required statements and information**

Include:-

- (a) a statement, qualified as necessary if permission to make a compulsory minority buy-out is

to be or has been sought, to the effect that:

- (i) any person who is entitled to make either a participation nomination and a second nomination in respect of [*the syndicate(s)*] or only a participation nomination in respect of [*the syndicate(s)*] may:-
 - (aa) save where that person is acting for the benefit of the estate of someone who has died, do nothing and, subject to the Council not directing otherwise, participate on [*the syndicate(s)*] for the next following year of account; or
 - (ab) transfer the whole or part of the prospective participation through the auction process; or
 - (ac) otherwise dispose of the whole or part of the prospective participation by any other means permitted by Lloyd's from time to time;
- (ii) any person who is only entitled to make a second nomination in respect of [*the syndicate(s)*] may:
 - (aa) save where that person is acting for the benefit of the estate of someone who has died, either do nothing and, subject to the Council not directing otherwise, participate on [*the syndicate(s)*] for the next following year of account or be able to dispose of the whole or part of the prospective participation in response to a mandatory offer or under an approved conversion arrangement; or
 - (ab) only where that person is acting for the benefit of the estate of someone who has died, be able to dispose of the whole or part of the prospective participation by any other means permitted by Lloyd's from time to time;
- (b) in the case of a capacity offer to acquire a specified proportion of prospective participations, the percentage of the prospective participations on [*that/those syndicate(s)*] for the next following year of account which the prospective participations which are the subject of [*the formal offer*] will represent;
- (c) the result (as a percentage of syndicate allocated capacity) of [*the syndicate(s)*] for the last three completed years of account for which results are available, forecasts for any other completed years of account in respect of which final results are not yet available and if any profit forecast in respect of any particular year of account is given in connection with [*the formal offer*], a statement as to the assumptions on which the forecast is based;
- (d) where any valuation is given in connection with [*the formal offer*], a statement as to the basis on which the valuation was made (other than by reference to previous auctions) and the name and address of the valuer and particulars of any relevant qualifications;
- (e) details of the weighted average premium and highest premium subscribed in the auctions held in the last year of account for prospective participations in respect of each syndicate in respect of which [*the formal offer*] is made and, if available, details (on the latest practicable date prior to printing the document) in respect of each auction held in the current year of account;
- (f) a prominent statement to the effect that, unless the MAPA operator has accepted [*the formal offer*] on behalf of all members of the MAPA, a member who accepts [*the formal*

offer] in respect of his participation on [*insert* syndicate] through the MAPA may be required by the MAPA operator to terminate his participation in the MAPA with effect from the end of the current year of account, that his ability to continue to participate in that syndicate for the next following year of account will be subject to his member's syndicate premium limit not being less than the minimum prescribed by the Council but that the MAPA operator may however facilitate continued participation through a MAPA;

- (g) the amount of prospective participations on [*the syndicate(s)*] in respect of which [*the formal offer*] is being made for the current year of account allocated to the offeror or any connected company or associate of the offeror;
- (h) a statement as to price at which the offeror [*has/reserves*] the right to participate in at the auction;
- (i) amended as appropriate, a statement to the effect that the managing agent(s) of the syndicate(s) in respect of which the formal offer is being made is not acting in any capacity as agent for any person in relation to that offer, whether under the standard managing agent's agreement or otherwise;
- (j) if the offer document contains the summary referred to in paragraph 7(5)(a)(ii)(bb) of the Capacity Offer Rules, a statement that the directors of the offeror are satisfied that the offer document contains a fair summary of the key information set out in the syndicate business forecast;
- (k) details of the highest price paid since the beginning of the last year of account by the offeror and any associate of the offeror for the surrender of (or making of a participation nomination or a second nomination in respect of) the whole or part of a person's prospective participation on the syndicate(s) in respect of which the formal offer is being made.
- (l) a statement as to the circumstances in which a second nomination may be made in response to the formal offer.

23 **Representations from members' agents, MAPA operators and persons to whom the formal offer is being made**

Set out details of any undertakings, representations, warranties and agreements given or made to and with the offeror by each members' agent, MAPA operator and persons to whom the formal offer is being made by whom or on whose behalf an acceptance form is executed.

24 **Provisions relating to overseas members**

Explain how it is proposed the formal offer should be made to overseas persons and include details of any particular terms, conditions, requirements or procedures relating to them.

25 **Disclosures**

Provide:-

- (a) details of the sponsor, the offeror, the person liable to pay the consideration or provide the share offer or share alternative and, if the offeror is a connected company of a managing agent, details of the managing agent and any conflict of interest any of them have (including prospective participations and interests in the share capital of the offeror, managing agent or of their respective associates) together with details of any fees or

commissions which any of them (or any of their respective connected companies or associates) will receive if the capacity arrangement is implemented;

- (b) details of all commissions payable to any members' agents who procure acceptance of the formal offer;
- (c) a statement as to the interest of each of the directors of the managing agent and the active underwriter of [*the syndicate(s)*] in the securities of the offeror or any corporate member (or connected company of any such corporate member) which is to participate in [*the syndicate(s)*] for the next following year of account;
- (d) a statement as to the prospective participation of each director and the active underwriter of [*the syndicates(s)*] and as to whether any of those persons intends to accept the formal offer in respect of any part of his prospective participation on [*the syndicate(s)*] and, if so, as to what amount;
- (e) a statement as to the percentage which any new securities being issued bear to the enlarged issued securities of that class and the share capital as a whole; and
- (f) details of any application that has been made to Lloyd's pursuant to the Major Syndicate Transactions Byelaw for permission to effect a minority buy-out and the consequences if such permission is given.

26 Documents for inspection

- (a) Set out details of all the material documents (being documents which the offeror reasonably believes are material to a person to whom this offer document is being addressed).
- (b) State where in London such material documents and the relevant syndicate business forecast(s) are to be available for inspection by persons to whom the offer document is issued.
- (c) State that a copy of all relevant syndicate business forecasts are available on request and from where they can be obtained, free of charge.

27 Statement from sponsor

Include:-

- (a) a statement that the sponsor is acting as an adviser to the offeror;
- (b) a statement by the sponsor to the persons to whom the offer document is addressed that the capacity arrangement has been prepared in accordance with the Capacity Offer Rules and the terms proposed to participants have been clearly presented; and
- (c) a statement that:-

[*Insert name of sponsor*] is satisfied that [*insert name of offeror*] has the necessary financial resources to implement [*the formal offer*] in full. Full acceptance of [*the formal offer*] would involve the payment of £[*insert payment figure*] by the [*insert name of offeror*] excluding expenses associated with making [*the capacity offer*].

28 **Procedure for acceptance**

Set out details of the acceptance procedure.

29 **Acceptance forms**

Include the following statements in any acceptance form:-

- (a) [I/we] hereby confirm that [I/we] have not agreed and will not in future agree to transfer [my/our] prospective participations which are the subject of [*the formal offer*] until [I/we] have been informed in writing that such prospective participations have not been accepted under [*the formal offer*].
- (b) Anyone giving the above confirmation should be aware that if it is incorrect [*the offeror*] may suffer loss and accordingly may bring legal proceedings against them.

30 **Sponsor, offeror and advisers**

Provide:-

- (a) the name and business address of each of the directors of the offeror and of any entity on behalf of which the offer is made;
- (b) the names and business addresses of the offeror, sponsor and any expert to whom a statement or report included in the offer document has been attributed; and
- (c) a statement that any person to whom a statement or report included in the offer document has been attributed has consented to the inclusion of that statement and report and the references to him in the form and context in which they are included.

31 **Date of offer document**

APPENDIX VIII
FORMAT FOR CIRCULAR

[Name of sponsor]

[Name of offeror]

[Description of the announced auction offer]

- 1 **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the contents of this document or as to the action you should take, you should consult your members' agent, or where appropriate, your MAPA operator.
- This document contains risk warnings and you are referred to section [insert number of section in which the risk warnings appear].
- 2 The directors of [insert name of offeror] whose names appear on page [insert page number] of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 3 [†][If you are resident or domiciled in [South Africa or Israel] and successfully tender a prospective participation in response to the announced auction offer proposed to be made, you must comply with all applicable [South African and Israeli] exchange control requirements. If you are in any doubt you should take professional advice from a person properly qualified to advise you.]
- 4 This document is not being mailed or otherwise distributed in or into [list the prohibited territories] (collectively known as the "Prohibited Territories") or [list the excluded territories where the de minimis exemption set out in paragraph 1(7)(d) of the Capacity Offer Rules applies] (collectively known as the "Excluded Territories").
- 5 This document is being sent to all persons entitled to make a participation nomination and/or a second nomination in respect of [insert details of syndicate(s)] (other than those in the Prohibited Territories or Excluded Territories), to all MAPA operators with participations on [insert details of syndicate(s)] and to all supporting members' agents.
- 6 Under its powers set out in the Conversion and Related Arrangements Byelaw (No. 22 of 1996) Lloyd's has prescribed certain conditions and requirements in relation to, amongst other things, announced auction offers (the "Capacity Offer Rules"). Both [insert name of sponsor] and [insert name of offeror] have confirmed to Lloyd's in writing that this document complies with the Capacity Offer Rules. Lloyd's has consented to the proposed making of the announced auction offer(s) referred to in this document within the terms of the Capacity Offer Rules. However, it must be understood that in giving its consent for the proposed making of such announced auction offer(s), Lloyd's takes no responsibility for this document (or any part of it), the proposed announced auction offer(s) or for the correctness of any statements made or opinions expressed in relation thereto.

ANNOUNCED AUCTION OFFER

PROPOSED TO BE MADE BY

[INSERT NAME OF OFFEROR]

to acquire [and accept the surrender of]
[insert details of prospective participations being sought] at a price of [insert details]
in auction[s] [insert numbers] on [insert date(s)]

-
- 6A The content of this document and the [insert name of acceptance form / letter of authority as necessary] has been approved by [insert details] for the purposes of section 21 of the Financial Services and Markets Act 2000.
-

7 Contents page

[Insert contents page]

[†] to be included where the offer is made to members resident in South Africa and/or Israel.

8 Definitions

Include a statement that:-

Any expression not otherwise defined in this document shall have the meaning given to it in the Capacity Offer Rules.

Include a definitions section using, where possible, the definitions set out in the Capacity Offer Rules.

9 Acceptances

- (a) Include the following statement:-

The announced auction offer[s] will be made in auction[s] [*insert numbers*] on [*insert date(s)*]. The Auction Rules prescribe certain conditions and requirements in relation to the subscribing and tendering of prospective participations in an auction. YOU SHOULD CONSULT YOUR MEMBERS' AGENT AS TO THE ACTION YOU SHOULD TAKE IF YOU INTEND TO TENDER YOUR PROSPECTIVE PARTICIPATION IN RESPONSE TO THE ANNOUNCED AUCTION OFFER[S].

- (b) Include a statement that this document should be read in conjunction with:-

- (i) the syndicate business forecast [*of each syndicate*], which can be obtained free of charge from your members' agent; and
- (ii) the Auction Rules.

10 Key features

Set out in summary the following information or indicate where in the document such information appears:-

- (a) the names of the sponsor, the offeror (and, if the offeror is a connected company of a managing agent, the name of that managing agent) and, if different, the name of the person liable to pay the consideration;
- (b) details of the announced auction offer proposed to be made (including the auction(s) in which the proposed announced auction offer will be made);
- (c) if the announced auction offer is to be a limited offer or an unlimited offer, this fact must be stated and the implications summarised;
- (d) if the announced auction offer may be an increasing offer, this fact must be stated and the implications summarised;
- (e) the taxation effects of surrendering or otherwise disposing of prospective participations for cash;
- (f) details of a helpline (if any) for enquiries about the proposed announced auction offer;

- (g) any other information that is material to any person receiving this document in determining whether or not to tender their prospective participation in response to the announced auction offer.

Include a statement that:

Although this document contains information about the position of [*insert details of syndicate(s)*], persons receiving this document should be aware that further information including the relevant syndicate business forecasts, which may affect their decision to tender their prospective participation in response to the announced auction offer, may become available after the date of this document and before the [*relevant auction (include auction number and date)*]. Such persons are advised to contact their members' agent to ensure that they receive all such further information before tendering their prospective participation in response to the announced auction offer.

11 **Timetable**

Provide an expected timetable setting out the key dates affecting the proposed announced auction offer and including details of the auction timetable.

12 **Risk and other factors**

The following statements must, where applicable, be included. Reference must be made in the derogation letter to any statements which are not included together with an explanation as to their omission.

- (a) There is no obligation on [*the offeror*] to provide a formal valuation or justification of the consideration being offered under the proposed announced auction offer.
- (b) The announced auction offer proposed to be made will be for prospective participations on [*syndicate*] (which are subject to any pre-emptions or de-emptions for the following year of account). If a person entitled to tender a prospective participation does not successfully tender it in response to the announced auction offer or otherwise transfer it and does not take up any pre-emption right, then the amount of such increase will drop back to the [*offeror/managing agent*] for nil value.
- (c) It is open to anyone who is a member of the syndicate or otherwise entitled to make a second nomination to enter the auction in which it is proposed to make the announced auction offer, even if the announced auction offer cannot be made to them as a result of the operation of their local securities laws. As a result it is possible that the announced auction offer (where it is for less than 100 per cent. of syndicate allocated capacity) may be fully satisfied without you having transferred any prospective participation.
- (d) If you transfer any prospective participation through an auction in response to the announced auction offer, you may receive more than the offer price under the announced auction offer for it - you can ensure you do not receive less by inserting the offer price under the announced auction offer as the minimum you want to receive when you tender any prospective participation (this is referred to in the Auction Rules as the "floor limit").
- (e) You should be aware that auction fees of £[*insert figure*] per cent. will be levied on any prospective participation you transfer through the auction. This will reduce the proceeds you receive as will any charge your members' agent may impose.

- (f) You should be aware that any proceeds due to you under the announced auction offer will become assets of the premiums trust fund. As such, they can generally only be released to you in accordance with the release mechanisms in the premiums trust deed. For practical purposes, you will, therefore, only receive these proceeds if you have assets at Lloyd's sufficient in value under the relevant release of funds requirements to enable the auction proceeds to be released to you.
- (g) In the case of a mandatory offer:-

[The offeror] is required to make [the announced auction offer] at not less than the higher of the highest price paid by it (or the highest price paid by any associate (within the meaning of the Mandatory Offer Byelaw) of it) for prospective participations which are the subject of [the announced auction offer] in the period beginning on [specify date] and ending on [specify date].

13 Extensions and variations

State whether the announced auction offer can be extended or varied.

14 Taxation

- (a) State the UK tax implications of surrendering or otherwise disposing of prospective participations in response to an announced auction offer.
- (b) Include in respect of each jurisdiction (other than the UK) into which the document is to be mailed or otherwise distributed, either details of the tax implications of surrendering or otherwise disposing of prospective participations in response to an announced auction offer or a statement that persons entitled to tender prospective participations in response to the announced auction offer are recommended to take their own advice.

15 Required statements and information

Include:-

- (a) a statement that the auction procedure to which an announced auction offer is subject is set out in the Auction Rules.
- (b) a statement, qualified as necessary particularly if permission to make a compulsory minority buy-out is to be or has been sought, to the effect that:
 - (i) any person who is entitled to make either a participation nomination and a second nomination in respect of [the syndicate(s)] or only a participation nomination in respect of [the syndicate(s)] may:-
 - (aa) save where that person is acting for the benefit of the estate of someone who has died, do nothing and, subject to the Council not directing otherwise, participate on [the syndicate(s)]; or
 - (ab) transfer the whole or part of the prospective participation through the auction process (including in response to an announced auction offer); or
 - (ac) otherwise dispose of the whole or part of the prospective participation by any other means permitted by Lloyd's from time to time;

- (ii) any person who is only entitled to make a second nomination in respect of [*the syndicate(s)*] may:
 - (aa) save where that person is acting for the benefit of the estate of someone who has died, either do nothing and, subject to the Council not directing otherwise, participate on [*the syndicate(s)*] for the next following year of account or be able to dispose of the whole or part of the prospective participation in response to a mandatory offer or under an approved conversion arrangement; or
 - (ab) only where that person is acting for the benefit of the estate of someone who has died, be able to dispose of the whole or part of the prospective participation by any other means permitted by Lloyd's from time to time;
- (c) a statement of the period within which payment will be made and the method of payment (using the auction method of settlement).
- (d) in the case of an announced auction offer to acquire a specified proportion of prospective participations, the percentage of the prospective participations on [*that syndicate*] for the next following year of account which the prospective participations which are the subject of the announced auction offer will represent.
- (e) where any valuation is given in connection with the announced auction offer proposed to be made, a statement as to the basis on which the valuation was made (other than by reference to previous auctions) and the name and address of the valuer and particulars of any relevant qualifications.
- (f) a prominent statement to the effect that, unless the MAPA operator successfully tenders prospective participations in the announced auction offer on behalf of all members of the MAPA, a member who successfully tenders his prospective participation in response to the announced auction offer in respect of his participation on [*insert syndicate*] through the MAPA may be required by the MAPA operator to terminate his participation in the MAPA with effect from the end of the current year of account, that his ability to continue to participate in that syndicate for the next following year of account will be subject to his member's syndicate premium limit not being less than the minimum prescribed by the Council, but that the MAPA operator may however facilitate continued participation through a MAPA.
- (g) details of the weighted average premium and highest premium subscribed in the auctions held in the last year of account for prospective participations in respect of each syndicate in respect of which the announced auction offer is proposed to be made and, if available, details in respect of each auction held in the current year of account but only to the latest practicable date prior to printing the document.
- (h) the amount of prospective participations on [*the syndicate(s)*] in respect of which any announced auction offer is proposed to be made for the current year of account allocated to the offeror or any connected company or associate of the offeror.
- (i) amended as appropriate, a statement to the effect that the managing agent(s) of the syndicate(s) in respect of which any announced auction offer is proposed to be made is not acting in any capacity as agent for any person in relation to [*the announced auction offer*], whether under the standard managing agent's agreement or otherwise.

- (j) if the circular contains the summary referred to in paragraph 7(5)(a)(ii)(bb) of the Capacity Offer Rules, a statement that the directors of the offeror are satisfied that the circular contains a fair summary of the key information set out in the syndicate business forecast.
- (k) details of the highest price paid since the beginning of the last year of account by the offeror and any associate of the offeror for the surrender of (or making of a participation nomination or a second nomination in respect of) the whole or part of a person's prospective participation on the syndicate(s) in respect of which the announced auction offer is proposed to be made.
- (l) a statement as to the circumstances in which a second nomination may be made in response to the announced auction offer proposed to be made.
- (m) the result (as a percentage of syndicate allocated capacity) of [the syndicate(s)] for the last three completed years of account for which results are available, forecasts for any other completed years of account in respect of which final results are not yet available and if any profit forecast in respect of any particular year of account is given in connection with [the formal offer], a statement as to the assumptions on which the forecast is based.

16 Representations from members' agents, MAPA operators and persons to whom the document is addressed

Set out details of any undertakings, representations, warranties and agreements given or made to and with the offeror by each members' agent, MAPA operator and persons to whom the document is addressed.

17 Provisions relating to overseas members

Explain how it is proposed the proposed announced auction offer should be made to overseas persons and include details of any particular terms, conditions, requirements or procedures relating to them.

18 Disclosures

Provide:-

- (a) details of the sponsor, the offeror, the person liable to pay the consideration and, if the offeror is a connected company of a managing agent, details of the managing agent and any conflict of interest any of them have (including prospective participations and interests in the share capital of the offeror, managing agent or any of their respective associates) together with details of any fees or commissions which any of them (or any of their respective connected companies or associates) will receive if the announced auction offer is implemented.
- (b) details of all commissions payable to any members' agents who procure successful or other tenders of prospective participations in response to the proposed announced auction offer.
- (c) a statement as to the interest of each of the directors of the managing agent and the active underwriter of [the syndicate(s)] in the securities of the offeror or any corporate member (or connected company of any such corporate member) which is to participate in [the syndicate(s)] for the next following year of account.

- (d) a statement as to the prospective participation of each director and the active underwriter of [*the syndicate(s)*] and as to whether any of those persons intends to tender his prospective participation in an auction in response to the proposed announced auction offer and if so, as to what amount.
- (e) details of any application that has been made to Lloyd's pursuant to the Major Syndicate Transactions Byelaw for permission to effect a minority buy-out and the consequences if such permission is given.

19 Documents for inspection

- (a) Set out details of all the material documents (being documents which the offeror reasonably believes are material to a person to whom this document is being addressed).
- (b) State where in London such material documents, and the relevant syndicate business forecast(s) are to be available for inspection by persons to whom the document is issued.
- (c) State that a copy of the relevant syndicate business forecast(s) are available on request and from where they can be obtained, free of charge.

20 Statement from sponsor

Include:-

- (a) a statement that the sponsor is acting as an adviser to the offeror.
- (b) a statement by the sponsor to the persons to whom the document is addressed that the proposed announced auction offer has been prepared in accordance with the Capacity Offer Rules and the proposed terms have been clearly presented.
- (c) A statement that:-

[*Insert name of sponsor*] is satisfied that [*insert name of offeror*] has the necessary financial resources to implement the [*announced auction offer*] in full. The successful tender of prospective participations in response to the [*announced auction offer*] would involve the payment of £[*insert payment figure*] by the [*insert name of offeror*] excluding expenses associated with making the [*announced auction offer*].

21 Sponsor, offeror and advisers

Provide:-

- (a) the name and business address of each of the directors of the offeror and of any entity on behalf of which the announced auction offer is proposed to be made;
- (b) the names and business addresses of the offeror, sponsor and any other expert to whom a statement or report included in the document has been attributed; and
- (c) a statement that any person to whom a statement or report included in the document has been attributed has consented to the inclusion of that statement and report and the references to him in the form and context in which they are included.

22 **Date of document**

APPENDIX IX

Form AP1 (Capacity Offer Rules)

APPLICATION FOR APPROVAL IN PRINCIPLE OF A CAPACITY OFFER

NAME OF SPONSOR:

NAME OF OFFEROR:

DATE:

NAME OF CAPACITY ARRANGEMENT:.....

NOTES

- (1) This application for approval in principle of a capacity offer must be submitted to the Conversion Official, Capacity Markets, Lloyd's, before the prescribed date in each year.
- (2) No capacity advertisement or offer document/circular may be issued by any sponsor, offeror or other person until the Conversion Official has given notification in writing that an application for approval in principle of the capacity offer (to which that advertisement, document or circular relates) has been approved.

QUESTIONNAIRE

1. Sponsor's details:

(a) Name:

(b) Address:

(c) Contact Name:

Contact name:

Email address:

(d) Telephone Number:

(e) Fax Number:

(f) Date on which sponsor approved by the Conversion Official:

(g) Date on which offeror approved by the Conversion Official:

(h) Please provide details of any other capacity offers which have been sponsored by the sponsor.

--

2. Offeror's details:

(a) Name:

--

(b) Address:

--

(c) Contact Name and email address:

Contact name:

Email address:

--

(d) Telephone Number:

--

(e) Fax Number:

--

- (f) Please provide details of any other capacity offers which have been made by the offeror.

--

3. Type of capacity offer

- (a) Surrender offer: cash offer/share alternative/share offer/cash alternative/limited offer/unlimited offer/reducing offer/increasing offer/stepped offer (*delete as appropriate*).
- (b) Announced auction offer: limited offer/unlimited offer/increasing offer (*delete as appropriate*).
- (c) Competing offer: limited offer/unlimited offer/reducing offer/increasing offer/stepped offer (*delete as appropriate*).
- (d) Please provide a brief summary of the capacity offer (*using a continuation sheet if necessary*).

--

4. Participants

- (a) Which syndicate(s) will the capacity offer relate to?

- (b) Will any of the intended participants be overseas? If so, give details of the jurisdictions involved.

Note : An offer document and/or circular may not be issued or circulated outside the United Kingdom unless compliance has been made with paragraphs 1(7), 1(9) and 1(13) of the Capacity Offer Rules.

- (c) If it is proposed that the offer document and/or circular is to be issued overseas please provide (on a separate continuation sheet if necessary) the names and addresses of the local lawyers who will be asked to advise.

5. Offer document/circular

- (a) When is the first draft expected to be submitted to Lloyd's?

- (b) What is the proposed date of issue?

- (c) Give details of any conditions of the capacity offer proposed to be contained in the offer document.

7. Confirmation of resources

[Delete where not applicable]

- (a) The offeror confirms that it has sufficient resources available to satisfy full acceptance of (or participation in) the capacity offer and, in the case of an announced auction offer, that it will comply with its obligations under the Auction Rules.
- (b) The sponsor confirms that it is satisfied (having taken all reasonable steps to ensure that such is the case) that resources are available to the offeror which are sufficient to satisfy full acceptance of the surrender offer or competing offer (as the case may be).

8. Other information

Please provide contact details for any other professional advisers (e.g. solicitors, auditors etc.).

9. Confirmation

We confirm that the information contained in this application is true, accurate and not misleading.

For and on behalf of *[insert name of sponsor]*

For and on behalf of *[insert name of offeror]*

APPENDIX X

PREScribed STATEMENTS FOR CAPACITY ADVERTISEMENTS AND ANNOUNCEMENTS

1. The following prescribed statements must be set out in any capacity advertisement and certain other announcements:-
 - (i) This *[advertisement/announcement]* has been prepared in accordance with Lloyd's requirements. *[Insert name of offeror]* has confirmed to Lloyd's that this document complies with the Capacity Offer Rules. This *[advertisement/announcement]* has not been approved by Lloyd's.
 - (ii) This *[advertisement/announcement]* is issued by *[insert name of issuer]* which is regulated by *[insert name of regulator]* and has been approved by *[insert name]* for the purposes of section 21 of the Financial Services and Markets Act 2000.*
 - (iii) This *[advertisement/announcement]* relates to a *[capacity offer]* which is being sponsored by *[insert name of sponsor]* and is being made by *[insert name of offeror]*.
 - (iv) *[Insert name of offeror or, if offeror is a connected company of the managing agent, insert the name of the managing agent]* is interested in this *[capacity offer]*.
 - (v) [Any person who is considering accepting this *[capacity offer]* should read carefully the *[offer document]* relating to such *[capacity offer]* and the risk factors set out therein / Any person who is considering participating in this *[capacity offer]* should read carefully the *[circular]* relating to such *[capacity offer]* (and the syndicate business forecast(s) which will be available, free of charge at *[insert address in London]*) and the risk factors set out in the *[circular]*].*
 - (vi) ⁺ The *[offer document/circular]* is expected to be issued on *[insert date]*.
 - (vii) [†][The securities which may be issued pursuant to the terms of the *[capacity offer]* may be illiquid and there may not be a market for them. The value of securities may go down as well as up.]
2. If the capacity advertisement is to be issued in a jurisdiction where the solicitation or offer may be contrary to law contain the following statement:-

This *[advertisement]* does not constitute a solicitation, invitation or offer to persons in *[state particular jurisdictions]* or any other jurisdiction where a solicitation, invitation or offer could be contrary to law.
3. If the advertisement/announcement is to be issued or circulated in the United States compliance must be made with Part II of Appendix II.
4. If the advertisement/announcement is made orally appropriate reference should be made to the matters referred to in paragraph 1 of this Appendix X and a hard copy of such statements should be handed to all persons to whom the verbal advertisement/announcement is made.

* delete as appropriate.

+ to be included in capacity advertisements but not announcements.

† to be included where a share offer or a share alternative is offered.

APPENDIX XI

LETTER RE SUBMISSION OF CAPACITY ADVERTISEMENTS AND ANNOUNCEMENTS

The Conversion Official
Lloyd's
One Lime Street
London
EC3M 7HA

For the attention of the Conversion Official

[Date]

Dear Sir

Submission of [Advertisement/Announcement]*

We refer to [insert details of capacity offer] of which we are the offeror. In accordance with paragraph [6(3)/10(3)/10(5)]* of the Capacity Offer Rules, made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) (the "Rules") we now enclose 2 copies of an [advertisement/announcement]* which was issued [insert time of issue] in [insert name of publications] and confirm that:-

- (a) the [advertisement/announcement]* fully and properly complies with section [6/10]* of the Rules;
- (b) [If applicable:] the [advertisement/announcement]* [has been/will be]* issued in the United Kingdom and [insert details of any other jurisdictions other than the UK]; and
- (c) we have complied with our obligations under paragraph 1(13) of the Rules in relation to the [advertisement/announcement]*.

[.....]
for and on behalf of
[insert name of offeror]

* delete as appropriate.

APPENDIX XII

Form AP2 (Capacity Offer Rules)

APPLICATION FOR APPROVAL FOR MAKING A CAPACITY OFFER

The Council of Lloyd's
Lloyd's
One Lime Street
London
EC3M 7HA

For the attention of the Conversion Official

[Date]

Dear Sir

Application for approval to make a capacity offer

We [*insert name of sponsor*] and [*insert name of offeror*] hereby apply for approval to make a capacity offer under the Capacity Offer Rules, made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) (the "Rules"). All terms used in this letter shall have the meaning ascribed thereto in the Rules.

1 We enclose:-

1.1 3 copies of the final draft [*offer document/circular*] and confirm that this document satisfies all relevant requirements of the Rules for the contents of such document.

1.2 [*In the case of a formal offer only*] 3 copies of the form of acceptance.

1.3 [A derogation letter.]

1.4 A cheque payable to the Corporation of Lloyd's for [*the prescribed fee*].

[1.5 US legal opinion re share offer/share alternative].

2 The capacity offer is [*insert type of capacity offer*] to the persons entitled to make participation nominations and/or second nominations in respect of [*insert syndicate details*] by [*insert name of offeror*]. The pricing of the offer has been set at [*insert details of pricing*]. The current intention of [*insert name of offeror*] is that the capacity offer [*state whether or not offer is to be an increasing offer or a reducing offer*]. The capacity offer will be made in respect of [*state details of prospective participations sought and whether offer will be limited or unlimited*].

3 We confirm our support for the capacity arrangement.

4 We undertake to discharge our respective responsibilities as sponsor and offeror as set out in, and in accordance with, the Rules.

5 We confirm that in respect of US persons, with the exception of US registered broker-dealers, no "transaction based compensation" has been received by or will be received by any members' agent, the offeror or sponsor (or any personnel of such persons) in connection with

the transfer of prospective participations.

6 As sponsor we hereby confirm to Lloyd's that:-

- 6.1 as at the date of this application the information provided in the Lloyd's Sponsor's Questionnaire and Undertaking - SP1 submitted on *[insert date]* remains true and accurate in all material respects and does not omit any information which might reasonably be considered relevant to this application; *[If there are material changes details must be submitted to the Conversion Official]*;
- 6.2 we are satisfied (having taken all reasonable steps to ensure that such is the case) that sufficient resources are, or will be, available to *[insert name of offeror]* to satisfy full acceptance of (or participation in) the capacity offer;
- 6.3 *[in the case of an announced auction offer]* we will use our reasonable endeavours to ensure that *[insert name of offeror]* of the *[announced auction offer]* is properly guided and advised as to its obligations under the Auction Rules;
- 6.4 our fees in respect of the capacity offer will be £*[insert details of fees]* payable by *[insert name of payer]* and our out of pocket expenses and the costs of our legal advice relating to the capacity arrangement will be met by *[insert name of payer]*;
- 6.5 [save as disclosed below] we have not received nor are we entitled to receive, directly or indirectly, any remuneration, commission or benefit payable by a person other than the offeror *[insert particulars of any other remuneration, commission or benefit]*; and
- 6.6 we have appointed *[insert name of (UK) law firm]* to act as our solicitors in relation to our obligations as sponsor to the capacity arrangement.

7 As offeror we hereby confirm to Lloyd's that:-

- 7.1 (after having consulted with the sponsor) to the best of our knowledge, information and belief (having made due and careful enquiry), all material facts relating to the capacity offer which we are making have been properly disclosed to the Conversion Official and in the *[offer document/circular]* and there are no matters (other than those disclosed in the *[offer document/circular]*) which are or could be material to a person proposing to accept (or participate in) this particular capacity offer;
- 7.2 [save as disclosed below] we have not received nor are we entitled to receive, directly or indirectly, any remuneration, commission or benefit. *[Insert particulars of any remuneration, commission or benefit]*;
- 7.3 we have appointed *[insert name of (UK) law firm]* to act as our solicitors in relation to the capacity arrangement;
- 7.4 *[if any capacity advertisement is proposed to be issued or circulated outside the United Kingdom:-]* the provisions of paragraph 1(13)(d) of the Rules have been fully and properly complied with;
- 7.5 we have, or will at the time of settlement have, sufficient resources available to satisfy full acceptance of the capacity offer; and
- 7.6 *[in the case of an announced auction offer]* we will comply with our obligations under the Auction Rules.

We acknowledge that the confirmations and undertakings given in this application shall be deemed to be repeated on the date that any capacity offer in respect of which we are making this application closes.

Yours faithfully

.....
for and on behalf of
[*print name of sponsor*]

.....
for and on behalf of
[*print name of offeror*]