

# MARKET BULLETIN

<b>From</b>	Head of Compliance (extn 6633)
<b>Date</b>	18 May 2006
<b>Reference</b>	Y3816
<b>Subject</b>	<b>Transfers of underwriting capacity - Capacity Market Rules for 2006</b>
<b>Subject areas</b>	Rules and guidance relating to capacity auctions, bilateral transactions in capacity, capacity offers and conversion
<b>Attachments</b>	<ul style="list-style-type: none"> <li>• Capacity Auctions and Bilateral Arrangements 2006 – Explanatory Guide</li> <li>• Auction Rules 2006</li> <li>• Bilateral Arrangements (2006) Rules</li> <li>• Capacity Offer Rules 2006</li> <li>• Conversion Rules 2006</li> </ul>
<b>Action points</b>	<b>For information</b>
<b>Deadlines</b>	

## Summary

The rules for the 2006 capacity transfer season have now been finalised and are attached. Other than the Conversion Rules, which have been amended to facilitate individual members converting into limited liability partnerships (LLP), the rules are substantially unchanged from those in force in 2005. The rules can also be found at:

[http://www.lloyds.com/Lloyds\\_Market/Capacity/Capacity\\_auctions/Rules\\_And\\_guides.htm](http://www.lloyds.com/Lloyds_Market/Capacity/Capacity_auctions/Rules_And_guides.htm)

## Capacity season timetable

The auction dates, as set out in bulletin Y3809 issued on 9 May 2006, are:

Auction 1	5 & 6 September
Auction 2	14 & 15 September
Auction 3	26 & 27 September
Fourth Auction	16 & 17 November

## Conversion Rules

Changes have been made to the Conversion Rules to accommodate the introduction of LLPs as a new form of corporate member at Lloyd's for the 2007 and subsequent years of account, and conversion into this type of corporate member. In addition to changes of a housekeeping nature, the following alterations have been made to the Conversion Rules:

- amendments to the definitions to extend the application of the rules to LLPs
- Appendix III, which lists the interavailable funds/deeds, has been expanded to include LLPs
- Appendix XI, which sets out the prescribed statements for an invitation document, has been amended to accommodate conversion to LLPs.

## Contact

Enquiries about any of the rules attached to this bulletin should be addressed to Jonathan Rees (telephone 020 7327 6225, email [jonathan.rees@loyds.com](mailto:jonathan.rees@loyds.com) ).

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# LLOYD'S

## Capacity auctions and bilateral arrangements 2006

Explanatory Guide

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## Summary of Important Auction Dates in 2006

<i>Date</i>	<i>Description</i>
Friday 21 July	<b>Deadline for submitting Form A – Declaration by Issuer</b> Part I – Details of Issuer Part II – Issuers’ Auction Funding Account Details Part III – Representations and Undertakings Part IV – Authorised Persons
Friday 4 August	<b>Software for 2006 auction system available</b>
Friday 4 August	<b>Deadline for submitting Form D – List of Connected Persons</b>
Tuesday 5 September	<b>Auction 1</b> (Day One)
Thursday 14 September	<b>Auction 2</b> (Day One)
Tuesday 26 September	<b>Auction 3</b> (Day One)
Friday 6 October	Statements to be issued for Auctions 1-3
Tuesday 24 October	Debit Date for Auctions 1-3
Friday 27 October	Credit Date for Auctions 1-3
Thursday 16 November	<b>Fourth Auction</b> (Day One)
Tuesday 28 November	Statements to be issued for Fourth Auction
Monday 11 December	Debit Date for Fourth Auction
Thursday 14 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 2006 may be able to realise any value attaching to the disposal of all or part of their capacity for the 2007 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 2006 deal only with the entitlement to participate on the 2007 year of account. Earlier years of account are not affected.
- 2.4 The auction process will be overseen by the Head of Compliance, David Russell, 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 2007 up to the total amount of capacity acquired in the 2006 auctions.
- 3.2 Members of syndicates for the 2006 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 2006, his capacity, including any acquired in 2006 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 2006 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 21 July 2006.**

- 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 2006, cannot exceed three percent of the latest estimated syndicate stamp figure for 2007 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 4 August 2006. 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 2006 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 2006 year of account i.e. the 2006 underwriting capacity before making any adjustment for pre-emption or de-emption (thus a £10,000 2006 participation with a 10% proposed pre-emption for 2007 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 2006 base capacity adjusted for the pre/de-emption approved in the business planning process. Thus a £10,000 2006 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 2006, 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:-
- Lloyds-auctionoffice@lloyds.com
- 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 4 August 2006 Form D, reporting all persons or entities on whose behalf they act in 2006 and with whom they are "connected". Please note that the definition of "connected" was extended in 2000 to include NameCos and SLPs and was extended in 2006 to include LLPs. 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 or limited liability partnerships is a chargeable 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 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 providing certain conditions are met, 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 2006 will be held on 16 and 17 November 2006. This auction will also include:

- ◆ disposals of capacity in cases where the approved capacity of a syndicate for 2006 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 24 August and 9 November 2006; and

- ◆ transactions in capacity on syndicates where after 21 September 2006 there has been a material change in the syndicate's 2007 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 2006) 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 2007 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 2006**

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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 2006.

### **1      Application**

These Rules shall govern the conduct of all Auctions taking place in 2006.

### **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 2006, 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 16 November and 17 November 2006. 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 2006 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 2007 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 24 August and 9 November 2006; or
    - (ii) after 21 September 2006 there has been a material change in the syndicate's business plan for 2007.

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 2007 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 2007 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 2007 year of account that has received the approval of Lloyd's; and
- d) "Disseminated Syndicate Business Forecast" means the Syndicate Business Forecast information for the 2007 year of account 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 21 September 2006.

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 21 July 2006 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 2006 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 2006 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 2007 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 2006 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 2006 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 2006 and been satisfied (in whole or in part); or
  - (iii) a participation nomination in respect of the same syndicate has previously been made in 2006 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 2006, 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:

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



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 2007 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 2007 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 2007 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 4 August 2006 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 4 August 2006 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 2007 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.

**Commencement**

These conditions and requirements shall come into force on 18 May 2006.

## **SCHEDULE INTERPRETATION**

In these Rules unless the context otherwise requires:-

"active underwriter"	has the meaning given to it in the Definitions Byelaw (No. 7 of 2005);
"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 2007 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 2006 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 2006 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 2007 year of account will not, unless the member has agreed otherwise, be less than that member's aggregate for the 2006 year of account;

"Available Capacity"	has the meaning given in Rule 13(5);
"body corporate"	has the meaning given in the Companies Act 1985 and includes, for the avoidance of doubt, a limited liability partnership;
"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. 7 of 2005);
"control"	has the meaning given in the Definitions Byelaw (No. 7 of 2005) and "controlled" shall be construed accordingly;
"corporate candidate"	means a candidate, within the meaning of paragraph 5 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 2006 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;
"limited liability partnership" or "LLP"	Means a limited liability partnership incorporated under the Limited Liability Partnership Act 2000;
"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. 7 of 2005);
"Membership Byelaw"	means the Membership Byelaw (No. 5 of 2005);
"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 2007 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 2006 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.

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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 2006****APPENDIX 1**

<b>Auction</b>		<b>Statement Date</b>	<b>Debit Date</b>	<b>Credit Date</b>
<b>Auction 1:</b> Day One            Tuesday 5 September Day Two            Wednesday 6 September				
<b>Auction 2:</b> Day One            Thursday 14 September Day Two            Friday 15 September		Auctions 1, 2 and 3  6 October	Auctions 1, 2 and 3  24 October	Auctions 1, 2 and 3  27 October]
<b>Auction 3:</b> Day One            Tuesday 26 September Day Two            Wednesday 27 September				
<b>Fourth Auction:</b> Day One            Thursday 16 November Day Two            Friday 17 November		28 November	11 December	14 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 2007 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 2006 but not the



2007 year of account) and agree that, if the managing agent so requires, the managing agent will be entitled to an annual fee for the 2007 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 2006.

#### **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/our<sup>1</sup> behalf in the auctions to be held in respect of the syndicates listed above (or as otherwise advised by me/us<sup>1</sup> 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/us<sup>1</sup> 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 2007 and subsequent years of account on the basis of my/our<sup>1</sup> member's syndicate premium limit.

#### **Undertaking**

I/We<sup>1</sup> hereby irrevocably undertake to execute, in respect of each syndicate to which any Subscription Order or Tender Order submitted on my/our<sup>1</sup> behalf relates, a syndicate list, complying with the requirements of the Council and including a member's syndicate premium limit equal to my/our<sup>1</sup> prospective participation (see note below).

#### **Provisional Syndicate**

You are hereby authorised to enter into an agreement on my/our<sup>1</sup> 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/we<sup>1</sup> subscribe for prospective participations if there is no such agreement current between that managing agent and myself/us<sup>1</sup>.

You are hereby authorised to agree that the amount of my/our<sup>1</sup> overall premium limit to be

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<sup>1</sup>The 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/our<sup>1</sup> prospective participation.

### **Acknowledgement**

I/We<sup>1</sup> acknowledge that I/we<sup>1</sup> have read the Appendix to the Explanatory Guide (Limitations to the auction process) and understand the limitations of the auction process.

Signed .....<sup>2</sup>                      Date .....

Signed by .....<sup>3</sup>                      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).**

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<sup>2</sup>For use by individuals.

<sup>3</sup>For 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 (2006) 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 2007 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 <sup>1</sup>	Membership No. <sup>2</sup>	Category <sup>3</sup>

**Notes for completion**

NB Disclosure is not required in respect of MAPA participations.

1. Provide details for connected persons by 4 August 2006 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 (2006) 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 (2006) 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 (2006) 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 2006 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 2006 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 2006;
  - (ac) no tender order previously submitted by or on behalf of the nominee in any auction during 2006 has been satisfied (in whole or in part); and
  - (ad) the nominee has not previously made during 2006 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 2006, 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 18 May 2006.

# 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 2006) 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 (2006) 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 2006) 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

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  
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			
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16			
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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

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

# 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

**LLOYD'S**

**CAPACITY OFFER RULES 2006**

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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 2006.
- 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 2006.

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 25 August 2006.

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 Enforcement Byelaw (No. 6 of 2005).

## 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 **Prospectus 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 **Prospectus 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:-

<b>active underwriter</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>advertisement</b>	means a financial promotion in accordance with section 21(1) of FSMA;
<b>Agency Agreements Byelaw</b>	means the Agency Agreements Byelaw (No. 8 of 1988);
<b>announced auction offer</b>	means an offer to be submitted in an <b>auction</b> to acquire certain <b>prospective participations</b> for cash consideration, which offer has been announced in accordance with paragraph 7(3);
<b>application in principle</b>	means an application for <b>approval in principle</b> of a <b>capacity offer</b> made in accordance with section 5;
<b>approval in principle</b>	means the grant by the <b>Conversion Official</b> of approval in principle of a <b>capacity offer</b> ;
<b>approved jurisdictions</b>	means such jurisdictions as may be prescribed as approved jurisdictions by the <b>Conversion Official</b> from time to time;
<b>associate</b>	means in relation to any person: <ul style="list-style-type: none"><li>(a) that person's <b>close relative</b>; or</li><li>(b) if that person is a <b>body corporate</b>, any director or employee or LLP member of that person or any <b>connected company</b> of that person; or</li><li>(c) any <b>body corporate</b> of which that person is a director or an employee or a LLP member; or</li><li>(d) any person who is an employee or partner of that person; or</li><li>(e) any <b>connected company</b> of that person;</li></ul>
<b>auction</b>	means an auction within the meaning of paragraph 1 of the <b>Auction Byelaw</b> ;
<b>Auction Byelaw</b>	means the Auction Byelaw (No. 14 of 1997);
<b>auction offer</b>	means an offer to buy certain <b>prospective participations</b> submitted in an <b>auction</b> in accordance with the <b>Auction Byelaw</b> and the <b>Auction Rules</b> ;



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

<b>close relative</b>	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;
<b>competing offer</b>	means an offer to enter into an arrangement in relation to a particular <b>syndicate</b> under which a person entitled to participate in or accept that arrangement makes a <b>participation nomination</b> and/or a <b>second nomination</b> in respect of the whole or any part of his <b>prospective participation</b> for a consideration comprising exclusively cash, which <b>prospective participation</b> is the subject of a <b>surrender offer</b> ;
<b>connected company</b>	means in relation to a person ("first person") any person who is <b>controlled</b> by, or is under common <b>control</b> with, the first person;
<b>control</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005) and " <b>controlled</b> " shall be construed accordingly;
<b>Conversion Official</b>	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;
<b>corporate candidate</b>	means a candidate within the meaning of paragraph 5 of the Membership Byelaw (No. 5 of 2005) which is a <b>body corporate</b> or an <b>SLP</b> ;
<b>corporate member</b>	means a member of <b>Lloyd's</b> which is a <b>body corporate</b> or a <b>Scottish limited partnership</b> ;
<b>Council</b>	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;
<b>derogation letter</b>	means the letter (substantially in the form set out in Appendix VI) referred to in paragraph 4(4)(c);
<b>designated professional body</b>	means a body designated by the Treasury under section 326 of FSMA for the purposes of Part XX of FSMA;
<b>formal offer</b>	means a <b>surrender offer</b> or a <b>competing offer</b> ;
<b>FSMA</b>	means the Financial Services and Markets Act 2000;
<b>increasing offer</b>	means a <b>capacity offer</b> under which the amount of

	<b>prospective participations</b> sought pursuant to that offer is increased;
<b>individual member</b>	means a member of <b>Lloyd's</b> who is an individual;
<b>initial advertisement</b>	means any <b>advertisement</b> (other than an <b>offer document</b> , a <b>revised offer document</b> , a <b>circular</b> , a <b>revised circular</b> , an <b>offer announcement</b> or a <b>circular announcement</b> ) inviting any person to accept or participate in a <b>capacity offer</b> or containing information calculated to lead directly or indirectly to any person doing so;
limited liability partnership or LLP	means a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000;
<b>limited offer</b>	means a <b>capacity offer</b> for a specified amount of the aggregate <b>prospective participations</b> of the persons entitled to participate in the arrangement which is the subject of the <b>capacity offer</b> ;
<b>Lloyd's</b>	means the Society incorporated by Lloyd's Act 1871 by the name of Lloyd's;
LLP Member	means a member of a LLP
<b>Major Syndicate Transactions Byelaw</b>	means the Major Syndicate Transactions Byelaw (No. 18 of 1997);
<b>managing agent</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>mandatory offer</b>	means an offer pursuant to the <b>Mandatory Offer Byelaw</b> ;
<b>Mandatory Offer Byelaw</b>	means the Mandatory Offer Byelaw (No. 5 of 1999);
<b>MAPA</b>	means a members' agents pooling arrangement within paragraph 10(2) of the <b>Agency Agreements Byelaw</b> ;
<b>MAPA operator</b>	means, in relation to a <b>MAPA</b> , a <b>members' agent</b> which operates a <b>MAPA</b> within the meaning of paragraph 1(2) of the <b>Agency Agreements Byelaw</b> ;
<b>member</b>	means as the context requires, an <b>individual member</b> or a <b>corporate member</b> ;
<b>members' agent</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>member's syndicate premium limit</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);

<b>minority buy-out</b>	means a minority buy-out made pursuant to the <b>Major Syndicate Transactions Byelaw</b> ;
<b>misconduct</b>	has the meaning given in the paragraph 3 of the Enforcement Byelaw (No. 6 of 2005);
<b>MSU</b>	means Lloyd's Members' Services Unit;
<b>offer announcement</b>	means an announcement issued by the <b>offeror</b> outlining the terms of any <b>formal offer</b> contained in an <b>offer document</b> in accordance with paragraph 10(2);
<b>offer document</b>	means a document containing a <b>formal offer</b> in accordance with the <b>Rules</b> and, in particular, section 7 and Appendix VII;
<b>offer period</b>	means the period during which a <b>formal offer</b> remains open for acceptance;
<b>offeror</b>	means a <b>managing agent</b> (or a <b>connected company</b> of such <b>managing agent</b> ) or such other person which has been approved by the <b>Conversion Official</b> to act as an offeror in accordance with section 4;
<b>participation nomination</b>	means a nomination such as is referred to in clause 11A.2 of an agreement in the terms of the <b>standard managing agent's agreement</b> ;
<b>prescribed date</b>	means, in relation to a paragraph of the <b>Rules</b> , the date in each year prescribed by the <b>Conversion Official</b> for the purposes of that paragraph of the <b>Rules</b> ;
<b>prescribed fee</b>	means a fee prescribed by the <b>Conversion Official</b> for the purposes of a particular paragraph of the <b>Rules</b> ;
<b>prescribed form</b>	means in a form prescribed by the <b>Conversion Official</b> from time to time;
<b>prohibited territory</b>	means Singapore and such other territories as may be prescribed as prohibited territories by the <b>Conversion Official</b> from time to time;
<b>prospective participation</b>	means, in relation to a <b>syndicate</b> and a particular person, the amount of the <b>member's syndicate premium limit</b> with which that person will be entitled to participate as a member of that <b>syndicate</b> for the next following <b>year of account</b> ;
Prospectus Regulations	means the prospectus Regulations 2005;
<b>reducing offer</b>	means a <b>formal offer</b> 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
- (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
- (h) any material change in the risk-based capital ratio applicable to the **syndicate**;

**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;

<b>stepped offer</b>	means a <b>formal offer</b> where the consideration payable to all those who accept such offer is increased in accordance with the amount of the <b>prospective participations</b> to be acquired by the <b>offeror</b> ;
<b>surrender arrangement</b>	means an arrangement in relation to a particular <b>syndicate</b> under which a person entitled to participate in or accept that arrangement surrenders the whole or any part of his <b>prospective participation</b> for cash or other consideration in circumstances in which no <b>participation nomination</b> or <b>second nomination</b> is made and either:- <ul style="list-style-type: none"> <li>(i) the arrangement is entered into with the <b>managing agent</b> of that <b>syndicate</b>; or</li> <li>(ii) that <b>managing agent</b> agrees to permit another <b>member</b> to underwrite in succession to that person without the requirement for a <b>participation nomination</b> or a <b>second nomination</b> to be made;</li> </ul>
<b>surrender offer</b>	means an offer to enter into a <b>surrender arrangement</b> ;
<b>syndicate</b>	means a group of <b>members</b> or a single <b>corporate member</b> underwriting insurance business at Lloyd's through the agency of a <b>managing agent</b> to which a particular syndicate number is assigned by or under the authority of the <b>Council</b> ;
<b>syndicate allocated capacity</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>syndicate business forecast</b>	means a business forecast prepared by the <b>managing agent</b> of a <b>syndicate</b> in respect of the following <b>year of account</b> for circulation to members of the syndicate and supporting <b>members' agents</b> ;
<b>underwriting agent</b>	means a <b>managing agent</b> or a <b>members' agent</b> ;
<b>United States</b>	means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia;
<b>unlimited offer</b>	means a <b>capacity offer</b> for the aggregate <b>prospective participations</b> of all the persons entitled to participate in or accept the arrangement which is the subject of the <b>capacity offer</b> ;
<b>unlisted security</b>	means an investment which <ul style="list-style-type: none"> <li>(a) is not admitted to official listing nor the</li> </ul>

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

18 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”)

18 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

18 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
<b>document</b> containing the relevant <b>surrender offer</b> was first issued	
<b>Earliest date for formal offer to close</b>	
20 <b>US business days</b> after the <b>offer document</b> was first issued	CORs 11(1)(a)
<b>Latest date to apply to become a sponsor of (or to submit an AIP for) a limited offer</b>	
4 August	CORs 5(1)(b)
<b>Latest date to submit an initial draft offer document and related documents for a limited offer</b>	
4 August	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 <b>business days</b> after receipt	CORs 7(9)(b)
<b>Latest date for an offer to close when a minority buy-out application is intended to be made</b>	
25 August	CORs 1(17)(c)
<b>Latest date to apply to become a sponsor of (or to submit an AIP for) an unlimited offer</b>	
21 September	CORs 5(1)(b)
<b>Latest date to submit an initial draft offer document and related documents for an unlimited offer</b>	
21 September	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 <b>business days</b> after receipt	
<b>Latest date by which an announcement has to be made if no offer document has been issued</b>	
42 <b>business days</b> after the <b>initial advertisement</b> was issued or, if earlier, 22 August (being 25 <b>business days</b> before the first day of the third <b>auction</b> )	CORs 7(8)(a)

	Authority/Form
<b>Latest date to issue a revised offer document</b>	
10 US business days before the final closing date of the <b>formal offer</b>	CORs 11(1)(b)(ii)
<b>Latest date to increase the consideration being offered under a formal offer</b>	
10 US business days before the final closing date of the <b>formal offer</b>	CORs 1(5)(d)
<b>Latest date to declare a conditional formal offer to be unconditional as to acceptances</b>	
10 US business days before the final closing date of the <b>formal offer</b>	CORs 11(1)(c)
<b>Final date to close a limited offer</b>	
18 September	CORs 1(17)(b)
<b>Date of third auction</b>	
26/27 September	
<b>Final date to close an unlimited offer</b>	
3 November	CORs 1(17)(a)
<b>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</b>	
5 November	CORs 1(6)(b)(iii)

## PART II

### ANNOUNCED AUCTION OFFERS

	Authority/Form
<b>Earliest date to apply to become a sponsor</b>	
18 May	Form SP1
CO will use reasonable endeavours to approve sponsor not more than 3 <b>business days</b> after receipt of Form SP1	CORs 3(2)(c)
<b>Earliest date to submit an application in principle (“AIP”)</b>	
18 May	Form AP1 (Capacity Offer Rules)
CO will use reasonable endeavours to approve the AIP not more than 3 <b>business days</b> after receipt of Form AP1 (Capacity Offer Rules)	CORs 5(1)(c)
<b>Earliest date to submit an initial draft circular and related documents</b>	
18 May	
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 <b>business days</b> after receipt	CORs 7(9)(b)
<b>Earliest date to issue an initial advertisement</b>	
The day on which the AIP has been approved by the CO	CORs 6(1)(a)
<b>Latest date to submit an application for approval (together with a final draft circular, related documents and a cheque for the prescribed fee)</b>	
2 <b>business days</b> before the proposed date of issue of the circular	Form AP2 (Capacity Offer Rules) CORs 8(2)
<b>Latest date to issue a circular</b>	
20 <b>US business days</b> before the first day of the first, or only, <b>auction</b> in which the <b>announced auction offer</b> will be made	CORs 7(3)(d)
<b>Latest date to apply to become a sponsor of (or to submit an AIP for) a limited offer</b>	
4 August	CORs 5(1)(b)

	Authority/Form
<b>Latest date to submit an initial draft circular and related documents for a limited offer</b>	
4 August	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 <b>business days</b> after receipt	CORs 7(9)(b)
<b>Latest date to apply to become a sponsor of (or to submit an AIP for) an unlimited offer</b>	
14 August	CORs 5(1)(b)
<b>Latest date to submit an initial draft circular and related documents for an unlimited offer</b>	
14 August	CORs 7(9)(a)
CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 5 <b>business days</b> after receipt	CORs 7(9)(b)
<b>Latest date by which an announcement has to be made if no circular has been issued</b>	
42 <b>business days</b> after the <b>initial advertisement</b> was issued or, if earlier, 2 September (being 25 <b>business days</b> before the first date of the last <b>auction</b> )	CORs 7(8)(a)
<b>Latest date to issue a revised circular</b>	
10 <b>US business days</b> before the first day of the first, or only, <b>auction</b> in which the <b>announced auction offer</b> will be made	CORs 9(3)(i)
<b>Date of third auction</b>	
26/27 September	CORs 9(3)(i)
<b>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</b>	
5 November	CORs 1(6)(b)(iii)

## **APPENDIX II**

### **LIST OF FOREIGN LAWYERS AND ADDITIONAL US REQUIREMENTS**

#### **PART I**

#### **LIST OF FOREIGN LAWYERS**

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
Australia	Freehills	Level 30, MLC Centre 19-29 Martin Place Sydney NSW 2000 Australia Tel: 00612 9225 5000 Fax: 00612 9322 4000	Don Harding
Belgium	Freshfields Bruckhaus Deringer	Bastion Tower Place du Champ de Mars 1050 Brussels Tel: 00322 504 7000 Fax: 00322 504 7200	Guy Schrans
Bermuda	Appleby Spurling Hunter	Cedar House Canon's Ct 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda Tel: 001441 295 2244 Fax: 001441 292 8666	Warren Cabral
British Virgin Islands	Harney, Westwood & Riegels	Craigmuir Chambers P O Box 71 Road Town Tortola BVI Tel: 001 284 494 2233 Fax: 001 284 494 3547	Richard Parsons
Canada	Stikeman, Elliott	Suite 5300 Commerce Court West 199 Bay Street P O Box 85 Toronto, Ontario Canada M5L 1B9 Tel: 001 416 869 5500 Fax: 001 416 947 0866	Michael Rumball
	Stikeman, Elliott (London)	Dauntsey House 48 Frederick's Place London	Michele J Buchignani

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
		EC2R 8AB Tel: 020 7637 0150 Fax: 020 7637 0160	
	M J Oppenheim CA	1155 Rue University 1400 Montreal Quebec Tel: 001 514 393 5327 Fax: 001 514 861 0470	Vincent Gallo
	Borden Ladner Gervais	1000 de la Gauchetière Street West Suite 900 Montreal Quebec H3B 5H4 Tel: 001 514 879 1212 Fax: 001 514 954 1905	
Denmark	Plesner Svane & Grunberg	America Plads 37 DK2100 Copenhagen Cop. K Denmark Tel: 0045 3312 1133 Fax: 0045 3312 0014	Carsten Tvede-Moller
France (Paris)	Freshfields Bruckhaus Deringer	2 rue Paul Cezanne 75008 Paris Tel: 00331 4456 4456 Fax: 00331 4456 4400	Veronique Collin
Germany (Frankfurt)	Freshfields Bruckhaus Deringer	Taunusanlage 11 60329 Frankfurt am Main Tel: 0049 6927 3080 Fax: 0049 6923 2664	
Greece	Kyriakides Georgopaulos	6 Queen Sophia Avenue 106 74 Athens Greece Tel: 00301 724 3072 Fax: 00301 725 0670	Leonidas C Georgopoulos
Guernsey	Ozannes	P O Box 186 Le Marchant Street St Peter Port Guernsey Tel: 01481 723466 Fax: 01481 714653	P A Harwood
Hong Kong	Freshfields Bruckhaus Deringer	11 <sup>th</sup> Floor Two Exchange Square	Martin Taylor

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
		Hong Kong Tel: 00852 2846 3400 Fax: 00852 2810 6192	
Ireland	A & L Goodbody	International Financial Services Centre Northwall Quay Dublin 1 Ireland Tel: 3531 649 2000 Fax: 3531 629 2649	J A O'Farrell
Italy	Studio Legale Ughi E Nunziantè	Via Sant'Andrea 19-20121 Milan Italy Tel: 00392 762171 Fax: 00392 784140	Michael Kirkham
Isle of Man	Simcocks	Ridgeway House Ridgeway Street Douglas IM99 1PY Tel: 01624 690 300 Fax: 01624 690 333	
	L J Weatherill Advocate and Solicitor	Top Floor Central Chambers 6 Victoria Street Douglas Isle of Man IM1 2LH Tel: 01624 674 994 Fax: 01624 674 995	Lawrence Weatherill
Japan	Mitsui Company	Akasaka 2 Plaza Building 7 14-32 Akasaka 2-Chome Minato-ku Tokyo 107 Tel: 00813 3224 0020 Fax: 00813 3224 0030	
Jersey	Bedell & Cristin	P O Box 75 26 New Street St Helier Jersey JE4 8PP Tel: 01534 814814 Fax: 01534 814815	
Luxembourg	Linklaters	Avenue John F Kennedy 35, L-1855	Jacques Loesch



<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
		Luxembourg Tel: 352 2608-1 Fax: 352 2608-8888	
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 Fax: 020 7466 6311	
New Zealand	Minter Ellison Rudd Watts	Trust Bank Centre 125 Terrace Wellington Tel: 0064 4498 5000 Fax: 0064 4498 5001	
	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: 0035121 319 7300 Fax: 0035121 319 7400	Fernando Campos Ferreira
Singapore	Wong Partnership	One George Street #20-01 Singapore 049145 Tel: 0065 6416 8000 Fax: 0065 6532 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

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
Spain (Madrid)	Freshfields Bruckhaus Deringer	Fortuny 6 28010 Madrid Tel: 003491 700 3700 Fax: 003491 308 4636	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 Tel: 0207 614 2200 Fax: 02-7 600 1698	

## 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.7 of 2005).
- 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 LLP or 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 LLP, its members, or for 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 LPP, its members, or for 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.]<sup>†</sup>

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.]<sup>‡</sup>

- 4 <sup>††</sup> [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 <sup>‡</sup> [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].<sup>†††</sup>

- 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]<sup>††††</sup>  
[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

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<sup>†</sup> to be included where there is a share offer or a share alternative is offered.

<sup>††</sup> to be included where the formal offer is made to persons resident in South Africa and/or Israel.

<sup>†††</sup> 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.

<sup>††††</sup> 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) <sup>†</sup> 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) <sup>†</sup> 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) <sup>†</sup> 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.

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<sup>†</sup> to be included where there is a share offer or a share alternative is offered.

## 17 <sup>†</sup> 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.

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<sup>†</sup> 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 <sup>†</sup>[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]

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<sup>†</sup> 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.

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## 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) <sup>+</sup> The *[offer document/circular]* is expected to be issued on *[insert date]*.
  - (vii) <sup>†</sup>[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*]

**LLOYD'S**

**CONVERSION RULES 2006**

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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 shall be cited as the Conversion Rules 2006.
- 2 The purpose of these **Rules** is to set out the method by which an **individual member** of **Lloyd's** who is currently undertaking underwriting business at **Lloyd's** may transfer that underwriting business to a **corporate member** and to describe the general effect of **conversion schemes** and **private arrangements** (whether past or future). The requirements for membership applicable to a **corporate member** are set out in the **Membership and Underwriting Requirements**. An **individual member** who transfers his underwriting business to a **corporate member** will, as part of the conversion process, be required to resign from **Lloyd's**. It is therefore expected that any **prospective participation** which he may have on any **syndicate** which is not accepted by the **successor vehicle(s)** may be sold in an **auction**, surrendered or transferred by any other means permitted by **Lloyd's** from time to time or will drop back to the relevant **managing agent** for nil value. A **conversion scheme** which offers partial conversion of an **individual member's prospective participations**, may only be made if the **Conversion Official** is satisfied that the **conversion scheme** will allow significant additional benefits to accrue to the **participants**.

It should be noted that any such resignation of an **individual member** will not actually take effect until it is accepted by the **Council**, and that in the meantime he will remain as a **member** of **Lloyd's**. The resignation will usually take effect from the later of -

- (a) the time as from which **reinsurance to close** in respect of every **year of account** of every **syndicate** of which he is a member has taken effect; and
  - (b) the time when he shall no longer have any **FAL**, whether made available to a **successor vehicle** or otherwise.
- 3 The **Council** has made these **Rules** to stipulate:-
  - (1) the requirements relating to **individual members** who may wish to, or be invited to, participate in a **conversion scheme** or a **private arrangement**, including the provision of **FAL** by **individual members** as security for the obligations arising in connection with the subsequent underwriting business of the **successor vehicle**;
  - (2) the conditions, requirements and procedures which must be complied with in connection with the promotion of a **conversion scheme** to **individual members** and/or the issue of any documentation in connection with a **conversion invitation** to **individual members** and/or the acceptance of such **conversion invitation** by **individual members**;
  - (3) the qualifying criteria for a person who seeks to act as a **sponsor** of a **conversion scheme** or **private arrangement** and the responsibilities of such a person;
  - (4) the qualifying criteria for a person who seeks to act as a **promoter** of a **conversion scheme** and the responsibilities of such a person; and
  - (5) to describe the general effect of interavailability and reverse interavailability

arrangements in the context of **conversion schemes** and **private arrangements**.

- 4 The provisions contained in sections 1 to 13 of these **Rules** apply to a **conversion scheme** which is promoted to two or more **individual members** to participate in an arrangement with the same or different **successor vehicle(s)** in substantially similar terms. Section 14 sets out the particular provisions which apply in respect of a **private arrangement** and a **promoted private arrangement**. Section 15 sets out the general effect on an **individual member** of **Lloyd's** of a **conversion scheme** or **private arrangement** (including a **promoted private arrangement**) which he may have already entered into in the past or which he may enter into in the future.
- 5 All references in these **Rules** to the promotion of a **conversion scheme** shall include:-
  - (1) issuing or causing to be issued any **advertisement** inviting an **individual member** to participate in a **conversion scheme** or containing information calculated to lead directly or indirectly to any **individual member** doing so; or
  - (2) advising or procuring an **individual member** to participate in a **conversion scheme**.
- 6 Appendix I sets out the **prescribed dates** for 2006.
- 7 In general, the **Conversion Official** no longer requires submission of a formal legal opinion concerning the making of a **conversion invitation** in any jurisdiction. However, where it is proposed that **US individual members** be invited to accept securities, a legal opinion will be required. A **promoter** is responsible for ensuring compliance with local laws (including securities laws) in all jurisdictions. **Lloyd's** accepts no responsibility or liability in this regard. **Promoters** 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. Appendix II also contains a summary of certain issues which may be relevant to a **promoter** proposing to make a **conversion invitation** to **members** resident or domiciled outside the United Kingdom.
- 8
  - (1) The Finance Act 2004 introduced provisions into the Finance Act 1993 (s179 and Schedule 20A) that provide certain loss carry forward and capital gains tax reliefs to individual members of **Lloyd's** who convert to limited liability underwriting (through a limited liability company or an SLP) through a conversion arrangement, provided certain further conditions are met. As of 14 February 2006, these provisions have been amended so that they now apply to individual members converting to limited liability underwriting through a limited liability partnership in the same way as they do for conversions to limited liability underwriting through a SLP. The following provides a general summary of the reliefs contained in the Finance Act. However, a detailed examination of the legislation will be required to ensure that the conditions are met for obtaining the reliefs.
  - (2) The legislation allows individual members to carry forward unused tax losses from individual underwriting when they convert to underwriting through a limited liability company in which they hold more than 50% of the shares. Certain conditions need to be met, including a requirement for the individual to cease

underwriting as an individual and to give notice of resignation as an underwriting member. There is also a requirement that the individual transfers capacity to the corporate member in exchange for the issue of shares in the corporate member. If all conditions are met the individual member will be able to set carried forward tax losses from their individual underwriting against income that they subsequently derive from the limited liability company, including salary or dividends.

- (3) The legislation also allows individual members who convert to underwriting through a limited liability company in this way to elect to defer capital gains on the transfer of capacity to the corporate member. Again, certain conditions have to be met, including conditions regarding resignation, control of the corporate member and the capacity transfer taking place in consideration for the issue of shares. The capital gains tax relief is effected by rolling over the aggregate gain on the capacity transfers against the tax cost of the shares that are issued, so that the gains are deferred until the shares are disposed of for tax purposes.
- (4) There is a further capital gains tax relief on conversion to underwriting through a limited liability company which allows individual members to elect to defer capital gains tax on the transfer of assets that formed part of their individual Funds at Lloyd's to the corporate member that they control. This is also subject to specific conditions. It is not necessary for the Funds at Lloyd's to be transferred to the corporate name at the same time as the capacity is transferred but an election to rollover the gain on the capacity must have been made at the time of that transfer in order to qualify for the Funds at Lloyd's relief. The relief is effected by rolling over the aggregate gains on the transferred assets against the tax cost of the shares that are issued in return for them, so that the gains are deferred until the shares are disposed of for tax purposes. This relief applies to transfers of FAL which take place after 6 April 2004.
- (5) The legislation also allows an individual member who converts to underwriting through a SLP or a LLP to set carried forward tax losses from their individual underwriting against profits derived from the SLP or LLP. Again, certain conditions need to be met, including for the individual to give notice of resignation as an underwriting member, to transfer capacity to the SLP or LLP, and to be entitled to more than 50% of the profits of the SLP or LLP. There are no capital gains tax reliefs as there is no disposal for capital gains tax purposes in relation to capacity or Funds at Lloyd's upon conversion to a SLP or LLP.
- (6) The foregoing is only a broad and general summary, and qualification for and the operation of the reliefs will depend on meeting the detailed conditions that are set out in the legislation. They will also depend on personal circumstances, and members are strongly advised to take their own tax advice on the financial consequences of any conversion.

## 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 a **promoter** or in relation to any **conversion scheme** or **private arrangement** which he considers appropriate in the interests of protecting **Lloyd's**.

These **Rules** shall include each of the Appendices and any other 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**, the types of **conversion schemes** which may be promoted and the **individual members** to whom a **conversion invitation** may be made. This section also sets out certain general principles relating to the issue of **conversion advertisements** as well as provisions relating to the submission of documents to the **Conversion Official**. This 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 **conversion scheme**;
- (ii) making or procuring the issue of a **conversion invitation** and a **PPA document**;
- (iii) making arrangements with a view to any **individual member** participating in a **conversion scheme** or a **private arrangement**;
- (iv) advising or offering to advise any **individual member** on the merits of participating in a **conversion scheme** or a **private arrangement**; and
- (v) procuring an **individual member** to participate in a **conversion scheme** or a **private arrangement**.

(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 individual members** or **individual members** resident in other jurisdictions (other than the United Kingdom) must be undertaken in accordance with the requirements contained in Appendix II and any additional requirements issued by **Lloyd's** from time to time.

#### 1(2) Types of conversion schemes

The **Conversion Official** will, subject to paragraph 1(3)(b), only consider an application for approval under the **Rules** which relates to a **conversion scheme**:-

- (a) under which it is proposed that an **individual member** will (subject to acceptance of his application to participate in such **conversion scheme**):-
  - (i) cease to carry on any underwriting business at **Lloyd's**; and
  - (ii) resign from **Lloyd's** (with the effect described in paragraph 1(13) below);



and

(b) which comprises:-

- (i) an **interavailability arrangement**, which utilises the appropriate prescribed trust deeds referred to in Appendix III; or
- (ii) a **reverse interavailability arrangement** which utilises such prescribed documents and which satisfies such requirements as may be prescribed by the **Conversion Official** from time to time; or
- (iii) a **transition arrangement** which utilises such prescribed documents and which satisfies such requirements as may be prescribed by the **Conversion Official** from time to time; or
- (iv) a **swap arrangement** which is linked with an arrangement of the type referred to in paragraph 1(2)(b)(i), (ii) or (iii).

1(3) **Prospective participations**

- (a) An **individual member** may only participate in a **conversion scheme** or **private arrangement** in respect of that **individual member's prospective participation**.
- (b) A **conversion invitation** or **private arrangement** in respect of part only of that **individual member's prospective participations** may only be made if the **Conversion Official** is satisfied that the **conversion scheme** or **private arrangement** will allow significant additional benefits to accrue to the **participant(s)**.
- (c) An **individual member** to whom a **conversion invitation** is made (or who participates in a **private arrangement**) may (save as referred to in paragraph 1(3)(d) below) following his acceptance of such **conversion invitation** (or upon implementation of the **private arrangement**) make a **participation nomination** and/or **second nomination** in respect of the whole or part of his aggregate **prospective participations**.
- (d) An **individual member** to whom a **conversion invitation** is made (or who participates in a **private arrangement**) 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 **conversion invitation** is made (or the **private arrangement** is implemented) 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 relevant **year of account** pursuant to a notice given by the **member** 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**.

- (e) For the purposes of paragraph 1(3)(d), an **individual member**:-
- (i) of a **syndicate** for the **year of account** during which the **conversion invitation** is made (or a **private arrangement** implemented); 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(3)(d)(ii); and
  - (iii) who has received an invitation from the **managing agent** to participate in another **syndicate** for the **year of account** following the **year of account** during which the **conversion invitation** is made (or a **private arrangement** implemented)

shall be deemed to be a **member** of the latter **syndicate** for the **year of account** during which the **conversion invitation** is made (or a **private arrangement** implemented).

#### 1(4) **Equal treatment of members**

No **sponsor** or **promoter** (or any **connected company** or **associate** of any such **sponsor** or **promoter**) shall furnish any material information to any **individual member** concerning a **conversion scheme** which it is sponsoring or promoting unless such information is furnished to all **individual members** to whom such **conversion scheme** has been, or is proposed to be, made available.

#### 1(5) **Confidentiality**

- (a) A person who is, or who has agreed to be, subject to the **Rules** must not, subject to paragraph 1(5)(c), disclose any information (other than information of a general nature) concerning any proposed **conversion scheme** to any person (other than to a professional adviser instructed to assist in the development and implementation of such **conversion scheme**) prior to the **Conversion Official** approving an **application in principle** in relation to such **conversion scheme** pursuant to section 5.
- (b) A person who is, or who has agreed to be, subject to the **Rules** must, subject to paragraph 1(5)(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(5)(a) and (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 the provisions of 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**.

**1(6) Issuing conversion advertisements**

- (a) This paragraph 1(6) shall apply to any **conversion advertisement**.
- (b) A **promoter** is responsible for ensuring that any person who issues a **conversion 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 **conversion advertisement** is fair and not misleading.
- (c) A **promoter** is responsible for ensuring that any **conversion 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 **FSMA**;
  - (iii) identifies both the **sponsor** and the **promoter** of the **conversion scheme** 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) A **promoter** is responsible for ensuring that any **conversion advertisement** which is issued or circulated outside the United Kingdom:-
  - (i) complies with paragraph 1(6)(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 participating in the **conversion scheme** or a statement that the **individual member** is recommended to take his own tax advice; and
  - (v) if applicable, contains the prescribed wording set out in Appendix II.
- (e) **Promoters** 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 **promoter** shall confirm in writing to the **Conversion Official** that in relation to any particular jurisdiction it has complied with this paragraph 1(6).

1(7) **Conversion invitations which are made to US individual members**

**Conversion invitations** which are made to **US individual members** must comply with the following additional requirements:-

- (a) Part III of Appendix II;
- (b) **promoters** should consult US counsel about the legal implications of making a **conversion invitation to US individual members**; and
- (c) where the **promoter** proposes to invite **US individual members** to accept securities, 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(8) **Independent advice**

When a **members' agent** proposes to advise or make arrangements with a view to an **individual member** participating in a **conversion scheme** (irrespective of whether that **member's agent** is the **promoter** of such **conversion scheme** or whether that **members' agent** has been appointed by the **individual member** under an agreement in the terms of the **standard members' agent's agreement** (or will be so appointed in the following **year of account** if the **conversion scheme** is implemented)) the **members' agent** must observe the Lloyd's Code for Members' Agents: Responsibilities to Members, as amended from time to time.

1(9) **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(9)(a) or which he considers is not of a standard which is appropriate for review.

1(10) **Refusal to consider a conversion scheme**

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

- (a) the **conversion scheme** or any documentation relating thereto does not comply with the **Rules** or with any particular condition imposed by the **Conversion Official** in relation thereto; or
- (b) any **sponsor** or **promoter** is not complying, or has not complied, with the **Rules** or with any particular condition imposed upon it by the **Conversion Official**; or
- (c) the terms of the **conversion scheme** do not utilise the applicable prescribed documents as set out in Appendix III or such other documents as the **Conversion Official** may prescribe from time to time; or
- (d) the terms of the **conversion scheme** would be detrimental, in some respect, to the interests of **Lloyd's**.

1(11) **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 **conversion scheme**.
- (b) A **promoter** of a **conversion scheme** 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 **promoter** about, or any documentation relating to, the **conversion scheme**; and/or
  - (ii) the review or approval (whether in principle or otherwise) of any documentation relating to the **conversion scheme**; and/or
  - (iii) any ongoing administration relating to the **conversion scheme**.

1(12) **Value added tax**

- (a) Where any amount payable to **Lloyd's** under the **Rules** constitutes the (or part of) 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) References 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.

1(13) **Resignation from Lloyd's**

The resignation of an **individual member** referred to in paragraph 1(2)(a)(ii) above will be one that will not actually take effect until it is accepted by the **Council**. Until it is accepted he will remain as a **member** of **Lloyd's**. The resignation will usually take effect from the later of -

- (a) the time as from which **reinsurance to close** in respect of every **year of account** of every **syndicate** of which he is a member has taken effect; and
- (b) the time when he shall no longer have any **FAL**, whether made available to a **successor vehicle** or otherwise.

## 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 promoters must comply with, and ensure that any conversion scheme which they either sponsor or promote complies with, and is promoted in accordance with, the Rules.
- (b) **Sponsors** and **promoters** 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 **conversion scheme**;
  - (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 **conversion scheme**, as the **Conversion Official** considers appropriate in order to protect the interests of **Lloyd's**.
- (c) **Sponsors** and **promoters** must liaise with the **Conversion Official** in relation to all aspects of any **conversion scheme** which they are proposing to sponsor or promote.

#### 2(2) Enforcement

- (a) The **Conversion Official** may, at any time, require a **sponsor** and/or a **promoter** 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 a **promoter** 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 **promoter** and/or any other person who is subject to the **Rules**.

#### 2(3) Sanctions

- (a) Any breach of the **Rules** not remedied (to the extent that it is capable of remedy) to the satisfaction of the **Conversion Official** will constitute **misconduct** for the

purposes of the Enforcement Byelaw (No. 6 of 2005) and will be subject to the penalties set out in that Byelaw.

- (b) If the **Conversion Official** considers that a **sponsor** and/or a **promoter** has contravened any of the **Rules** he shall notify the **sponsor** and/or the **promoter** accordingly and shall be entitled to refer the matter to the Lloyd's Compliance Officer who may:-
  - (i) in the case of a **promoter**, 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 Enforcement Byelaw (No. 6 of 2005).



## SECTION 3

### SPONSORS

#### Scope of this section

This section sets out the requirements relating to **sponsors**. A **conversion scheme** (which includes a **promoted private arrangement**) may only be promoted to an **individual member** if a person has agreed to act as the **sponsor** of such **conversion scheme**. A **private arrangement** may only be implemented if a **sponsor** of such **private arrangement** who has been approved by the **Conversion Official** (see section 14) has been appointed. **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 **conversion scheme** which he sponsors complies at all times with the **Rules**;
  - (iv) use reasonable endeavours to ensure that the **promoter** and any other person concerned with the promotion of such **conversion scheme** 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 **conversion scheme**; 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 **conversion scheme** will not be approved as the **sponsor** of that **conversion scheme** until an **application in principle** in respect of that **conversion scheme** has been approved by the **Conversion Official** in accordance with section 5.

### 3(3) **Prohibition**

No **conversion scheme** may be promoted 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 **conversion scheme**.

### 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 sponsors, referred to in paragraph 2(3)(b)(ii).
- (b) A **sponsor** (jointly with the **promoter** of a **conversion scheme**) must:-
  - (i) in relation to any proposed **conversion scheme**, submit an **application in principle** in accordance with section 5;
  - (ii) satisfy itself that any **conversion 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 **conversion invitation** or **PPA document**, submit an application for approval in accordance with section 8; and
  - (iv) if third party funds are required to implement fully a **conversion scheme**, confirm to **Lloyd's** in writing on Form AP2 (Conversion Rules) (set out in Appendix V) that it is satisfied (having taken all reasonable steps to ensure that such is the case), that such funds are or will, on completion of the **conversion scheme**, be available.

## SECTION 4

### PROMOTERS

#### Scope of this section

This section sets out the requirements relating to **promoters**. A **conversion scheme** (which includes a **promoted private arrangement**) may only be promoted to an **individual member** if a person has agreed to act as the **promoter** of such **conversion scheme**. Only **members' agents** or such other persons (who are subject to the provisions of the **Rules**) as the **Conversion Official** may approve may act as a **promoter**. A **promoter** must undertake to **Lloyd's** to accept certain responsibilities. If the **promoter** fails to carry out these responsibilities the **Conversion Official** may seek to invoke any of the sanctions, applicable to **promoters**, referred to in paragraph 2(3)(b)(i).

#### 4(1) Qualifications

A **promoter** must:

- (a) be a **members' agent** or such other person (who is subject to the provisions of the **Rules**) as the **Conversion Official** may approve as being competent and sufficiently experienced to discharge the responsibilities of a **promoter**;
- (b) undertake in writing to **Lloyd's** on Form P1 (Conversion Rules) (set out in Appendix VI) to:-
  - (i) accept the responsibilities of a **promoter** 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 **conversion scheme** which it promotes complies at all times with the **Rules**;
  - (iv) use reasonable endeavours to ensure that any other person concerned with the promotion of such **conversion scheme** 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 a **promoter** of any **conversion scheme**.

#### 4(2) Appointment

A person who wishes to promote a **conversion scheme** will not be approved as the **promoter** of that **conversion scheme** until an **application in principle** in respect of that **conversion scheme** has been approved by the **Conversion Official** in accordance with section 5.

#### 4(3) Prohibition

No **conversion scheme** may be promoted unless a person who has applied to become a **promoter** for the purposes of paragraph 4(2) has received the written approval of the **Conversion Official** to act as the **promoter** of that **conversion scheme**.

#### 4(4) Responsibilities

- (a) The responsibilities of a **promoter**, which are owed to **Lloyd's**, are set out in this section 4 and in any undertaking or other documents which the **promoter** 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 promoters, referred to in paragraph 2(3)(b)(i).
- (b) A **promoter** (jointly with the **sponsor** of a **conversion scheme**) must:-
  - (i) in relation to any proposed **conversion scheme**, submit an **application in principle** in accordance with section 5;
  - (ii) satisfy itself that any **conversion 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 **conversion invitation** or **PPA document**, submit an application for approval in accordance with section 8; and
  - (iv) if third party funds are required to implement fully a **conversion scheme**, confirm to **Lloyd's** in writing on Form AP2 (Conversion Rules) (set out in Appendix V) that it is satisfied (having taken all reasonable steps to ensure that it is the case) that such funds are or will, on completion of the **conversion scheme**, be available.
- (c) A **promoter** must:-
  - (i) confirm to **Lloyd's** in writing on Form AP2 (Conversion Rules) (set out in Appendix V) that, to the best of its knowledge, information and belief (having made due and careful enquiry), and after having consulted with the **sponsor**, all material facts relating to the **conversion scheme** which it is promoting have been properly disclosed to the **Conversion Official** and in the **invitation document** or in the **PPA document** (as the case may be) and there are no matters (other than those disclosed in the **invitation document** or in the **PPA document** (as the case may be)) which are or could be material to an **individual member** proposing to participate in that particular **conversion scheme**;
  - (ii) provide details to **Lloyd's** of any commission payable to it or similar arrangements agreed by it in relation to a **conversion scheme**;
  - (iii) in relation to any **invitation document** or **PPA document** (as the case may be), provide, or cause to be provided, a **derogation letter** (substantially in the form set out in Appendix VII) setting out details of any part of section 7, Appendix VIII or section 14 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 **promoter**;
  - (iv) if so required by the **Conversion Official**, confirm to the **Conversion Official** in writing that any **conversion advertisement** which it is proposed should be issued or circulated outside the United Kingdom,

fully and properly complies with paragraph 1(6)(d);

- (v) at all times observe the principles set out in any applicable code of practice issued by **Lloyd's** from time to time; and
- (vi) be responsible for submitting draft documentation to the **Conversion Official** and at all times communicate and liaise with the **Conversion Official** in relation to the issue of a **conversion invitation** or a **PPA document**.

## 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 **conversion scheme** (which includes a **promoted private arrangement**). There is no requirement to submit draft documentation with an **application in principle** although a **promoter** may wish to do so. No **conversion scheme** (which includes a **promoted private arrangement**) will be approved by the **Conversion Official** and no **conversion invitation** or **PPA document** may be issued unless an **application in principle** is made to the **Conversion Official**. Approval for the issue of a **conversion invitation** (or a **PPA document**) 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 **conversion scheme** shall be made to the **Conversion Official** on Form AP1 (Conversion Rules) (set out in Appendix VIII) and must be signed by a director or other duly authorised signatory of each of the **sponsor** and the **promoter**.
- (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 provide 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** and **promoter** of the **conversion scheme** 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** which may relate to a **conversion scheme** (or a **PPA document** - see section 14).

#### 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 **conversion scheme** 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 **promoter** has complied with its obligations under paragraph 1(6) in relation to that **initial advertisement**;
- (d) the **initial advertisement** has been approved in writing by both the **sponsor** and the **promoter** of the proposed **conversion scheme**;
- (e) both the **sponsor** and the **promoter** are satisfied that a **conversion invitation** will be issued on substantially the same terms as those set out in the **initial advertisement**; and
- (f) both the **sponsor** and the **promoter** believe, on reasonable grounds, that the **conversion scheme** 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 name of and the type of **conversion scheme** to which the **initial advertisement** relates and the nature of any securities proposed to be issued to a **participant**;
- (b) state clearly that it relates to proposals only, that it does not contain or constitute an invitation or an offer and that any invitation or offer will only be made in an **invitation document** which will be issued in accordance with the **Rules**;
- (c) contain the statements and risk warnings set out in Appendix IX; and
- (d) state the date on which it is expected that the **invitation document** will be issued.

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

Immediately following the issue of any **initial advertisement**, the **promoter** of any proposed **conversion scheme** 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 X.



## SECTION 7

### REQUIREMENTS FOR CONVERSION INVITATIONS

#### Scope of this section

This section sets out the requirements relating to **invitation documents** and **PPA documents**. No **conversion invitation** may be made (or a **PPA document** issued) unless **approval in principle** has been given and an **invitation document** or a **PPA document**, as the case may be, is issued. An **invitation document** must contain the information set out in this section 7 and Appendix XI and must be issued in accordance with the provisions of section 9. A **PPA document** must, as provided in section 14, contain certain of the information required in this section 7. 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 **promoter** who promotes a **conversion scheme** or issues, or causes the issue of, an **invitation document**, a **revised invitation document** or a **PPA document**, as the case may be, otherwise than in accordance with the **Rules**, will be guilty of **misconduct**.

#### 7(1) Requirements for conversion invitation

Notwithstanding that **approval in principle** of a **conversion scheme** has been granted by the **Conversion Official**, no **conversion invitation** may be issued unless:-

- (a) an **invitation document** which complies with the provisions of this section 7 and Appendix XI is submitted to the **Conversion Official**;
- (b) the **invitation document** relating to that **conversion invitation** has been stamped by the **Conversion Official**;
- (c) the **invitation document** is issued in accordance with section 9; and
- (d) as soon as reasonably practicable after the issue of the **invitation document**, a **conversion announcement** is made in accordance with section 10.

#### 7(2) Responsibility for invitation documents

The **invitation document** must include a responsibility statement in the form set out in paragraph 2 of Appendix XI. If responsibility is to be accepted by 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(3) Form and content of invitation documents

- (a) An **invitation document** must:-
  - (i) be in the format set out in Appendix XI and include the statements which are prescribed therein;
  - (ii) contain such other information as **individual members** to whom the **conversion invitation** is directed 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 **conversion invitation**;
  - (bb) the assets, liabilities and financial position of the **successor vehicle(s)** and the issuer of any securities to be issued to **participants**;
  - (cc) the rights and obligations attaching to any securities proposed to be issued to any participants in the **conversion scheme**; and
  - (dd) the UK taxation implications of entering into the **conversion scheme**;
- (iii) contain such additional information as the **Conversion Official** may from time to time prescribe or require, in his absolute discretion; and
- (iv) 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** and the **promoter** consider should reasonably be brought to the attention of any **individual member** to whom the **conversion invitation** is directed.
- (b) Irrespective of whether a prospectus is required to be published pursuant to the **Prospectus Regulations**, where a **conversion scheme** involves the issue of **unlisted securities** to an **individual member**, the **invitation document** shall, in addition to containing the information required by the **Rules**, also contain the information which would be required by the **Prospectus Regulations**, if such a prospectus were so required.
- (c) The **Conversion Official** may require that prominence be given in the **invitation document** to important information in such manner as he considers appropriate.
- (d) **Promoters** should discuss with the **Conversion Official** as early as possible the conditions, if any, to which the **conversion invitation** is proposed to be subject.
- (e) The information to be included in an **invitation document** by virtue of paragraph 7(3)(a)(ii) shall be such information as is required by such paragraph which is within the knowledge of any person responsible for the **invitation document** or which it would be reasonable for him to obtain by making enquiries.
- (f) In determining what information is required to be included in an **invitation document** by virtue of paragraph 7(3)(a)(ii) regard shall be had:-
  - (i) to the nature of any securities and the issuer of those securities; and
  - (ii) to the nature of the **individual members** likely to consider the acquisition of such securities; and
  - (iii) to the fact that certain matters may reasonably be expected to be within the knowledge of professional advisers of any kind which those **individual members** may reasonably be expected to consult; and
  - (iv) to any information available to **individual members** or their professional

advisers by virtue of requirements imposed by the **FSA** or by or under any other enactment or by virtue of requirements imposed by any stock exchange.

7(4) **Illustrations and covers**

- (a) No graphs, charts or other illustrations may be included in an **invitation document** 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(4)(c), the cover of any **invitation document** may only contain:-
  - (i) the names of the **sponsor** and the **promoter**;
  - (ii) the name of the **conversion scheme** and/or of the **successor vehicle(s)**;
  - (iii) the name of the issuer of any securities; and
  - (iv) an accurate description of the **conversion invitation**.
- (c) Any illustrations on the cover must not be likely, in the opinion of the **Conversion Official**, to influence the judgment of any **individual member** to whom the **conversion invitation** is directed.

7(5) **Derogation**

If any information required by this section 7 or Appendix XI or elsewhere in the **Rules** is not applicable and no equivalent information is available, it need not be included in the **invitation document** provided the **Conversion Official** is informed in writing (by a **derogation letter**) and the **Conversion Official** approves the contents of such **derogation letter**.

7(6) **Delay in issuing an invitation document**

- (a) If an **invitation document** relating to a particular **conversion scheme** is not issued before the 42nd **business day** following the issue of the first **initial advertisement** relating to that **conversion scheme**, or, if earlier, before the 25th **business day** before the first day of the last **auction** in which **individual members** could tender their **prospective participations**, the **promoter** shall give written notice to each of the **individual members** to whom the **invitation document** would otherwise have been sent:-
  - (i) as to whether, in its reasonable opinion, the **conversion scheme** is likely to be implemented; and
  - (ii) giving details of the dates of any remaining **auctions**.
- (b) Where an **advertisement** relating to a particular **conversion scheme** has been issued and the **promoter** believes that there is no reasonable prospect of that **conversion scheme** being implemented in substantially the form advertised, the **promoter** shall forthwith:-
  - (i) notify the **Conversion Official** in writing thereof;

- (ii) notify each of the **individual members** 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(7) **Approval process**

- (a) The first draft of any **invitation document** (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 **invitation document** (and any related **derogation letter**) not more than 7 **business days** after the documentation has been submitted to him. The **Conversion Official** will use reasonable endeavours to provide comments on any subsequent draft document not more than 5 **business days** after submission.
- (c) If so requested by the **Conversion Official**, the **sponsor** and **promoter** 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 **conversion scheme**; or
  - (ii) require to be included in the **invitation document**.

## 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 issue of a **conversion invitation** (or of a **PPA document** - see section 14).

#### 8(1) General

- (a) An application for approval to issue a **conversion invitation** will only be approved by the **Conversion Official** when the **invitation document** relating to that **conversion invitation** has been stamped by the **Conversion Official**.
- (b) The **Conversion Official** will not grant approval for the issuing of a **conversion invitation** until each of the documents referred to in paragraph 8(2) has been lodged with the **Conversion Official**.

#### 8(2) Approval documents

The following documents (other than those referred to in paragraph 8(2)(g) which may be in draft form) must be submitted in final form to the **Conversion Official** no later than 3 **business days** prior to the date on which it is proposed to issue the **conversion invitation**:-

##### (a) Application for approval

An application for approval to issue a **conversion invitation** on Form AP2 (Conversion Rules) (set out in Appendix V) signed by a director or other duly authorised signatory of each of the **sponsor** and the **promoter**.

##### (b) Invitation document

3 copies of the **invitation document** satisfying all relevant requirements for the contents of such document.

##### (c) Application form

3 copies of the application form relating to the **conversion invitation**.

##### (d) Derogation letter

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(7), an appropriate legal opinion signed by US counsel.

(g) **Transition arrangements**

In the case of a **conversion scheme** which is a **transition arrangement**, such additional documents as may be prescribed by the **Conversion Official** from time to time.

(h) **Reverse interavailability arrangements**

In the case of a **conversion scheme** which is a **reverse interavailability arrangement**, drafts of such documents as may be prescribed by the **Conversion Official** from time to time.

## SECTION 9

### ISSUE OF INVITATION DOCUMENTS

#### Scope of section

This section sets out the requirements which must be satisfied before an **invitation document** (or a **PPA document** - see section 14) can be issued to **individual members**. In certain circumstances, an obligation to issue a **revised invitation document** (or a **revised PPA document**) setting out additional or amended information may arise.

#### 9(1) Conditions to issue

An **invitation document** must not be issued to any person unless:-

- (a) such document has been stamped by the **Conversion Official**;
- (b) the **invitation document** has been prepared in accordance with section 7 and Appendix XI; and
- (c) each **individual member** to whom the **invitation document** is issued:
  - (i) has an agreement in the form of the **standard members' agent's agreement** with the **promoter**; or
  - (ii) has indicated in writing to the **promoter** that he wishes to receive a copy of the **invitation document**.

#### 9(2) Issue of an invitation document

An **invitation document** or a **revised invitation document** will be issued if it is delivered by hand or posted by first class post or airmail to such **individual members** as are referred to in paragraph 9(1)(c).

#### 9(3) Revised invitation documents

- (a) The **sponsor** and the **promoter** shall notify the **Conversion Official** forthwith in writing if, at any time before the **conversion invitation** contained in an **invitation document** closes or lapses, either of them:-
  - (i) becomes aware that there has been a significant change affecting any matter set out in the **invitation document**; 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 **invitation document**; or
  - (iii) wishes to amend any of the terms of the **conversion invitation** set out in the **invitation document**.
- (b) For the purpose of paragraph 9(3)(a) "significant" means significant for the purpose of making an informed assessment of the matters referred to in paragraph

7(3)(a)(ii).

- (bb) An extension of the date on which a **conversion scheme** closes is not to be regarded as a matter falling within paragraph 9(3)(a).
- (c) If the **sponsor** and/or **promoter** notifies the **Conversion Official** pursuant to paragraph 9(3)(a), the **promoter** shall, as soon as reasonably practicable following such notification, issue or procure the issue of a **revised invitation document** which complies with this paragraph 9(3).
- (d) Paragraph 9(3)(a) and (c) apply also as respects matters contained in any **revised invitation document** previously issued in relation to any **conversion scheme**.
- (e) The **sponsor** and the **promoter** shall submit or procure the submission of an application for approval to issue a **revised invitation document**, together with a final draft of that document to the **Conversion Official** no less than 3 **business days** prior to the date on which it is proposed to issue such **revised invitation document**.
- (f) A **revised invitation document** must:-
  - (i) give details of any change, new matter or amendment;
  - (ii) contain the responsibility statement set out in paragraph 2 of Appendix XI;
  - (iii) contain a statement that, save as disclosed, there has been no significant change and no amendment to the terms of the **conversion invitation** contained in the **invitation document** and no significant new matter has arisen since the issue of the previous **invitation document** or **revised invitation document** (as the case may be); and
  - (iv) be issued to each of the **individual members** to whom the original **invitation document** was sent in accordance with paragraph 9(2).
- (g) A **revised invitation document** must not be issued to any person unless it complies with the applicable provisions of paragraphs 9(3)(f) and has been stamped by the **Conversion Official**.
- (h) Where an **invitation document** contains a statement that the terms of the **conversion invitation** contained in it will not be extended or revised, the **Conversion Official** will not approve any extension or revision to the terms of the **conversion invitation** unless he considers, in his absolute discretion, that any such extension or revision is in the interests of the **individual members** to whom the **invitation document** was directed.
- (i) If, following the date on which an **invitation document** has been issued, a **conversion invitation** is extended to any overseas **individual members** then irrespective of whether the **invitation document** referred to the possibility of such extension, such extension will be deemed to be a significant change for the purposes of paragraph 9(3)(a) and the **conversion invitation** must be held open for the further periods referred to in paragraph 12(1)(b).
- (j) If a **conversion invitation** is extended in accordance with paragraph 9(3)(i), the



**promoter** must forthwith confirm to the **Conversion Official** that it has complied with paragraph 1(6)(d).

## SECTION 10

### CONVERSION AND OTHER ANNOUNCEMENTS

#### Scope of this section

This section sets out the requirements relating to the contents and issue of a **conversion announcement** (and the issue of an announcement following the issue of a **PPA document** - see section 14). All **conversion 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 **promoter** may select.

#### 10(1) Conditions to issue

A **conversion announcement** must not be issued to any person unless:-

- (a) an **invitation document** in respect of the **conversion scheme** which is the subject of the **conversion announcement** has been stamped by the **Conversion Official**;
- (b) the **conversion announcement** has been prepared in accordance with paragraph 10(2);
- (c) the **promoter** has complied with his obligations under paragraph 1(6) in relation to the **conversion announcement**; and
- (d) the **conversion announcement** has been approved in writing by both the **sponsor** and the **promoter** of the proposed **conversion scheme**.

#### 10(2) Form and content

A **conversion announcement** must:-

- (a) clearly identify the name and type of **conversion scheme** and the **successor vehicle(s)** to which the **conversion announcement** relates and the nature of any securities proposed to be issued to a **participant**;
- (b) state that a **conversion invitation** has been made in an **invitation document** which has been issued in accordance with the **Rules**;
- (c) state where copies of the **invitation document** can be obtained; and
- (d) contain the statements and risk warnings set out in Appendix IX.

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

Immediately following the issue of any **conversion announcement**, the **promoter** of the **conversion scheme** to which the **conversion announcement** relates must submit, or cause to be submitted, to the **Conversion Official**, 2 copies of the **conversion announcement** together with a letter in the form set out in Appendix X.

#### 10(4) Requirement to issue conversion announcement

A **promoter** of a **conversion scheme** must issue, or cause to be issued, a **conversion**

**announcement** in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **promoter** may select, as soon as reasonably practicable, following the date on which an **invitation document** or **revised invitation document**, as the case may be, was first issued.

## SECTION 11

### CONDITIONS FOR CONVERSION SCHEMES

#### Scope of this section

This section sets out the conditions to which any **conversion scheme** and the acceptance by any **participant** must be expressed to be subject. It also covers the conditions relating to **promoted private arrangements** - see section 14.

#### 11(1) Conditions for conversion schemes

- (a) A **conversion scheme** (and any contract created by the acceptance of an application form) must be stated to be conditional upon:-
  - (i) the **successor vehicle(s)** being admitted as a **corporate member** and being granted permission to underwrite with effect from 1 January in the **year of account** immediately following the **year of account** in which the **conversion invitation** relating to such **conversion scheme** is made;
  - (ii) the **successor vehicle(s)** not having underwritten any business with an inception date earlier than 1 January in the **year of account** immediately following the **year of account** in which the **conversion invitation** relating to such **conversion** scheme is made; and
  - (iii) in the case of a **transition arrangement**, the satisfaction of such other conditions, which may be prescribed by the **Conversion Official** from time to time.

#### 11(2) Condition for successor vehicle(s)

A **successor vehicle** must not have engaged in any previous business or commercial activity except for the purposes of applying to become a **corporate member** or raising any funds required to enable it to do so.

#### 11(3) Conditions for accepting members

- (a) The acceptance of any **participant** must be conditional upon such **participant** confirming that he:-
  - (i) has met each and every **request for funds** duly made;
  - (ii) is in compliance with all applicable requirements of **Lloyd's** relating to solvency;
  - (iii) has, subject to his application being accepted, resigned his membership of **Lloyd's** with the effect described in paragraph 11(3)(c); and
  - (iv) (in the case of a **conversion scheme** relating to an **interavailability arrangement** or a **reverse interavailability arrangement**), subject to his application being accepted, will deliver to **Lloyd's** each of the prescribed documents referred to in paragraph 13(2) (as applicable) duly executed by him or on his behalf.

- (b) Any **individual member** who wishes to participate in a **conversion scheme** relating to a **transition arrangement**, must give the additional confirmations prescribed by the **Conversion Official** from time to time.
- (c) The resignation referred to in paragraph 11(3)(a)(iii) above is one that will not actually take effect until it is accepted by the **Council**. Until it is accepted the **participant** will remain as a **member** of **Lloyd's**. The resignation will usually take effect from the later of -
  - (a) the time as from which **reinsurance to close** in respect of every **year of account** of every **syndicate** of which the **participant** is a member has taken effect; and
  - (b) the time when the **participant** shall no longer have any **FAL**, whether made available to a **successor vehicle** or otherwise.

## SECTION 12

### CONDITIONS FOR ACCEPTANCES

#### Scope of this section

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

#### 12(1) Acceptance periods

- (a) Any **conversion invitation** contained in an **invitation document** must be stated to be open for acceptance for at least 15 **business days** following the date on which the **invitation document** was first issued (or, if the **conversion invitation** is directed to **US individual members**, for at least 20 **US business days** following the date on which the **invitation document** was first issued in the **United States** (or if such date of issue was not a **US business day**, the next following **US business day**)).
- (b) Any **conversion invitation** contained in a **revised invitation document** must be stated to be open for acceptance for at least 10 **business days** following the date on which the **revised invitation document** was first issued (or, if the **conversion invitation** is directed to **US individual members**, for at least 10 **US business days** following the date on which the **revised invitation document** was first issued in the **United States** (or if such date of issue was not a **US business day** the next following **US business day**)).
- (c) A **conversion invitation** must either close or lapse by the **prescribed date** in each year (or such later date as the **Conversion Official** may in any particular case so agree).

#### 12(2) Announcement of acceptances

- (a) Following the issue of an **invitation document** if:
  - (i) the **conversion invitation** lapses; or
  - (ii) an **individual member's** application is rejected or his **prospective participations** (or any part thereof) are not accepted by the **successor vehicle(s)**

the **promoter** shall as soon as reasonably practicable write to any affected **individual member** stating such fact.

- (b) Following the issue of an **invitation document**, if:
  - (i) the **conversion invitation** is declared or becomes unconditional as to acceptances; and/or
  - (ii) the **conversion invitation** is revised or extended; and/or
  - (iii) the amount of **prospective participations** sought is changed; and/or

- (iv) the consideration is changed; and/or
- (v) the amount of any fee to be paid to a US registered broker dealer in connection with its solicitation of applications by **US individual members** for the **conversion invitation** is changed

the **conversion invitation** must remain open for a further 10 **business days** following the date on which such change was first announced (or, if the **conversion invitation** is directed to **US individual members**, for a further 10 **US business days** following the date on which such change was first announced in the **United States**) and the **promoter** shall comply with paragraph 9(3) and shall, as soon as reasonably practicable, issue, or cause to be issued, an announcement which complies with paragraph 12(2)(c).

(c) Any announcement made under paragraph 12(2)(b) must:-

- (i) not be issued to any person unless, in the case of a **conversion invitation** in respect of which an obligation under paragraph 9(3) to issue a **revised invitation document** arises, a **revised invitation document** in respect of the **conversion scheme** which is the subject of the announcement has been stamped by the **Conversion Official**;
- (ii) clearly identify the name and type of **conversion scheme** and the **successor vehicle(s)** to which the announcement relates and the nature of any securities proposed to be issued to a **participant**;
- (iii) indicate the aggregate amount of **prospective participations** which are the subject of the **conversion invitation** in respect of which, at the date of the announcement, applications have been received;
- (iv) state that a **conversion invitation** has been made in an **invitation document** which has been issued in accordance with provisions of the **Rules**;
- (v) state where copies of the **invitation document** and any **revised invitation document** can be obtained;
- (vi) comply with paragraph 1(6);
- (vii) be approved in writing by both the **sponsor** and the **promoter** of the **conversion scheme**; and
- (viii) contain the statements and risk warnings set out in Appendix IX.

### 12(3) **Submission to Conversion Official**

Immediately following the issue of any announcement pursuant to this section 12, the **promoter** of the **conversion scheme** 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 X.

### 12(4) **Requirement to issue announcement**

A **promoter** of a **conversion scheme** must issue, or cause to be issued, any

announcement required by this section 12 as soon as reasonably practicable following any of the events referred to in paragraph 12(2)(b), in Auction News or in such other manner as the **Conversion Official** may approve and in such other publications as the **promoter** may select.



## SECTION 13

### COMPLETION REQUIREMENTS

#### Scope of this section

This section sets out the conditions, requirements and procedures relating to completing the arrangements for implementation of a **conversion scheme** or a **private arrangement**.

#### 13(1) Completion documents

No later than the **prescribed date** in each year, the **completion documents** referred to in paragraph 13(2) must be furnished to the **Conversion Official** or as he shall direct.

#### 13(2) Completion arrangements

A promoter must:-

- (a) as soon as practicable after the **conversion scheme** is closed or the **private arrangement** is finalised and no later than the **prescribed date** in each year, supply to **Lloyd's**:-
  - (i) details of all **individual members** who have applied to participate in the **conversion scheme** or **private arrangement**;
  - (ii) in the case of an **interavailability arrangement**, a schedule (in the format provided by the Members' Services Unit) for each **individual member**, detailing the **Lloyd's deposit** to be made interavailable;
  - (iii) in relation to a **reverse interavailability arrangement**, such information in respect of each **individual member** and details of the **Lloyd's deposit** to be released, as may be prescribed by the **Conversion Official** from time to time;
- (b) use its reasonable endeavours to complete all arrangements and documents relating to or required to implement the **conversion scheme** including completed interavailability deeds as soon as possible but by no later than the **prescribed date**;
- (c) comply with all reasonable requests and directions made by the **Conversion Official** in relation to completing such matters;
- (d) if so requested by the **Conversion Official**, attend a completion meeting at Lloyd's in either London or Chatham to sign off, where applicable, the relevant interavailable trust deeds;
- (e) if applicable, in relation to an **interavailability arrangement** and a **reverse interavailability arrangement**, forward to **Lloyd's** a written form of consent to the transfer of personal reserve fund duly executed by the **members' agent**;
- (f) in relation to a **reverse interavailability arrangement**, forward to **Lloyd's**:
  - (i) a letter from the **successor vehicle(s)** requesting **Lloyd's** to make its **Lloyd's deposit** interavailable; and

- (ii) such deeds as may be prescribed by the **Conversion Official** from time to time; and
- (g) in relation to a **transition arrangement**, forward to **Lloyd's** such deeds as may be prescribed by the **Conversion Official** from time to time.

## SECTION 14

### PRIVATE ARRANGEMENTS AND PROMOTED PRIVATE ARRANGEMENTS

#### Scope of this section

This section sets out the requirements of the **Rules** which apply to **private arrangements** and **promoted private arrangements**.

A **private arrangement** is an arrangement where an **individual member**, either on his own or together with other **individual members** who are members of his family transfers his, or they each transfer their, unlimited liability underwriting business to a specially formed **corporate member** or **SLP**. A **private arrangement** may also involve the members of an **employee group** who wish to convert to a **corporate member** or **SLP**. It is not anticipated that any form of public advertising or other promotion relating to a **private arrangement** will take place. However, a **members' agent** will be permitted to make **individual members**, for whom it acts as a **members' agent**, aware of the availability of this type of arrangement. No **application in principle** in relation to a **private arrangement** need be made and only limited documentation need be submitted to the **Conversion Official**.

**Promoted private arrangements** are arrangements which are substantially similar in nature which are offered to a number of **individual members** allowing them each to transfer their unlimited liability underwriting business to separate specially formed **corporate members** or **SLPs**. Although the **Rules** relating to issuing **advertisements** apply to the promotion of a **promoted private arrangement** it is not anticipated that any **invitation document** will be issued in relation to such an arrangement since the implementation of such an arrangement will take place on a case by case basis. It is however anticipated that the **sponsors/promoters** of a **promoted private arrangement** will wish to issue a **PPA document**. Approval to the implementation of a **promoted private arrangement** must also be obtained from the **Conversion Official** before a **PPA document** may be issued.

#### 14(1) General requirements

The general principles set out in section 1 and the provisions regarding compliance with, and enforcement of, the **Rules** set out in section 2 apply to any activities relating to a **private arrangement** or a **promoted private arrangement**.

#### 14(2) Private arrangement

- (a) A **members' agent** may act as **sponsor** of a **private arrangement** subject to it receiving notification in writing from the **Conversion Official** to the effect that the **Conversion Official** is satisfied that that **members' agent** is competent and sufficiently experienced to discharge the responsibilities of a **sponsor** in relation to the **private arrangement** intended to be sponsored.
- (b) No **private arrangement** shall be implemented by someone other than a **members' agent** unless a person whose name appears in the **Register of Sponsors** has been approved in writing by the **Conversion Official** to act as **sponsor** of that **private arrangement**.
- (c) The **sponsor** of a **private arrangement** (who is not a **members' agent**) must comply with paragraphs 3(1), 3(2) and 3(4)(a).

- (d) A **members' agent** who proposes to implement a **private arrangement** must comply with paragraph 4(1).
- (e) A **members' agent** who is implementing a **private arrangement** must submit to the **Conversion Official** by the **prescribed date** a letter of confirmation from the **members' agent** in the **prescribed form** set out in Appendix XII.
- (f) a **participant** in a **private arrangement** must provide a letter in the **prescribed form** (set out in Appendix XV) to the **Conversion Official** by the **prescribed date**.

#### 14(3) **Promoted private arrangements**

- (a) No **promoted private arrangement** shall be promoted unless:-
  - (i) a person whose name appears in the **Register of Sponsors** and has been approved in writing by the **Conversion Official** to act as **sponsor** of that **promoted private arrangement**; and
  - (ii) a **members' agent** or another person, has been approved in writing by the **Conversion Official**, to act as **promoter** of that **promoted private arrangement**.
- (b) The **sponsor** of a **promoted private arrangement** must comply with section 3.
- (c) The **promoter** of a **promoted private arrangement** must comply with section 4.

#### 14(4) **Application in principle**

No **promoted private arrangement** may be promoted to any **individual member** unless an **application in principle** in respect of such **promoted private arrangement** has been made to, and approved in writing by, the **Conversion Official** in accordance with section 5.

#### 14(5) **Advertisements**

No **advertisement** relating to a **promoted private arrangement** may be issued unless:-

- (a) compliance is made with the relevant paragraphs set out in section 1; and
- (b) compliance is made with section 6.

#### 14(6) **Requirements for PPA documents**

Notwithstanding that **approval in principle** to a **promoted private arrangement** has been granted by the **Conversion Official**, no **PPA document** may be issued to any **individual member** unless:-

- (a) a **PPA document** which complies with the provisions of this section 14 and the applicable paragraphs of Appendix XI is submitted to the **Conversion Official**;
- (b) the **PPA document** has been stamped by the **Conversion Official**;
- (c) the **PPA document** is issued in accordance with section 9; and

- (d) as soon as reasonably practicable after the issue of a **PPA document**, an announcement is made in accordance with section 10.

14(7) **Responsibility**

The **PPA document** must include a responsibility statement in the form set out in paragraph 2 of Appendix XI. If responsibility is to be accepted by 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.

14(8) **Form and content**

- (a) A **PPA document** must:-

- (i) be in the format set out in Appendix XI and include the statements which are prescribed therein which are applicable to a **promoted private arrangement**;
- (ii) contain such other information as **individual members** to whom the **PPA document** is sent 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 **promoted private arrangement**;
  - (bb) the assets, liabilities and financial position of the **successor vehicle(s)** and the issuer of any securities to be issued to **individual members**;
  - (cc) the rights and obligations attaching to any securities proposed to be issued to any participants in the **promoted private arrangement**; and
  - (dd) the UK taxation implications of entering into the **promoted private arrangement**;
- (iii) contain such additional information as the **Conversion Official** may from time to time prescribe or require, in his absolute discretion;
- (iv) 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** and the **promoter** consider should reasonably be brought to the attention of any **individual members** to whom the **PPA document** is sent; and
- (v) comply with the provisions of paragraphs 7(3)(b) and (c), 7(4), 7(5), 7(6) and 7(7).

- (b) The information to be included in a **PPA document** by virtue of paragraph 14(8)(a)(ii) shall be such information as is required by such paragraph which is within the knowledge of any person responsible for the **PPA document** or which

it would be reasonable for him to obtain by making enquiries.

(c) In determining what information is required to be included in a **PPA document** by virtue of paragraph 14(8)(a)(ii) regard shall be had:-

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

#### 14(9) **Issue of PPA documents**

No person may issue a **PPA document** unless compliance is made with sections 8, 9, 10, 11 and 13.

#### 14(10) **Interpretation**

For the purposes of this section 14, all references in the previous sections of the **Rules** shall be read as if

- (a) all references in such paragraphs to a **conversion scheme** are references to a **private arrangement** or a **promoted private arrangement** (as the case may be);
- (b) all references in such paragraphs to an **invitation document** are to a **PPA document**; and
- (c) all references in such paragraphs to a **conversion invitation** are to a **promoted private arrangement** or a **PPA document** (as the context requires).

## SECTION 15

### GENERAL EFFECT OF (REVERSE) INTERAVAILABILITY ARRANGEMENTS IN THE CONTEXT OF CONVERSION SCHEMES AND (PROMOTED) PRIVATE ARRANGEMENTS

#### Scope of this section

This section sets out the general effect of an **interavailability arrangement** (including a **reverse interavailability arrangement**) on an **individual member** of **Lloyd's** in the context of a **conversion scheme** or **private arrangement** (including a **promoted private arrangement**) which he may have already entered into in a past year or which he may enter into during 2006 or in the future.

#### 15(1) Types of conversion schemes

There are a number of different types of **conversion schemes** which an **individual member** may have entered into in the past or may be contemplating entering into during 2006 or in the future. All of these schemes are designed to provide a mechanism to enable the **individual member** to convert to underwriting through a **successor vehicle** with limited liability (being either a **body corporate** or an **SLP**). Following conversion, the **successor vehicle** will for future years of account carry on the **member's** underwriting (or part of it) in his place, and he will have no direct liability for the same so far as concerns outside insurance creditors. However, the **successor vehicle** will not assume any responsibility for the past underwriting business of the converting **individual member**, and he will continue to be directly liable to outside insurance creditors in respect of it.

The different types of **conversion scheme** available at present (and hitherto) include:-

- (a) an **interavailability arrangement**, requiring the member to enter into the appropriate prescribed trust deeds at **Lloyd's** (currently those referred to in Appendix III); or
- (b) a **reverse interavailability arrangement**, again utilising prescribed documents.

#### 15(2) An interavailability arrangement

An **interavailability arrangement** involves the **individual member** making all or a part or parts of his **Lloyd's deposit** interavailable to support the underwriting of the applicable **successor vehicle**. Once all of the **individual member's** own underwriting liabilities from his personal underwriting have been provided for and all of his open years have been reinsured to close, any remaining part of his **Lloyd's deposit** that has not ended up being made interavailable in this way can normally be returned to him. However, he will not normally have returned to him at that time such of his **Lloyd's deposit** as has been made interavailable. This will normally need to continue to be held by **Lloyd's** as part of his **FAL** to support the underwriting business of the **successor vehicle**. It will not normally be able to be returned to the converting **individual member** unless and until substitute security acceptable to **Lloyd's** has been provided in respect of **open years** of the **successor vehicle** or all of the **successor vehicle's** own **open years** and run off **years of account** have themselves been closed by **reinsurance to close**.

On entering into the **conversion scheme** the **individual member** will normally be

required to tender his resignation from **Lloyd's**. However, it is important to appreciate that this resignation will not actually take effect until it is accepted by the **Council**. Until it is accepted he will remain as a **member** of **Lloyd's**, and will continue to be subject to its rules and byelaws and the requirements of the **Council**. Such resignation will usually take effect from the later of -

- (a) the time as from which **reinsurance to close** in respect of every **year of account** of every **syndicate** of which he is a member has taken effect; and
- (b) the time when he shall no longer have any **FAL**, whether made interavailable to a **successor vehicle** or otherwise.

The amount of the **individual member's Lloyd's deposit** which is for the time being to be made interavailable to support the underwriting of a **successor vehicle** will be the amount thereof contained in "the Specified Fund" relating to the **successor vehicle** in question, as specified in that **successor vehicle's** Deed of Adherence and any applicable Deed or Deeds of Addition (all prescribed Deeds that will have been executed by the **individual member** himself, or by a duly authorised attorney on his behalf, as well as by **Lloyd's** and the applicable **successor vehicle**, and which will have been expressed to be supplemental to the **individual member's** applicable interavailable Deposit Trust Deed or Security and Trust Deed). The initial amount so made interavailable will be the amount of that **individual member's Lloyd's deposit** which is expressed to be made interavailable in the schedule for that **individual member** supplied to Lloyd's by the applicable **promoter** in accordance with paragraph 13(2)(a)(ii) above, and it will be that amount which will be appropriated to the applicable Specified Fund and be specified in the Schedule to the **successor vehicle's** Deed of Adherence. If any amount is subsequently added to the Specified Fund by the **individual member** (whether by the execution of a Deed of Addition or in any other way) then the sum for the time being required from the **individual member** by way of **Lloyd's deposit** in connection with the underwriting business of the **successor vehicle** (as well as or instead of his own underwriting business) will be increased from the date of such addition by the amount which is added.

### 15(3) A reverse interavailability arrangement

A **reverse interavailability arrangement** is the reverse of an **interavailability arrangement**. Instead of the converting **individual member's Lloyd's deposit** being made available in whole or in part to support the future underwriting business of the applicable **successor vehicle**, that **successor vehicle's** own **Lloyd's deposit** is made available (in whole or in part) to support the past underwriting business at **Lloyd's** of the **individual member**. Depending on his solvency position, that **individual member's** own **Lloyd's deposit** may be retained by Lloyd's (in whole or in part), but solely to support his own past underwriting business and not that of the **successor vehicle**. The **individual member** will remain personally liable to outside insurance creditors in respect of his past **years of account**, to the extent that such liabilities are not able to be discharged out of his own **FAL** and the particular fund made reverse interavailable for his benefit by the **successor vehicle**. The **successor vehicle** has no other liability for those insurance creditors beyond the particular fund in question.

Once all of the **individual member's** own underwriting liabilities from his personal underwriting have been provided for, and all of his **open years** have been reinsured to close, any remaining part of his own **Lloyd's deposit** then still held by Lloyd's can normally be returned to him.



Once this has happened, and he no longer has any **FAL**, the **Council** will normally be in a position to accept his resignation from **Lloyd's**. When that acceptance occurs, he will cease to be a **member** of **Lloyd's**.

## DEFINITIONS

1 In these **Rules**, unless the context otherwise requires, the following terms shall have the meanings given below:-

<b>advertisement</b>	means a financial promotion in accordance with section 21(1) of FSMA;
<b>Agency Agreements Byelaw</b>	means the Agency Agreements Byelaw (No. 8 of 1988);
<b>application in principle</b>	means an application for <b>approval in principle</b> of a <b>conversion scheme</b> made in accordance with section 5;
<b>approval in principle</b>	means the grant by the <b>Conversion Official</b> of approval in principle of a <b>conversion scheme</b> ;
<b>associate</b>	means in relation to any person: <ul style="list-style-type: none"><li>(a) that person's <b>close relative</b>; or</li><li>(b) if that person is a <b>body corporate</b>, any director, employee or <b>LLP Member</b> of that person or any <b>connected company</b> of that person; or</li><li>(c) any <b>body corporate</b> of which that person is a director, an employee or a <b>LLP Member</b>; or</li><li>(d) any person who is an employee or partner of that person; or</li><li>(e) any <b>connected company</b> of that person;</li></ul>
<b>auction</b>	means an auction within the meaning of paragraph 1 of the Auction Byelaw (No. 14 of 1997);
<b>authorised person</b>	means a person who is an authorised person for the purposes of the <b>FSMA</b> , (which, for the avoidance of doubt, shall include a member of a designated professional body);
<b>body corporate</b>	shall have the meaning ascribed thereto in the Companies Act 1985 and includes, for the avoidance of doubt, a <b>LLP</b> ;
<b>business day</b>	means a day on which the banks in the City of London are open for the conduct of ordinary business;

<b>cash alternative</b>	means an alternative form of consideration comprising cash, available to an <b>individual member</b> who enters into a <b>swap arrangement</b> ;
<b>close relative</b>	means a person's spouse, his children and step-children, his parents and step-parents, his brothers and sisters and his step-brothers and step-sisters;
<b>closed years</b>	means any <b>years of account</b> of a <b>syndicate</b> on which a <b>member</b> has participated which have been closed by <b>reinsurance to close</b> ;
<b>completion documents</b>	means the documents referred to in paragraph 13(2);
<b>connected company</b>	means in relation to any person:- <ul style="list-style-type: none"> <li>(a) a <b>body corporate</b> which is <b>controlled</b> by that person;</li> <li>(b) if that person is a <b>body corporate</b>, any other body corporate which is controlled by that person or any <b>body corporate</b> which <b>controls</b> that person or any <b>body corporate</b> which is controlled by the same <b>body corporate</b> which <b>controls</b> that person;</li> </ul>
<b>connected individuals</b>	means persons each of whom is or is to be:- <ul style="list-style-type: none"> <li>(a) a director or manager of a <b>successor vehicle</b>; or</li> <li>(b) a director or manager of the <b>holding company</b> of a <b>successor vehicle</b>; or</li> <li>(c) in the case of an <b>SLP</b>, a director or manager of the operator of the <b>SLP</b>; or</li> <li>(d) a <b>close relative</b> of any person falling within sub-paragraphs (a) to (c) above; or</li> <li>(e) in the case of an <b>SLP</b>, in relation to any limited partner each of the other limited partners who are close relatives of that limited partner; or</li> <li>(f) in the case of <b>successor vehicle</b> which is a <b>LLP</b>, in relation to a <b>LLP Member</b> each of the other <b>LLP Members</b> who</li> </ul>

	are close relatives of that <b>LLP Member</b> ;
<b>control</b>	has the meaning given thereto in the Definitions Byelaw (No. 7 of 2005) and “ <b>controlled</b> ” shall be construed accordingly;
<b>conversion advertisement</b>	means an <b>initial advertisement</b> , an <b>invitation document</b> , a <b>revised invitation document</b> , a <b>PPA document</b> , a <b>conversion announcement</b> or any other <b>advertisement</b> of any nature whatsoever which relates to a <b>conversion scheme</b> ;
<b>conversion announcement</b>	means an announcement issued by the <b>promoter</b> outlining the terms of any <b>conversion invitation</b> contained in an <b>invitation document</b> or a <b>revised invitation document</b> in accordance with section 10;
<b>conversion invitation</b>	means any invitation to an <b>individual member</b> to participate in a <b>conversion scheme</b> ;
<b>Conversion Official</b>	means the person appointed pursuant to paragraph 5A(1) of the Conversion and Related Arrangements Byelaw (No. 22 of 1996) and shall include, 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;
<b>conversion scheme</b>	means an <b>interavailability arrangement</b> , a <b>reverse interavailability arrangement</b> , a <b>transition arrangement</b> or a <b>swap arrangement</b> which is promoted to two or more <b>individual members</b> who participate in such arrangement with the same or a different <b>successor vehicle(s)</b> or <b>issuer(s)</b> in substantially similar terms and with the same <b>sponsor</b> and <b>promoter</b> (and which for the avoidance of doubt, includes (where the context requires) a <b>promoted private arrangement</b> );
<b>corporate member</b>	means a member of <b>Lloyd’s</b> which is a <b>body corporate</b> or a <b>Scottish limited partnership</b> ;
<b>Council</b>	means the Council of <b>Lloyd’s</b> as constituted by Section 3 of <b>Lloyd’s Act 1982</b> and includes its delegates and persons by whom it acts;
<b>derogation letter</b>	means the letter (substantially in the form of that set out in Appendix VII) referred to in paragraph

	4(4)(c);
<b>designated professional body</b>	means a body designated by the Treasury under section 326 of FSMA for the purpose of Part XX of FSMA;
<b>employee group</b>	two or more <b>individual members</b> who are connected with an <b>underwriting agent</b> by reason of their current employment;
<b>FAL</b>	means funds at Lloyd's;
<b>FSMA</b>	means the Financial Services and Markets Act 2000;
<b>holding company</b>	has the meaning ascribed thereto in section 736 of the Companies Act 1985 (including, where the context requires, the meaning as modified by the LLP Regulations);
<b>individual member</b>	means a member of <b>Lloyd's</b> who is an individual;
<b>initial advertisement</b>	means any <b>advertisement</b> (other than an <b>invitation document</b> , a <b>revised invitation document</b> , a <b>PPA document</b> , or a <b>conversion announcement</b> ) inviting an <b>individual member</b> to participate in a <b>conversion scheme</b> or a <b>promoted private arrangement</b> or containing information calculated to lead directly or indirectly to any <b>individual member</b> doing so and for the avoidance of doubt shall not include any <b>advertisement</b> relating to the conversion process generally which does not refer to a particular <b>conversion scheme</b> or <b>promoted private arrangement</b> ;
<b>interavailability arrangement</b>	means any arrangement whereby an <b>individual member's Lloyd's deposit</b> is held so as to provide security both for his past underwriting business at <b>Lloyd's</b> and the future underwriting business of any <b>successor vehicle</b> whether by way of variation or modification of the trusts, powers, terms, conditions and other arrangements under which his <b>Lloyd's deposit</b> is held;
<b>invitation document</b>	means a document containing a <b>conversion invitation</b> ;
<b>issuer</b>	means a <b>successor vehicle</b> or a <b>connected company</b> of a <b>successor vehicle</b> which issues securities to <b>individual members</b> pursuant to a <b>swap arrangement</b> ;

<b>limited liability partnership or LLP</b>	means a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000;
<b>Lloyd's</b>	means the Society incorporated by Lloyd's Act 1871;
<b>Lloyd's deposit</b>	means in relation to an <b>individual member</b> , any part of that <b>member's FAL</b> which is held under the terms of a standard Lloyd's Deposit Trust Deed or a standard Lloyd's Security and Trust Deed each in a form prescribed by the <b>Council</b> from time to time;
<b>LLP Member</b>	means a member of a <b>LLP</b> ;
<b>LLP Regulations</b>	means the Limited Liability Partnership Regulations 2001;
<b>managing agent</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>member</b>	means as the context requires, an <b>individual member</b> or a <b>corporate member</b> ;
<b>members' agent</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>member's syndicate premium limit</b>	has the meaning given to it in the Definitions Byelaw (No. 7 of 2005);
<b>Membership and Underwriting Requirements</b>	means the Membership & Underwriting Requirements (Corporate Member) and the Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) made under the Membership Byelaw (No. 5 of 2005);
<b>misconduct</b>	has the meaning ascribed thereto in the Enforcement Byelaw (No. 6 of 2005);
<b>open years</b>	means any <b>years of account</b> of a <b>syndicate</b> on which a <b>member</b> has participated which have not been closed by <b>reinsurance to close</b> ;
<b>participant</b>	means an <b>individual member</b> who takes part in a <b>conversion scheme</b> or a <b>private arrangement</b> ;
<b>participation nomination</b>	means a nomination such as is referred to in clause 11A.2 of an agreement in the terms of the <b>standard managing agent's agreement</b> ;
<b>PPA announcement</b>	means an announcement issued by the <b>promoter</b>

	announcing the terms of any <b>promoted private arrangement</b> contained in a <b>PPA document</b> or <b>revised PPA document</b> in accordance with section 10;
<b>PPA document</b>	means a document which sets out full details of a <b>promoted private arrangement</b> but which does not contain a <b>conversion invitation</b> ;
<b>prescribed date</b>	means in relation to a paragraph of the <b>Rules</b> , the date in each year prescribed by the <b>Conversion Official</b> for the purposes of that paragraph of the <b>Rules</b> ;
<b>prescribed fee</b>	means a fee prescribed by the <b>Conversion Official</b> for the purposes of a particular paragraph of the <b>Rules</b> ;
<b>prescribed form</b>	means in a form prescribed by the <b>Conversion Official</b> from time to time;
<b>private arrangement</b>	means an <b>interavailability arrangement</b> , a <b>reverse interavailability arrangement</b> or a <b>transition arrangement</b> which is not promoted and in which there is only one <b>participant</b> or two or more <b>participants</b> who are either <b>connected individuals</b> or an <b>employee group</b> , each of whom will participate in the same <b>successor vehicle</b> ;
<b>promoted private arrangement</b>	means an <b>interavailability arrangement</b> , a <b>reverse interavailability arrangement</b> or a <b>transition arrangement</b> which is promoted to: <ul style="list-style-type: none"> <li>(a) <b>individual members</b> each of whom will participate in different <b>successor vehicles</b>; and/or</li> <li>(b) <b>individual members</b> who are <b>connected individuals</b> or an <b>employee group</b> and who will participate in the same <b>successor vehicle</b>;</li> </ul>
<b>promoter</b>	means a <b>members' agent</b> or such other person, who is subject to the provisions of the <b>Rules</b> , who has been approved by the <b>Conversion Official</b> to act as a promoter in accordance with section 4;
<b>prospective participation</b>	means, in relation to a <b>syndicate</b> , the amount of the <b>member's syndicate premium limit</b> with which an <b>individual member</b> will be entitled to participate as a member of that <b>syndicate</b> for the next following <b>year of account</b> ;

Prospectus Regulations	means the Prospectus Regulations 2005;
<b>Register of Sponsors</b>	means the register held by <b>Lloyd's</b> which lists all persons who are approved by the <b>Conversion Official</b> to act as <b>sponsors</b> ;
<b>reinsurance to close</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>request for funds</b>	means a request for funds made under clause 9.1 of an agreement in the terms of the <b>standard members' agent's agreement</b> or clause 7.1 of the <b>standard managing agent's agreement</b> ;
<b>reverse interavailability arrangement</b>	means any arrangement whereby all or any part of a <b>successor vehicle's Lloyd's deposit</b> is to be held so as to provide security both for its future underwriting business at <b>Lloyd's</b> and for the past underwriting business at <b>Lloyd's</b> of any <b>individual member</b> or <b>individual members</b> in relation to which it is a <b>successor vehicle</b> whether by way of variation or modification of the trusts, powers, terms, conditions and other arrangements under which its <b>Lloyd's deposit</b> is held;
<b>revised invitation document</b>	means a document which amends and/or supplements and/or revises the information contained in an <b>invitation document</b> ;
<b>revised PPA document</b>	means a document which amends and/or supplements and/or revises the information contained in a <b>PPA document</b> ;
<b>Rules</b>	means these conditions and requirements;
<b>Scottish limited partnership or SLP</b>	means a limited partnership formed in Scotland under the Limited Partnerships Act 1907;
<b>second nomination</b>	means a nomination under paragraph 2 of the Assignment of Syndicate Participations (Second Nomination) Byelaw (No. 6 of 2000);
<b>sponsor</b>	means a person who has been approved by the <b>Conversion Official</b> to act as a sponsor in accordance with section 3;
<b>standard managing agent's agreement</b>	means the form of agreement between a <b>member</b> and a <b>managing agent</b> prescribed by the <b>Agency Agreements Byelaw</b> and set out in Schedule 3 or 4 thereof (as appropriate);
<b>standard members' agent's agreement</b>	means the form of agreement between a <b>member</b>



	and a <b>members' agent</b> prescribed by the <b>Agency Agreements Byelaw</b> and set out in Schedule 1 thereof;
<b>successor vehicle</b>	means in relation to any <b>conversion scheme</b> or <b>private arrangement</b> , one or more <b>body corporates</b> or <b>SLPs</b> in whose favour a <b>participation nomination</b> and/or <b>second nomination</b> is made by one or more <b>individual members</b> and/or to which the <b>Lloyd's deposit</b> of one or more <b>individual members</b> is made interavailable or which reinsures the <b>open years</b> of an <b>individual member</b> or which issues its <b>Lloyd's deposit</b> interavailable to one or more <b>individual members</b> ;
<b>swap arrangement</b>	means any arrangement whereby an <b>individual member</b> exchanges all or part of his <b>prospective participations</b> for a consideration comprising exclusively securities or with a <b>cash alternative</b> or exclusively cash;
<b>syndicate</b>	means a group of <b>members</b> or a single <b>corporate member</b> underwriting insurance business at <b>Lloyd's</b> through the agency of a <b>managing agent</b> to which a particular syndicate number is assigned by or under the authority of the <b>Council</b> ;
<b>syndicate allocated capacity</b>	has the meaning given in the Definitions Byelaw (No. 7 of 2005);
<b>transfer agreement</b>	means an agreement in the form prescribed by the <b>Council</b> by which an <b>individual member</b> agrees to transfer his underwriting liabilities at <b>Lloyd's</b> (other than that relating to any <b>closed years</b> ) to a <b>successor vehicle</b> ;
<b>transition arrangement</b>	means an arrangement whereby a <b>successor vehicle</b> is to reinsure by means of the <b>transfer agreement</b> , one or more <b>individual member(s)</b> in respect of <b>open years</b> of <b>syndicates</b> on which that/those <b>member(s)</b> participate(s);
<b>underwriting agent</b>	means a <b>managing agent</b> or a <b>members' agent</b> ;
<b>United States</b>	means the United States of America, its territories and possessions, any State of the United States and the District of Columbia;
<b>unlisted security</b>	an investment which: <ul style="list-style-type: none"> <li>(a) is not admitted to official listing nor the subject of an application for listing in</li> </ul>

accordance with Part VI of the **FSMA**;  
and

- (b) falls within paragraph 11, 12, 14 or 15 of  
Schedule 2 Part II to the **FSMA**;

**US business day**

means any day other than a Saturday, Sunday or  
a **United States** federal holiday;

**US individual member**

means an **individual member** who is resident or  
domiciled in the **United States**; and

**year of account**

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

- 2 Any reference to any statute, a 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**.

## APPENDIX I

### TABLE OF PRESCRIBED DATES FOR 2006

#### Key

CRs	Conversion Rules
CO	Conversion Official

#### Authority/Form

#### Earliest date to apply to become a sponsor

18 May

Form SP1

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

CRs 3(2)(c)

#### Earliest date to submit an application in principle ("AIP")

18 May

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

CRs 5(1)(c)

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

18 May

CO will use reasonable endeavours to provide:

CRs 7(7)(b)

(i) preliminary comments on the first draft not more than 7 business days after receipt; and

(ii) comments on any subsequent draft not more than 5 business days after receipt.

#### Earliest date to issue an initial advertisement

The day on which the AIP is approved by the CO

CRs 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)**

3 business days before the proposed date of issue of the conversion invitation

Form AP2  
(Conversion Rules)

CRs 8(2)

**Earliest date for conversion invitation to close**

15 business days (or, if the conversion invitation is to US individual members, 20 US business days) after the invitation document was first issued

CRs 12(1)(a)

**Latest date to apply to become a sponsor or to submit an AIP**

21 September

CRs 5(1)(b)

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

CRs 5(1)(c)

**Latest date to submit an initial draft invitation document and related documents**

21 September

CRs 7(7)(a)

CO will use reasonable endeavours to provide preliminary comments on the first draft not more than 7 business days after receipt

CRs 7(7)(b)

**Latest date by which an announcement has to be made if no invitation document has been issued**

42 business days after an initial advertisement was issued

CRs 7(6)(a)

**Latest date to issue a revised invitation document or to declare a conditional conversion invitation to be unconditional**

10 business days (or, if the conversion invitation is to US individual members, 10 US business days) before the final closing date of conversion invitation

CRs 12(1)(b)/  
12(2)(b)

**Latest date by which a conversion invitation can be extended to overseas individual members**

10 business days (or, if the conversion invitation is to US individual members, 10 US business days) before the final closing date of a conversion invitation

CRs 9(3)(i)

**Final date for applications for corporate membership, including successor vehicles, as prescribed in the Membership and Underwriting Requirements (Corporate Member)**

29 September

M&URs  
paragraph 5(2)

**Latest date for submission of the members' agent confirmation (Appendix XII) and Confirmation and Request to Lloyd's (Appendix XV) in connection with a private arrangement**

29 September

CRs 14(2)(e)/  
14(2)(f)

**Final date by which the conversion invitation must close or lapse**

3 November

CRs 12(1)(c)

**Date of third auction**

26/27 September

**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 managing agent's consent**

5 November

CRs 1(3)(d)(iii)

**Latest date by which completion documents must be submitted**

29 November

CRs 13(1)/13(2)(a)

**Latest date by which all interavailability deeds and documents must be submitted**

29 November

CRs 13(2)(b)

## **APPENDIX II**

### **LIST OF FOREIGN LAWYERS, CERTAIN ISSUES WHICH MAY BE RELEVANT AND ADDITIONAL US REQUIREMENTS**

#### **PART I**

#### **LIST OF FOREIGN LAWYERS**

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
Australia	Freehills	Level 30, MLC Centre 19-29 Martin Place Sydney NSW 2000 Australia Tel: 00612 9225 5000 Fax: 00612 9322 4000	Don Harding
Belgium	Freshfields Bruckhaus Deringer	Bastion Tower Place du Champ de Mars 1050 Brussels Tel: 00322 504 7000 Fax: 00322 504 7200	Guy Schrans
Bermuda	Appleby Spurling Hunter	Cedar House Canon's Ct 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda Tel: 001441 295 2244 Fax: 001441 292 8666	Warren Cabral
British Virgin Islands	Harney, Westwood & Riegels	Craigmuir Chambers P O Box 71 Road Town Tortola BVI Tel: 001 284 494 2233 Fax: 001 284 494 3547	Richard Parsons
Canada	Stikeman, Elliott	Suite 5300 Commerce Court West 199 Bay Street P O Box 85 Toronto, Ontario Canada M5L 1B9 Tel: 001 416 869 5500 Fax: 001 416 947 0866	Michael Rumball
	Stikeman, Elliott	Dauntsey House	Michele J Buchignani

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
	(London)	48 Frederick's Place London EC2R 8AB Tel: 020 7637 0150 Fax: 020 7637 0160	
	Borden Ladner Gervais	1000 de la Gauchetière Street West Suite 900 Montreal Quebec H3B 5H4 Tel: 001 514 879 1212 Fax: 001 514 954 1905	
Denmark	Plesner Svane & Grunberg	America Plads 37 DK2100 Copenhagen Cop. K Denmark Tel: 0045 3312 1133 Fax: 0045 3312 0014	Carsten Tvede-Moller
France (Paris)	Freshfields Bruckhaus Deringer	2 rue Paul Cezanne 75008 Paris Tel: 00331 4456 4456 Fax: 00331 4456 4400	Veronique Collin
Germany (Frankfurt)	Freshfields Bruckhaus Deringer	Taunusanlage 11 60329 Frankfurt am Main Tel: 0049 6927 3080 Fax: 0049 6923 2664	
Greece	Kyriakides Georgopoulos	6 Queen Sophia Avenue 106 74 Athens Greece Tel: 00301 724 3072 Fax: 00301 725 0670	Leonidas C Georgopoulos
Guernsey	Ozannes	P O Box 186 Le Marchant Street St Peter Port Guernsey Tel: 01481 723466 Fax: 01481 714653	P A Harwood
Hong Kong	Freshfields Bruckhaus Deringer	11 <sup>th</sup> Floor Two Exchange Square Hong Kong Tel: 00852 2846 3400 Fax: 00852 2810 6192	Martin Taylor
Ireland	A & L Goodbody	International Financial	J A O'Farrell

<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
		Services Centre Northwall Quay Dublin 1 Ireland Tel: 3531 649 2000 Fax: 3531 629 2649	
Italy	Studio Legale Ughi E Nunziantè	Via Sant'Andrea 19-20121 Milan Italy Tel: 00392 762171 Fax: 00392 784140	Michael Kirkham
Isle of Man	Simcocks	Ridgeway House Ridgeway Street Douglas IM99 1PY Tel: 01624 690 300 Fax: 01624 690 333	
	Weatherill Advocate and Solicitor	Top Floor Central Chambers 6 Victoria Street Douglas Isle of Man IM1 2LH Tel: 01624 674 994 Fax: 01624 674 995	Lawrence Weatherill
Japan	Mitsui Company	Akasaka 2 Plaza Building 7 14-32 Akasaka 2-Chome Minato-ku Tokyo 107 Tel: 00813 3224 0020 Fax: 00813 3224 0030	
Jersey	Bedell & Cristin	P O Box 75 26 New Street St Helier Jersey JE4 8PP Tel: 01534 814814 Fax: 01534 814815	
Luxembourg	Linklaters	Avenue John F Kennedy 35, L-1855 Luxembourg Tel: 352 2608-1 Fax: 352 2608-8888	Jacques Loesch



<b>COUNTRY</b>	<b>COMPANY NAME</b>	<b>ADDRESS</b>	<b>CONTACT</b>
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 Fax: 020 7466 6311	
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Singapore	Wong Partnership	One George Street #20-01 Singapore 049145 Tel: 0065 6416 8000 Fax: 0065 6532 5711	
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## **PART II**

### **CERTAIN ISSUES WHICH MAY BE RELEVANT**

Below is a summary of certain issues which may apply in relation to conversion invitations in certain overseas jurisdictions. Except where indicated, this information does not apply to conversion invitations where the successor vehicle is a LLP.

The information set out below is not intended to summarise comprehensively the position in the relevant jurisdiction or to constitute definitive legal advice. Legislation may change at any time and the information below may therefore become out of date. It is the primary responsibility of the promoter and its advisers to ensure compliance with overseas securities laws and all other relevant legislation in the jurisdiction concerned. Therefore, Lloyd's accepts no responsibility or liability in this regard.

- 1** There appear to be no additional securities law requirements in the following jurisdictions:

Brunei  
France  
Greece  
Sweden  
United Arab Emirates

**2 Guernsey**

The document will be deemed to be a “prospectus” under Guernsey law. Therefore, under normal circumstances, regulatory consent will be required prior to circulation. An exemption from such a requirement is available if the documents are in the same terms and in the same class as the documents circulated in the UK in accordance with the Companies Act 1985 and the Financial Services and Markets Act 2000. If it is possible to obtain such an exemption, there will be no requirement to (i) file/register the documents with any regulatory authority, or (ii) comply with any contents/disclosure/approval requirements.

**3 South Africa**

The issue of the invitation document should not infringe any local securities law and there should be filing/registration requirements provided the conversion invitation cannot be construed as an offer to the public. However, certain exchange controls exist.

A South African member will need to obtain the prior approval of the South African Exchange Control Authority (“ECA”) before accepting the conversion invitation. At the time the member was admitted as an individual member of Lloyd’s, he may also have had certain conditions imposed on him by the ECA which relate to his ability to act as an individual member and these special conditions (if any) would also need to be considered on a case-by-case basis.

**4 New Zealand**

Local securities laws appear to apply to conversion invitations, including where the successor vehicle is a LLP. Specific local advice should be sought.

**5 Israel**

The issue of the invitation document should not infringe any securities law and there should be no filing/registration requirements. There are, however, certain exchange control requirements.

**6 Jersey**

If the conversion invitation is made in Jersey on identical terms to the conversion invitation made in the UK and the promoter or successor vehicle has no “relevant connection” with Jersey, there should be no additional securities law requirements.

**7 Isle of Man**

Legal advice as to whether a conversion invitation complies with Isle of Man laws should be sought in each case.

**8 Norway**

Subject to certain exchange control reporting requirements, there should be no problem with a conversion invitation involving securities if it is made to fewer than 50 members, but prospectus requirements will apply if it is made to more than 50 members.

**9 Hong Kong**

There appear to be no securities law problems if a conversion invitation is addressed to sufficiently few members (the number is unclear: a conversion invitation to five members has in the past been permissible). However, once the conversion invitation is open to more than a limited number of members, additional securities law requirements will apply.

**10 Bangladesh**

It is understood that local securities laws do apply but that these are relatively easy to satisfy.

**11 Ireland**

It is likely that a conversion invitation which satisfies UK requirements will comply with the Irish regime. However, additional requirements etc. may be relevant and legal advice should be sought.

**12 Australia**

The promotion of any conversion scheme in Australia and the promotion in Australia of any other type of scheme which involves offers of (or invitations to make offers for) "securities" which are shares or debentures (or, potentially, interests in a LLP) is an activity which is heavily regulated and, subject to certain exclusions, requires a prospectus. For more information, please refer to the Market Bulletin headed "Conversion - Australian Names" which Lloyd's issued in April 1998.

**13 Canada**

A member may convert via a private arrangement which involves transferring his underwriting capacity to his own limited liability company without any additional Canadian securities law requirements. If the scheme does not involve a distribution of securities other than the issue of shares in a private company to the Canadian member it should be exempt from the prospectus and dealer registration requirements of provincial securities laws by virtue of the "private company exemption".

An offer to Canadian members to enter into a collective conversion scheme involving the issue of securities would be subject to Canadian securities law and the prospectus and dealer registration requirements. Certain exemptions may be available and therefore legal advice should be sought.

## **PART III**

### **ADDITIONAL US REQUIREMENTS**

Conversion schemes raise a number of complex issues under the US federal and state securities law. The marketing of conversion schemes to US individual members is summarised below although this analysis is subject to change.

- Conversion schemes can only be offered to US individual members who are “accredited investors”.
- Any marketing or promotion of conversion schemes in the United States must be conducted on a basis consistent with a “private placement”. This means that it must not involve use of generalised advertising, “cold-calling” or other methods of solicitation inconsistent with a private placement. No “general solicitation” is permitted. Information regarding conversion schemes cannot be placed on an unrestricted website – appropriate steps must be taken to restrict access by US persons to those who have “prequalified”.
- Advertisements relating to conversion schemes in publications which circulate in the United States must carry a statement approved by Lloyd’s indicating that the scheme is not being publicly offered in the United States or to US persons.
- The marketing or promotion of conversion schemes by members’ agents and other promoters to US individual members with whom they (and the broker-dealers whom they employ) have no prior relationship raises special issues. While Lloyd’s may determine to permit such marketing and promotion on the basis that the solicitation of existing US individual members should not be deemed to constitute a “general solicitation”, such permission must be sought. In any case, members’ agents and other promoters involved in such solicitation should obtain legal advice from US counsel on the issues raised.
- Invitation documents relating to conversion schemes circulated in the United States or to US individual members will need to be prepared with United States disclosures standards in mind. This will mean that, in particular, risk factors will need to be described prominently (near the front of the document) clearly and in great detail.
- The offer and sale to US individual members, or in the United States, of securities to be issued pursuant to a conversion scheme must be made through broker-dealers registered with the United States Securities and Exchange Commission and in the appropriate states.
- Securities issued to US individual members will need to be legended to indicate that they have not been registered under the United States Securities Act of 1933, as amended, or applicable state law, and to bar transfers in the United States or to US persons (except for “regular way” transactions on the London Stock Exchange). Invitation documents will also need to bear an appropriate legend.
- Neither the “offerors” of securities to be issued pursuant to a conversion scheme - an expression which in this context should be deemed to include the promoters, sponsors, members’ agents and others encouraging US individual members to consider conversion schemes - nor their employees are permitted to receive transaction-based compensation in respect of offers or sales of securities to US individual members or made in the United States. Receipt of such compensation could raise issues under both broker-dealer and investment adviser legislation in the United States.

- Lloyd's reserves the right not to approve certain types of conversion schemes for offer in the United States or to US individual members if it appears to Lloyd's that they will or may prejudice Lloyd's position in the United States.
- Promoters of conversion schemes will be required to obtain United States legal advice as to whether such schemes and marketing plans raise issues under other federal and state securities laws, such as the US Williams Act (regulating tender offers), the US Investment Company Act of 1940 and the US Investment Advisers Act of 1940. They will need to consult with Lloyd's concerning their plans for compliance with these laws.
- The promoters of a conversion scheme will be required to obtain a legal opinion from US counsel, acceptable to Lloyd's, that the offering of the conversion scheme in the United States in accordance with the invitation document complies with all applicable federal and state securities (including insurance securities) laws.

Those interested in developing conversion schemes either for US individual members or to be offered in the United States should note that Lloyd's is still reviewing the position and may extend its requirements. These could include, for example, the provision of a representation and warranty or indemnity and a further (post-completion) legal opinion.

### APPENDIX III

#### TABLE OF PRESCRIBED DOCUMENTS FOR CONVERSION SCHEMES

##### TABLE OF INTERAVAILABLE FUNDS/DEEDS

(A Word version of the tables in this Appendix is available from MSU)

##### Re: Limited Liability Company (Non-Life)

LIMITED LIABILITY CO.		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Advance and Resettlement	CM400	X					(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed assets to new Lloyd's Deposit Trust Deed (General Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (General Interavailability)	CM401	X					(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM400).
Deed of Application	CM402		X	X			(i) Lloyd's (ii) Individual member;	Amends converting individual member's (new style) Security and Trust Deed so funds can be made interavailable.
Deed of Adherence	CM403 (DTD)	X					(i) Individual member; (ii) Limited Liability company; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed (General Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant Limited Liability company).



LIMITED LIABILITY CO.		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Adherence	CM405 (STD)		X	X			(i) Individual member; (ii) Limited Liability company; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Deed of Application (CM 402) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant Limited Liability company).
Deed of Release Revocation and Substitution	CM410 (STD1) (V)				X		(i) Lloyd's; (ii) Individual member;	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the individual member agrees to execute a Security and Trust Deed (Interavailable) (CM 412 (STD1)) and to vary the existing guarantee so it can be made interavailable. (CM 410 (R))
Deed of Release, Revocation and Substitution	CM411 (STD1) (R)					X	(i) Lloyd's; (ii) Individual member	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the individual member agrees to execute a Security and Trust Deed (Interavailable) (CM 412 (STD1)) and to procure that a new guarantee is provided by either a Bank or an Insurance Company.
Deed of Variation	CM410 (V)		X				(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under a new style Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (CM402) [i.e. guarantee is still in full force and effect].
Deed of Variation	CM410 (R)				X		(i) Issuer; (ii) Lloyd's	This document is used to vary a guarantee to make it 'interavailable' where the guarantee is being transferred from an old style Security and Trust Deed to a new Security and Trust Deed (Interavailable) (CM 412 (STD1))
Security and Trust Deed (Interavailable)	CM412 (STD1)				X	X	(i) Individual member; (ii) Lloyd's	Deed receives a new interavailable guarantee or a guarantee released from old style Security and Trust Deed by a Deed of Release Revocation and Substitution (CM410 (STD1) (V)) - creates Trust Fund to support 'interavailable' underwriting.

LIMITED LIABILITY CO.		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Adherence	CM413 (STDI)				X	X	(i) Individual member; (ii) Limited Liability company; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Lloyd's Security and Trust Deed (Interavailable) in the 'Specified Fund' (i.e. available to both the individual member's, Lloyd's creditors of both the individual member and those of the relevant Limited Liability company).
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ ICG (INT) DEP 97			X		X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL

**Re: Scottish Limited Partnerships (Non-Life)**

SLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Advance and Resettlement	CM400	X					(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed assets to new Lloyd's Deposit Trust Deed (General Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (General Interavailability)	CM401	X					(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM400).
Deed of Application	CM402		X	X			(i) Lloyd's; (ii) Individual member	Amends converting individual member's (new style) Security and Trust Deed so funds can be made interavailable.
Deed of Adherence	CM404 (DTD/SLP)	X					(i) Individual member; (ii) SLP; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed (General Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant SLP).
Deed of Adherence	CM406 (STD/SLP)		X	X			(i) Individual member; (ii) SLP; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Deed of Application (CM 402) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant SLP).
Deed of Release Revocation and Substitution	CM410 (STDI) (V)				X		(i) Lloyd's; (ii) Individual member	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the individual member agrees to execute a Security and Trust Deed (Interavailable) (CM 412 (STDI)) and to vary the existing guarantee so it can be made interavailable. (CM 410 (R))

SLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release, Revocation and Substitution	CM411 (STDI) (R)					X	(i) Lloyd's; (ii) Individual member	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the Name agrees to execute a Security and Trust Deed (Interavailable) (CM412 (STDI)) and to procure that a new guarantee is provided by either a Bank or an Insurance Company.
Deed of Variation	CM410 (V)		X				(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under new style Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (CM402). [i.e. guarantee is still in full force and effect.]
Deed of Variation	CM410 (R)				X		(i) Issuer; (ii) Lloyd's	This document is used to vary a guarantee to make it "Interavailable" where the guarantee is being transferred from an old style Security and Trust Deed to a new Security and Trust Deed (Interavailable) (CM412) (STDI))
Security and Trust Deed (Interavailable)	CM412 (STDI)				X	X	(i) Individual member; (ii) Lloyd's	Deed receives a new interavailable guarantee or a guarantee released from old style Security and Trust Deed by a Deed of Release Revocation and Substitution CM 410 (STDI) (V) - creates Trust Fund to support 'interavailable' underwriting.
Deed of Adherence	CM414 (STDI/SLP )				X	X	(i) Individual member; (ii) SLP; (iii) Lloyd's	This Deed nominates those assets (being a [letter of credit or] guarantee) to be transferred so as to be held pursuant to the Lloyd's Security and Trust Deed (Interavailable) in the 'Specified Fund' (i.e. available to both the individual member's, Lloyd's creditors and those of the relevant SLP).

SLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ ICG (INT) DEP 97			X		X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL.

**Re: Limited Liability Partnerships (Non-Life)**

LLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Advance and Resettlement	CM400	X					(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed assets to new Lloyd's Deposit Trust Deed (General Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (General Interavailability)	CM401	X					(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM400).
Deed of Application	CM402		X	X			(i) Lloyd's; (ii) Individual member	Amends converting individual member's (new style) Security and Trust Deed so funds can be made interavailable.
Deed of Adherence	CM404 (DTD/LLP)	X					(i) Individual member; (ii) LLP; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed (General Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant LLP).
Deed of Adherence	CM406 (STD/LLP)		X	X			(i) Individual member; (ii) LLP; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Deed of Application (CM 402) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant LLP).

LLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Revocation and Substitution	CM410 (STDI) (V)				X		(i) Lloyd's; (ii) Individual member	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the individual member agrees to execute a Security and Trust Deed (Interavailable) (CM 412 (STDI)) and to vary the existing guarantee so it can be made interavailable. (CM 410 (R))
Deed of Release, Revocation and Substitution	CM411 (STDI) (R)					X	(i) Lloyd's; (ii) Individual member	Lloyd's releases guarantee from provisions of individual member's (old) Security and Trust Deed and the Name agrees to execute a Security and Trust Deed (Interavailable) (CM412 (STDI)) and to procure that a new guarantee is provided by either a Bank or an Insurance Company.
Deed of Variation	CM410 (V)		X				(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under new style Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (CM402). [i.e. guarantee is still in full force and effect.]
Deed of Variation	CM410 (R)				X		(i) Issuer; (ii) Lloyd's	This document is used to vary a guarantee to make it "Interavailable" where the guarantee is being transferred from an old style Security and Trust Deed to a new Security and Trust Deed (Interavailable) (CM412) (STDI))
Security and Trust Deed (Interavailable)	CM412 (STDI)				X	X	(i) Individual member; (ii) Lloyd's	Deed receives a new interavailable guarantee or a guarantee released from old style Security and Trust Deed by a Deed of Release Revocation and Substitution CM 410 (STDI) (V) - creates Trust Fund to support 'interavailable' underwriting.

LLPs		EXISTING FUNDS AT LLOYD'S						
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under old style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Adherence	CM414 (STDI/LLP )				X	X	(i) Individual member; (ii) LLP; (iii) Lloyd's	This Deed nominates those assets (being a [letter of credit or] guarantee) to be transferred so as to be held pursuant to the Lloyd's Security and Trust Deed (Interavailable) in the 'Specified Fund' (i.e. available to both the individual member's, Lloyd's creditors and those of the relevant LLP).
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ ICG (INT) DEP 97			X		X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL.



**Re: Limited Liability Company (Life)**

<b>LIMITED LIABILITY CO.</b>		<b>EXISTING FUNDS AT LLOYD'S</b>				
<b>Title of Deed</b>	<b>Deed Ref.</b>	<b>Cash &amp;/or Securities held under Life Deposit Trust Deed</b>	<b>Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable</b>	<b>Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable</b>	<b>Executing Parties</b>	<b>Purpose of Document</b>
Deed of Release Advance and Resettlement Long-Term Business (Life)	CM422	X			(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed (Life) assets to new Lloyd's Deposit Trust Deed (Life) (Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (Long-Term Business (Life) Interavailability)	CM421	X			(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM422).
Deed of Application (Long-Term Business (Life))	CM420		X	X	(i) Lloyd's (ii) Individual member;	Amends converting individual member's (new style) Security and Trust Deed (Life) so funds can be made interavailable.
Deed of Adherence	CM423 (DTD)	X			(i) Individual member; (ii) Limited Liability company; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed (Life) (Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant Limited Liability company).
Deed of Adherence	CM425 (STD)		X	X	(i) Individual member; (ii) Limited Liability company; (iii) Lloyd's	This Deed nominates those assets (being a guarantee) to be transferred so as to be held pursuant to the Lloyd's Security and Trust Deed (Life) (Interavailability) where it has been created by the variation of a new style Life STD by the execution of a Deed of Application (Life)(CM420)

<b>LIMITED LIABILITY CO.</b>		<b>EXISTING FUNDS AT LLOYD'S</b>				
<b>Title of Deed</b>	<b>Deed Ref.</b>	<b>Cash &amp;/or Securities held under Life Deposit Trust Deed</b>	<b>Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable</b>	<b>Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable</b>	<b>Executing Parties</b>	<b>Purpose of Document</b>
Deed of Variation	CM410 (V)		X		(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under a new style Life Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (Life) (CM420) [i.e. guarantee is still in full force and effect].
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ICG (INT) DEP 97			X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL

**Re: Scottish Limited Partnerships (Life)**

SLPs		EXISTING FUNDS AT LLOYD'S				
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Advance and Resettlement	CM422	X			(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed (Life) assets to new Lloyd's Deposit Trust Deed (Life) (Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (Life Interavailability)	CM421	X			(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM422).
Deed of Application (Life)	CM420		X	X	(i) Lloyd's; (ii) Individual member	Amends converting individual member's (new style) Security and Trust Deed (Life) so funds can be made interavailable.
Deed of Adherence	CM424 (DTD/SLP)	X			(i) Individual member; (ii) SLP; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed Long-Term Business (Life) (Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant SLP).
Deed of Adherence	CM426 (STD/SLP)		X	X	(i) Individual member; (ii) SLP; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Deed of Application (Life) (CM 420) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant SLP).
Deed of Variation	CM410 (V)		X		(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under new style Life Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (Life) (CM420). [i.e. guarantee is still in full force and effect.]

SLPs		EXISTING FUNDS AT LLOYD'S				
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ ICG (INT) DEP 97			X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL.

**Re: Limited Liability Partnerships (life)**

LLPs	Deed Ref.	EXISTING FUNDS AT LLOYD'S				
		Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Deed of Release Advance and Resettlement	CM422	X			(i) Individual member; (ii) Lloyd's	Transfers Lloyd's Deposit Trust Deed (Life) assets to new Lloyd's Deposit Trust Deed (Life) (Interavailability) to make cash/securities interavailable.
Individual Name's Lloyd's Deposit Trust Deed (Life Interavailability)	CM421	X			(i) Individual member; (ii) Lloyd's	Establishes new trust fund to be used for cash/securities to be used as interavailable FAL (transferred to it under CM422).
Deed of Application (Life)	CM420		X	X	(i) Lloyd's; (ii) Individual member	Amends converting individual member's (new style) Security and Trust Deed (Life) so funds can be made interavailable.
Deed of Adherence	CM424 (DTD/LLP)	X			(i) Individual member; (ii) LLP; (iii) Lloyd's	This Deed nominates those assets (being cash and/or securities) to be transferred so as to be held pursuant to the Lloyd's Deposit Trust Deed Long-Term Business (Life) (Interavailability) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant LLP).
Deed of Adherence	CM426 (STD/LLP)		X	X	(i) Individual member; (ii) LLP; (iii) Lloyd's	This Deed nominates those assets (being a letter of credit or guarantee) to be transferred so as to be held pursuant to the Deed of Application (Life) (CM 420) in the 'Specified Fund' (i.e. available to both the individual member's Lloyd's creditors and those of the relevant LLP).
Deed of Variation	CM410 (V)		X		(i) Issuer; (ii) Lloyd's	Guarantor acknowledges guarantee held under new style Life Security and Trust Deed is to be varied to support interavailable underwriting under such deed as varied by the Deed of Application (Life) (CM420). [i.e. guarantee is still in full force and effect.]

LLPs		EXISTING FUNDS AT LLOYD'S				
Title of Deed	Deed Ref.	Cash &/or Securities held under Deposit Trust Deed	Guarantee held under new style Security and Trust Deed where the guarantee is to remain in place but be varied so as to be made interavailable	Guarantee held under new style Security and Trust Deed where the guarantee will be replaced by a new guarantee to be made interavailable	Executing Parties	Purpose of Document
Interavailable Guarantee - (either from Bank BG (INT) DEP 96) or from Insurance Company (ICG (INT) DEP 97))	BG (INT) DEP 96/ ICG (INT) DEP 97			X	(i) Issuer; (ii) Lloyd's	New guarantee to provide replacement FAL.

## APPENDIX IV

### LLOYD'S SPONSOR QUESTIONNAIRE AND UNDERTAKING

Form SP1

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 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\*

---

\* Delete as appropriate

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\*

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\*

---

\* Delete as appropriate



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 or LLP, (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 LLP, its members, or for 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 agreement (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 LLP, its members, or for 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 \_\_\_\_

**EXECUTED as a DEED**

**APPENDIX V**

**FORM AP2 (Conversion Rules)**

**APPLICATION FOR APPROVAL FOR THE  
ISSUE OF A CONVERSION INVITATION OR  
A PPA DOCUMENT**

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 issue a conversion invitation/issue a PPA document**

We *[insert name of sponsor]* and *[insert name of promoter]* hereby apply for approval to issue a *[conversion invitation/issue a PPA document]* under the Conversion 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 [*conversion invitation/PPA document*] and confirm that this document satisfies all relevant requirements of the Rules for the contents of such document.
  - 1.2 3 copies of the application form to be sent to individual names relating to the [*conversion invitation/PPA document*].
  - 1.3 A derogation letter.
  - 1.4 A cheque payable to the Corporation of Lloyd's for £[*insert fee figure*].
  - 1.5 [*In the case of a transition arrangement, specify other additional documents*].
  - 1.6 [*In the case of a reverse interavailability arrangement*], drafts of [*specify other additional documents*].
2. We undertake to discharge our respective responsibilities as sponsor and promoter as set out in, and in accordance with, the Rules.
3. As sponsor and promoter, we jointly confirm to Lloyd's that:-
  - 3.1 [*In the case of a transition arrangement or interavailability arrangement*] the conversion scheme is to be implemented utilising the appropriate prescribed form documents;
  - 3.2 to the best of our knowledge, information and belief (having made due and careful enquiry) all material facts relating to this [*conversion scheme/promoted private arrangement*] have been properly disclosed to the Conversion Official and in the [*invitation document/ PPA document*];
  - 3.3 to the best of our knowledge, information and belief (having made due and careful enquiry) there are no matters (other than those disclosed in the [*invitation document/PPA document*]) which are or could be material to an individual member proposing to participate in the [*conversion scheme/promoted private arrangement*] contained in the [*invitation document/PPA document*];
  - 3.4 [*if applicable*] third party funds are required to implement fully the conversion scheme and we confirm that we are satisfied (having taken all reasonable steps to ensure that it is the case) that such funds are available;
  - 3.5 to the best of our knowledge, information and belief (having made due and careful enquiry), Lloyd's Acts 1871 to 1982 and all byelaws, regulations, requirements, conditions and directions made, imposed or given by the Council of Lloyd's have, in so far as they apply to this application for approval and to the proposed [*insert details of conversion scheme/promoted private arrangement*] have been fully and properly complied with; and
  - 3.6 in respect of US individual members, (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 promoter or sponsor (or any personnel of such persons) in connection with the transfer of prospective participations.
4. As sponsor we hereby confirm to Lloyd's that:-

4.1 we are [an authorised person under the Financial Services and Markets Act 2000 regulated by the Financial Services Authority/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] *[delete as applicable]*;

4.2 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];

4.3 our fees in respect of the [conversion scheme/promoted private arrangement] 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 [conversion scheme/promoted private arrangement] will be met by *[insert name of payer]*;

4.4 [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 promoter *[Insert particulars of any other remuneration, commission or benefit]*; and

5 As promoter we hereby confirm to Lloyd's that:-

5.1 [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]*;

We acknowledge that the confirmations and undertakings given in this application shall be deemed to be repeated on the date that any *[conversion invitation/promoted private arrangement]* 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 promoter]*

## APPENDIX VI

### LLOYD'S PROMOTER UNDERTAKING [To be typed on promoter's letterhead]

#### Form P1 (Conversion Rules)

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

1. [*insert name of promoter*] (the "promoter") warrants and undertakes that it:
  - (a) accepts the responsibilities of a promoter set out in the Conversion 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 conversion scheme or private arrangement 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 of such conversion scheme or private arrangement 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 a promoter of any conversion scheme or private arrangement;
  - (f) reasonably believes that it has the competence and experience to discharge its responsibilities as a promoter 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 a promoter in relation to a conversion scheme or private arrangement;
  - (h) provide details to Lloyd's of any commission payable to it or similar arrangements agreed by it in relation to the conversion scheme or private arrangement; 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 promoter 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 VII

### FORM OF DEROGATION LETTER

#### Form D (Conversion Rules)

#### Strictly Private and Confidential

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

[date]

Dear Sir

[insert brief details of conversion scheme or promoted private arrangement] (“the [conversion scheme/promoted private arrangement]”)

- (a) We (being the promoter of the [conversion scheme/promoted private arrangement]) refer to the [invitation document/PPA document], 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 “[invitation document/PPA document]”)
- (b) We confirm that the information required by the following paragraphs of the Conversion 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 Conversion Rules to request permission to omit the information required by the above paragraphs of the Conversion Rules from the [invitation document/PPA document] on the grounds set out above.

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



## APPENDIX VIII

### FORM AP1 (Conversion Rules)

#### APPLICATION FOR APPROVAL IN PRINCIPLE OF A CONVERSION INVITATION OR A PPA DOCUMENT

NAME OF SPONSOR: .....

NAME OF PROMOTER .....

DATE: .....

NAME OF SCHEME: .....

#### NOTES

- 1        **This application for approval in principle of a conversion scheme/promoted private arrangement must be submitted to the Conversion Official, Capacity Markets, Lloyd's before the prescribed date in each year.**
- 2        **No initial advertisement, invitation document or PPA document may be issued by any sponsor, promoter or other person until the Conversion Official has given notification in writing that an application for approval in principle of the conversion scheme or promoted private arrangement (to which that advertisement or document 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) Please provide details of any other conversion schemes/promoted private arrangements/private arrangements which have been sponsored by the sponsor.

--

**2. Promoter's details:**

- (a) Name:

--

- (b) Address:

--

- (c) Contact Name:

Contact name:
Email address:

- (d) Telephone Number:

--

- (e) Fax Number:

--

- (f) Date on which promoter approved by the Conversion Official.

--

- (g) Please provide details of any other conversion schemes/promoted private arrangements which have been promoted by the promoter.

--

**3. Type of conversion scheme/promoted private arrangement**

- (a) Interavailability/transition/reverse interavailability arrangement (*delete as appropriate*).

- (b) Please provide a brief summary of the conversion scheme/promoted private arrangement (*using a continuation sheet, if necessary*).

--

**4. Participants**

- (a) Who will be invited to participate in the conversion scheme/promoted private arrangement?

--

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

*Note : An invitation document and/or other documentation may not be issued or circulated outside the United Kingdom unless compliance has been made with paragraph 1(6)(d) of the Conversion Rules.*

- (c) If it is proposed that the invitation document and/or other documentation 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. Invitation document/PPA document**

- (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 conversion scheme/promoted private arrangement proposed to be contained in the invitation document/PPA document.

--

**6. Successor vehicle**

*If more than one successor vehicle, please provide details on separate sheet.*

- (a) Name:

--

- (b) Registered address:

--

- (c) What percentage of the funds at Lloyd's of the successor vehicle do you estimate will be provided directly or indirectly by those people participating in the relevant arrangement?

--

*Note: The successor vehicle will need to be a new corporate member. Accordingly, this form should be accompanied by an application for membership of Lloyd's under the Membership and Underwriting Requirements (Corporate Member).*

**7. Confirmation of resources**

*[Delete if not applicable]:*

- (a) The promoter confirms that it has sufficient resources available to satisfy full acceptance of the conversion scheme/promoted private arrangement.
- (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 promoter which are sufficient to satisfy full acceptance of the conversion scheme/promoted private arrangement.

**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 promoter*]

## APPENDIX IX

### PREScribed STATEMENTS FOR CONVERSION ADVERTISEMENTS AND ANNOUNCEMENTS

- 1 The following prescribed statements must be set out in certain advertisements and announcements:-
  - (i) This [*advertisement/announcement*] has been prepared in accordance with Lloyd's requirements. [*Insert name of promoter*] has confirmed to Lloyd's that this document complies with the Conversion Rules. This [*advertisement/ announcement*] has not been approved by Lloyd's.
  - (ii) [*As applicable:*] 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 conversion scheme which is being sponsored by [*insert name of sponsor*] and promoted by [*insert name of promoter*].
  - (iv) [*Insert name of promoter*] is interested in this [*conversion scheme*] and any advice provided by such [*insert name of promoter*] in relation to such [*conversion scheme*] should not be regarded as independent advice.
  - (v) The nature of Lloyd's insurance underwriting business, the consequences of past years' underwriting losses at Lloyd's and the nature of conversion will give rise to a number of specific risks.
  - (vi) Any member who is considering entering into this conversion scheme should read carefully the invitation document relating to such conversion scheme and the risk factors set out therein. Applications in relation to a conversion invitation will only be accepted on the basis of the information contained in the invitation document.
  - (vii) The securities which may be issued to members pursuant to the terms of this conversion scheme 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 conversion [*advertisement/announcement*] is to be issued in a jurisdiction where the conversion invitation may be contrary to law contain the following statement:-

This [*advertisement/announcement*] does not constitute a solicitation, invitation or offer to persons in [*state particular jurisdiction*] or any other jurisdiction where a solicitation, invitation or offer could be contrary to law. Underwriting at Lloyd's is a high risk business.
- 3 If the advertisement/announcement is to be issued or circulated in the United States compliance must be made with Part III 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 IX and a hard copy of such statements should be handed to all persons to whom the verbal advertisement/announcement is made.



## APPENDIX X

### LETTER RE SUBMISSION OF CONVERSION 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 conversion scheme] of which we are the promoter. In accordance with [state applicable rule] of the Conversion 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 earlier today and confirm that:-

- (a) the [advertisement/announcement] fully and properly complies with [insert applicable section of the Rules] 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]; and
- (c) we have complied with our obligations under paragraph 1(6) of the Rules in relation to the [advertisement/announcement];

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

**APPENDIX XI**  
**FORMAT FOR INVITATION DOCUMENTS**

*[Name of sponsor]*

*[Name of promoter]*

*[Description of the conversion invitation]*

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 Lloyd's members' agent [who will advise you in accordance with the Lloyd's Code for Members' Agents: Responsibilities to Members]. 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 corporate vehicle /operator of the SLP, as appropriate] 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 of [insert name of corporate vehicle/operator of the SLP, as appropriate] (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. [Insert name of promoter] is interested in this [conversion scheme] and any advice provided by [insert name of promoter] in relation to such conversion scheme should not therefore be regarded as independent advice.
  4. The securities which may be issued to members pursuant to the terms of this [conversion scheme] may be illiquid and there may not be a market for them.
  5. 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 conversion schemes (the "Conversion Rules"). Both [insert name of sponsor] and [insert name of promoter] have confirmed to Lloyd's in writing that this document complies with the Conversion Rules. Lloyd's has approved the making of the conversion invitation set out in this document within the terms of the Conversion Rules. However, it must be understood that in giving its consent for the making of such conversion invitation, Lloyd's takes no responsibility for the soundness (whether financial or otherwise) of the [conversion scheme] or the [successor vehicle] or for the correctness of any statements made or opinions expressed in relation thereto.
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## CONVERSION INVITATION

TO

[ELIGIBLE NAMES]

BY

[INSERT NAME OF THE SPONSOR]

[INSERT NAME OF THE SUCCESSOR VEHICLE]

- 
6. THE ACTION YOU SHOULD TAKE IF YOU WISH TO ISSUE AN APPLICATION UNDER THE CONVERSION SCHEME IS SET OUT ON PAGE [insert relevant page of this document] AND IN THE ACCOMPANYING APPLICATION FORM.
  7. COMPLETED APPLICATION FORMS SHOULD BE SENT TO [insert name and address of relevant recipient].
  8. THE LATEST TIME FOR RECEIPT OF APPLICATION FORMS IS [insert time] ON [insert date].
  9. This invitation document is being issued in the United Kingdom and [insert countries in which it is proposed that invitation document be issued].
  - 9A 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.
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10. **Contents page**

[Insert contents page]

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11. **Definitions**

A definitions section including, but not limited to, the following:-

In this [*invitation document*] the following expressions shall have the following meanings:-

coming into line:	means complying with the requirements of Lloyd's so as to be eligible to underwrite insurance business at Lloyd's for the following year of account with a particular overall premium limit;
Commitment:	means, in relation to a Scottish limited partnership or a Limited Liability Partnership, the Commitment made by a limited partner or a LLP Member to meet underwriting losses of the SLP or the LLP respectively up to a specified amount in respect of a particular year of account;
GAAP	means Generally Accepted Accounting Principles
General Partner	means the general partner of an SLP from time to time
Equitas:	means the corporate entity into which the general business insurance liabilities of Lloyd's syndicates allocated to the 1992 and prior years of account have been reinsured;
Limited Partner	means a limited partner of an SLP
MAPA:	means a members' agents pooling arrangement within paragraph 10(2) of the Agency Agreements Byelaw (No. 8 of 1988);
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 (No. 8 of 1988);
New Central Fund:	means the fund established held, managed and applied by Lloyd's under the New Central Fund Byelaw (No. 23 of 1996);
overall premium limit:	means, in relation to a member, the limit for the time being prescribed on the amount of insurance business which is to be underwritten on his behalf from time to time, such limit being expressed as the maximum permissible amount of his premium income allocable to any year of account;

personal reserve fund:	means all monies and other assets paid to or to be retained by the trustees of a premiums trust fund who are not managing agent's trustees (as defined in the premiums trust deed constituting that premiums trust fund) and held by them subject to the terms of that premiums trust deed;
premium income:	means, in relation to a member, the aggregate of the premiums credited to him less, or net of qualifying reinsurance premiums, brokerage, discount, commission, any tax charged upon or any monies withheld from a premium by or on behalf of any statutory, governmental, state, provincial or local government authority, body or official and any premium returned to an assured;
premiums trust deed:	means a trust deed in the form for the time being required by the Council and constituting the premiums trust fund;
premiums trust fund or PTF:	means a fund of premiums and other monies held from time to time by or under the control of trustees upon the trusts of the premiums trust deed;
private successor vehicle:	<p>means a qualifying successor vehicle under a private arrangement or promoted private arrangement where participants and/or any connected person, either:</p> <ul style="list-style-type: none"> <li>(a) in relation to a qualifying successor vehicle which is a body corporate (other than a LLP), hold shares in that body corporate which represent: <ul style="list-style-type: none"> <li>i) not less than 85 per cent. (or such other percentage as the Council may prescribe) of the voting rights exercisable at a general meeting of the body corporate on all matters; and</li> <li>ii) the right to receive not less than 85 per cent. (or such other percentage as the Council may prescribe) of the amount distributable by way of dividend or on a winding up of the body corporate; or</li> </ul> </li> <li>(b) in relation to a qualifying successor vehicle which is an SLP, are entitled to: <ul style="list-style-type: none"> <li>i) exercise not less than 85 per cent. (or such other percentage as the Council may prescribe) of the voting rights exercisable at any meeting of the partners of the SLP; and</li> <li>ii) receive not less than 85 per cent. (or such other percentage as the Council may prescribe) of the distributable income of the SLP or of the SLP's</li> </ul> </li> </ul>

assets available for distribution on a winding up of the SLP.

- (c) in relation to a qualifying successor vehicle which is a LLP, are entitled to:
  - i) exercise not less than 85 per cent (or such other percentage as the Council may prescribe) of the voting rights exercisable at any meeting of the LLP Members; and
  - ii) receive not less than 85 per cent (or such other percentage as the Council may prescribe) of the distributable income of the LLP or of the LLP's assets available for distribution on a winding up of the LLP.

For the purposes of this definition, a “connected person” means:

- i) a participant's spouse, his children and step-children, his parents and step-parents, his brothers and sisters, his step-brothers and step-sisters; or
- ii) the trustee or trustees of a trust set up wholly for the benefit of the participant and/or one or more persons falling within (i) above; or
- iii) a body corporate of which the entire issued share capital is wholly owned by the participant and/or one or more persons falling within (i) or (ii) above.

qualifying successor vehicle: means a successor vehicle under an interavailability arrangement or a transition arrangement under which, in either case, not less than 75 per cent. of the successor vehicle's funds at Lloyd's are provided directly or indirectly by the participants.

run off year: means a year of account of a syndicate that has not been closed at its usual date for closure by RITC and has yet to be closed;

Special Reserve Fund: means a fund set up by an individual member in accordance with arrangements referred to in section 175 and Schedule 20 to the Finance Act 1993.

Any expression not otherwise defined in this [*invitation document*] shall have the meaning given to it in the Conversion Rules.

## 12. Key features

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

- (a) the type of conversion scheme which individual members are being invited to enter;
- (b) the individual members to whom the conversion invitation is being made;
- (c) details of the conversion invitation being made (including details of any conditions to which it is subject);
- (d) details of any securities which it is proposed a participant will receive;
- (e) details of the structure of the conversion scheme;
- (f) *this paragraph has been deleted*;
- (fa) a statement that [*the successor vehicle(s)*] will need to remain in existence even after successful reinsurance to close of all its outstanding liabilities until all such liabilities have been extinguished and individual members should have regard to the risk warning set out in paragraph (58A);
- (g) whether or not any member who participates in the conversion invitation will be entitled to receive any pre-conversion profits or be responsible for any pre-conversion losses;
- (h) a statement that, subject to his application being accepted, a participant will be required to:
  - (i) dispose of any prospective participations which are not accepted by the [*successor vehicle(s)*]; and
  - (ii) tender his resignation from Lloyd's (with the effect referred to in paragraph 1(13) of the Conversion Rules);
- (i) a statement that, if any part of an individual member's Lloyd's deposit provided by way of a guarantee from a bank or other financial institution is to be made interavailable, the consent of the issuer of such arrangements will be required;
- (j) a statement that, if an individual member will need to alter any existing arrangements in respect of his FAL, he should start discussions with his bank or other appropriate third party immediately;
- (ja) a statement that, if any part of an individual member's Lloyd's deposit provided by way of assets the value of which may go up or down (e.g. securities) is to be made interavailable, he should have regard to the risk warning set out in paragraph (48A);
- (k) a statement, if applicable, setting out the type of Lloyd's deposit which will not be acceptable to the [*successor vehicle(s)*];
- (l) if applicable, details of the syndicates which are not acceptable to the [*successor vehicle(s)*] (including a statement as to whether or not the successor vehicle is interested in acquiring prospective participations in any life syndicates);

- (m) details of how and when a participant will be able to dispose of his interest in the [successor vehicle(s)] or in any other securities which he may receive upon implementation of the conversion scheme or if there is no such ability, a statement to that effect including, in the case of an LLP or SLP, a summary of how a participant will be able to exit the LLP or SLP;
- (n) the minimum and maximum size of the prospective participations which may be accepted by the [successor vehicle(s)];
- (o) *this paragraph has been deleted;*
- (p) *this paragraph has been deleted;*
- (q) *this paragraph has been deleted;*
- (r) *this paragraph has been deleted;*
- (s) *this paragraph has been deleted;*
- (t) *this paragraph has been deleted;* and
- (u) in the case of a promoted private arrangement where two or more individual members wish to participate in the same successor vehicle, a statement that this is only permissible where the participants are connected individuals or employees of the same underwriting agent. Such members should seek advice from their members' agent.

### 13. **Timetable**

Provide an expected timetable setting out the key dates affecting the conversion invitation and including the dates of the Lloyd's auctions in that year.

### 14. **Terms**

The invitation document must clearly set out:-

- (a) the terms of the conversion invitation; and
- (b) the rights and obligations attaching to any securities proposed to be issued to participants.

### 15. **Conditions**

The invitation document must clearly set out any conditions:-

- (a) to which the conversion invitation and/or the conversion scheme is subject;
- (b) to which an application under the conversion invitation by any member is subject.

### 16. **Listing**

Provide a statement as to whether or not it is intended that any of the securities which it is proposed should be issued to participants 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.



17. **Risk factors**

Include:

- (a) statements setting out the risks for individual members who participate in a conversion scheme including the relevant statements in the terms set out below; and
- (b) a statement of other warnings as to risks which the sponsor and the promoter consider should reasonably be brought to the attention of any individual member to whom the conversion invitation is directed.

## Part I

### Lloyd's market

Statements in the following terms and in the following order:-

#### Lloyd's background

#### Lloyd's business trading record and prospects

- (1) Syndicates at Lloyd's underwrite insurance risks worldwide, with the core markets being in the United Kingdom and North America and in the marine, non-marine, aviation, large commercial and reinsurance sectors.
- (2) Under Lloyd's three year accounting system, its most recently declared results are in respect of the *[insert year]* year of account. Whilst overall results from Lloyd's syndicates were profitable from 1968 to 1987, significant losses were incurred in the five years of account between 1988 and 1992, before Lloyd's returned to profitability in the 1993 year of account, with a further improvement in 1994. There were further profits in 1995 and 1996, followed by a period of loss making years up to the 2001 Year of Account, which included losses arising from the terrorist attacks on September 11. *[Insert details re further years]*. The summary results for the years of account 1993 to 2003 were as follows:-

Year	Underwriting Profit/(loss) £m	Results after Personal expenses* £m
1993	670	225
1994	1,662	1,095
1995	1,602	1,149
1996	735	606
1997	163	(209)
1998	(777)	(1,065)
1999	(1,729)	(1,952)
2000	(2,123)	(2,397)
2001	(1,976)	(2,378)
2002	1,845	1,193
2003		2,543**

Source: Lloyd's Annual Report *[insert year]*

\* The results for all years of account include calendar year deterioration in respect of all run-off years.

\*\* Source: Lloyd's 2003 result: Lloyd's press release dated 6 April 2006. As at 1 January 2005 Lloyd's statutory reporting basis moved from three year accounting to annual accounting under UK GAAP. The 2002 year of account as closed at 31 December 2004 was therefore the last to be published in the Lloyd's annual report. However, the result of the 2003 year of account as closed at 31 December was reported in the press release dated 6 April 2006.

Lloyd's Global Results *[insert year]* published in *[insert month and year]* estimated *[include details of estimates for following 2 open years]*.

### **Reconstruction and renewal**

- (3) The Reconstruction and Renewal Plan culminated in the publication by Lloyd's of a settlement offer document in July 1996.
- (4) The key elements of the settlement offer document were: (i) the reinsurance of all general business liabilities allocated to 1992 and prior years of account into Equitas; (ii) a settlement offer to individual members in respect of 1992 and prior liabilities of around £3.2 billion; (iii) the establishment of a New Central Fund and "firebreak" to separate the old liabilities reinsured by Equitas; and (iv) the settling of litigation involving members, their agents and others. By reinsuring these into Equitas, Lloyd's syndicates should have no further exposure to general business liabilities for policies written prior to 1993, assuming Equitas is adequately funded and remains solvent.
- (5) The settlement offer document was sent to all individuals who could benefit from it and was accepted by approximately 95 per cent. of them. Equitas received unconditional authorisation from the Department of Trade and Industry in September 1996. The directors of Equitas stated in Equitas' audited accounts to [31 March 1997 (or give more recent date and adapt wording as appropriate)] that at [date of report] they did not believe that Equitas' assets were insufficient to meet all liabilities in full.

### **The auctions**

- (6) The introduction of auctions in 1995 provided a means of access to syndicates for all members and the opportunity for existing members to realise value for prospective participations when resigning from a syndicate or reducing their level of participation. This development built on the right to a proportionate share in any increase in syndicate capacity from one year to the next (granted in the 1994 and 1995 syndicate pre-emption byelaws) and the rights of security of tenure (i.e. the right to remain on any given syndicate) in respect of syndicate participations (conferred by the amendments made to the Agency Agreements Byelaw and the standard agency agreements).

### **Corporate capital at Lloyd's**

- (7) Until 1994, all members of Lloyd's underwrote insurance business with unlimited personal liability. In 1993, Lloyd's introduced new rules which, with effect from 1 January 1994, permitted bodies corporate for the first time to participate in underwriting insurance at Lloyd's. This type of capital, which has become known as corporate capital, provided £1.6 billion of premium capacity in the 1994 year of account, equivalent to 15 per cent. of Lloyd's overall capacity in that year. For the 2006 year of account, corporate capital supports £12.4 billion of premium capacity, 83.5% of Lloyd's overall capacity.
- (8) Since the initial Lloyd's rule changes in 1993, Lloyd's has permitted increased flexibility in the manner in which corporate capital can support underwriting at Lloyd's. This has contributed to the development of dedicated vehicles and the emergence of corporate syndicates. Dedicated vehicles are corporate members which exclusively support one or more of the syndicates managed by a particular managing agency, while a corporate syndicate is a syndicate with a single corporate member.

### **Control of corporate members**

- (9) A person may not be a "controller" of a corporate member without the prior written consent of the Council of Lloyd's. In summary, a controller is any person who holds 10 per cent. or more of the economic or voting rights of a corporate member, whether

directly or indirectly, or in accordance with whose directions the directors of a corporate member are accustomed to act. Controllers are obliged to complete a questionnaire on “Fitness and Propriety”. Lloyd’s will examine the reputation and financial standing of controllers to ensure they meet its “fit and proper” requirements.

- (10) Lloyd’s also retains the right to ask for financial guarantees, letters of support or subordination undertakings from controllers of corporate members.

### **Capital Requirements**

- (11) The minimum capital requirements for all members is set at 40% of their respective overall premium limit (OPL) (with the exception of members writing 85% or more direct UK motor business for whom the minimum capital requirement is 35%). The net funds at Lloyd’s may not, however, be reduced below 35% of allocated premium limit.

Subject to the absolute minimum FAL requirements set out in paragraph [(16A)], [insert name of successor vehicle]’s minimum capital requirement will be the greater of 40% of its OPL, its risk assessed capital requirement or its capital resources requirement. In satisfying its minimum capital requirement, [insert name of successor vehicle] must deduct from its FAL any interavailable FAL that have been “earmarked” to satisfy the Economic Capital Assessment (ECA) requirements relating to the participants’ pre-conversion underwriting portfolios. Individual members should seek advice from their members’ agent if they have concerns about this.

### **Subscriptions, fees and contributions**

- (12) Corporate members are required to pay the following subscriptions, fees and contributions:
- (a) Annual subscriptions which finance Lloyd’s central costs at a rate, in [insert year], of a maximum of [insert percentage figure] per cent. of overall premium limit.
  - (b) Central Fund contributions at a rate, in [insert year], of [insert percentage figure] per cent. of overall premium limit.
  - (c) Managing agents charge annual fees and profit commissions to members underwriting on their syndicates. Profit commissions are subject to an arrangement (known as a vertical deficit clause), whereby a syndicate’s losses in the preceding 2 years are deducted from current profits for the purpose of computing profit commissions.
  - (d) Members’ agents are subject to an arrangement (known as a horizontal deficit clause) whereby profit commissions are paid on the net result of the member’s participation on all syndicates in respect of which they act as members’ agent.
  - (e) *This paragraph has been deleted.*

All of the above payments are normally made out of premium trust funds on behalf of the corporate member.

## **Conversion**

- (13) In 1994, two mechanisms were identified that would enable conversion: transition and interavailability. Transition first became available for the 1995 year of account and interavailability for the 1996 year of account. Transition involves the successor vehicle reinsuring a converting individual member's open years in return for a premium calculated by reference to the most recent annual solvency statement of the individual member. Interavailability allows an individual member's existing Lloyd's deposit to be used to support both his pre-conversion open years and the future underwriting of the successor vehicle. To date, most conversion schemes have taken advantage of the interavailability mechanism and most have utilised as their successor vehicle either a company incorporated under the United Kingdom Companies Acts or a limited partnership established in Scotland.

## **Legal proceedings disclosure**

- (13A) Three Names have commenced proceedings claiming misfeasance in public office against Lloyd's in respect of an alleged failure to regulate, leading to the Names incurring underwriting losses from their participation on the 1993 Year of Account of Syndicates 103 and 718, the business of which it is claimed was unauthorised and conducted fraudulently by their Managing Agents. Lloyd's does not accept any liability in respect of this action.

In Quebec proceedings have been issued by Agence Nationale D'Encadrement Du Secteur Financier, the regulator of the Quebec policyholder protection fund, against Lloyd's and other parties arising out of the issue by a coverholder of purported "policies of insurance" without the authority of the involved Lloyd's syndicate.

Lloyd's has been joined to an action brought by certain members of Lloyd's against certain brokers in respect of the underwriting of insurance in Italy.

A counterclaim alleging fraud by Lloyd's similar to that alleged in the Jaffray Action (an action by certain Names who alleged fraudulent misrepresentation against Lloyd's inducing them to become members of Lloyd's and continue underwriting, which was dismissed) has been filed in the USA in response to Lloyd's proceedings seeking recognition of a judgment obtained by Lloyd's in England.

Two individuals have commenced an action in Alabama, USA against Lloyd's underwriters, Lloyd's and certain members and former members of the Council claiming damages in respect of an alleged wrongful failure to pay an insurance claim and failure to provide adequate supervision over certain Lloyd's Underwriters. Lloyd's does not accept any liability in respect of this action.

## Part II

### Interavailability

- (14) Lloyd's has introduced interavailability in order to provide a convenient mechanism for individual members who wish to convert to underwriting on the basis of limited liability.
- (15) Interavailability allows an individual member to use his Lloyd's deposit to support the underwriting of a successor vehicle in future years whilst at the same time supporting his open years. The member retains a broadly similar beneficial interest in his Lloyd's deposit as before and continues to receive profits and be liable for losses from underwriting years on which he participated as an individual member. Under these arrangements, the successor vehicle does not assume any responsibility for the past underwriting of the converting individual member.
- (16) An individual member who converts his general Lloyd's business through interavailability will need formally to request Lloyd's, as trustee of his existing Lloyd's deposit, to make all or part of that deposit interavailable to the successor vehicle and to confirm that he regards such a step as being for his benefit. Special Reserve Funds and personal reserve funds are not eligible and any life deposits can only support life business. However, some or all of the individual member's personal reserve funds may be transferred into the relevant individual member's Lloyd's deposit if the necessary steps for this are taken first. This will require an exercise of discretion on the part of Lloyd's as trustee of the personal reserve funds and the members' agent's written consent (given on behalf of the individual member). A member's Lloyd's deposit, such as cash and equities, may be made interavailable, as may guarantees and letters of credit, subject to the consent of the providing bank or financial institution.
- (16A) Under the Membership and Underwriting Requirements:
  - (a) FAL made interavailable to a qualifying successor vehicle are exempt for a limited period from some of the more restrictive rules that normally apply to the type and amount of assets that qualify as FAL for a corporate member. The period of exemption will vary depending on the type of asset concerned; and
  - (b) a private successor vehicle, in its first year of account only, is required to provide minimum funds at Lloyd's of whichever is the lowest of:
    - (i) £350,000; or
    - (ii) £100,000 per participant.

Also, [*insert name of successor vehicle*] will be required to comply with the investment criteria applicable to corporate members generally in respect of any additional or replacement assets provided as FAL after the coming into line date for the first year of account of [*insert name of successor vehicle*].

- (17) The Lloyd's deposit to be made interavailable by an individual member will provide security for the underwriting liabilities incurred by the successor vehicle as well as those already incurred by that individual member. Accordingly, an individual member will not normally be able to have his interavailable deposit repaid to him, even after every year of every syndicate of which he was a member has been closed by reinsurance, unless and until substitute security acceptable to Lloyd's has been provided in respect of open years of the successor vehicle or all the successor vehicle's own open and run off years have

themselves been closed by reinsurance. Although generally the interavailable deposit itself cannot be used directly as substitute security [(which may mean that a member will not be able directly to use his interavailable deposit to pay up his loan stock when payment falls due)], it may be possible to transfer all or part of the interavailable deposit directly into *[insert name of successor vehicle]*'s deposit. Such a transfer depends on a number of conditions and is at the discretion of Lloyd's as trustee of the interavailable deposit. The ability to transfer the interavailable deposit into *[insert name of successor vehicle]*'s deposit should therefore not be relied upon and an alternative source of funding may be necessary.

### **The Interavailability Deed**

- (18) The individual member's Lloyd's Deposit Trust Deed (General Interavailability) (in this and the following paragraphs, the "Interavailability Deed") provides a means for an individual member to use all or part of his Lloyd's deposit to support underwriting by a successor vehicle. The new deposit trust is first established by the individual member. The individual member's existing deposit is then transferred to the new trust by a separate Deed of Release, Advance & Resettlement. The Interavailability Deed provides for the individual member to carry on underwriting entirely through a single corporate member, or through a number of different corporate members. It is a condition of the conversion scheme that there is no continuation of underwriting on an individual basis.

### **Principal terms of the Interavailability Deed**

- (19) The terms of the Interavailability Deed broadly follow the terms of the existing standard Deposit Trust Deed. However, the deposit is split into separate funds:
- (a) the unappropriated fund which will support only the individual member's past business; and
  - (b) separate specified funds for each or any successor vehicle, which funds will support both the individual member's past business and the future underwriting business of the identified successor vehicle.
- (20) When an individual member participates in an interavailable conversion scheme, the successor vehicle will be required to enter into a deed under which it becomes a party to the Interavailability Deed. This Deed will specify which assets in the individual member's deposit are to support the future underwriting of the successor vehicle and they will become comprised in a special allocated fund, subject to Lloyd's solvency requirements. If any payment is made out of the deposit to meet the liabilities of an individual member, Lloyd's can require the individual member to put an equivalent amount back into the deposit.
- (20A) As with the existing standard deposit trust deed, capital appreciation on assets held in trust pursuant to the terms of the Interavailability Deed will form trust property. If such assets have been made interavailable, such capital appreciation will also support the underwriting of *[insert name of successor vehicle]* as well as the individual member's past business.
- (21) If at any time the unappropriated part of the deposit is not sufficient to meet Lloyd's solvency requirements for the individual member, the funds in the interavailable deposit supporting the business of the successor vehicle may be reduced. This will reduce the successor vehicle's ability to underwrite (because there will be less capital supporting it).

- (22) Once all of an individual member's liabilities have been provided for and any open years closed, the unappropriated part of the deposit can be returned to the individual member. If the liabilities of a particular successor vehicle have also been provided for and any open years closed, the part of the deposit which was supporting the business of that successor vehicle can also be returned to the individual member.
- (23) On the other hand, if the successor vehicle's liabilities are provided for and any open years closed but the individual member has continuing liabilities, funds in an amount required to support those liabilities will remain in the deposit.

#### **Creation of separate funds for successor vehicle**

- (24) Lloyd's, as trustee, must agree to all or part of the deposit being used to support the business of a successor vehicle. As trustee and regulator, Lloyd's has certain duties, both to the individual member and to any Lloyd's creditors of the individual member.
- (25) Lloyd's will need to be satisfied that the allocation of a specified fund which is interavailable for the individual member and a particular successor vehicle is for the benefit of the individual member. The deed executed by (or on behalf of) the individual member will confirm to Lloyd's that the individual member himself does regard it as being for his benefit. Lloyd's must also be satisfied that the position of the individual member's existing Lloyd's creditors will not be adversely affected in a material way.
- (25A) In particular, Lloyd's, as trustee, may not permit part, or all, of an individual member's Lloyd's deposit to be made interavailable unless it is satisfied at the time that there will be no material disadvantage to the individual member's Lloyd's creditors. In consequence, it may be necessary for part of a member's Lloyd's deposit to be set aside exclusively for the benefit of his creditors. The amount of the set aside is calculated by reference to any net solvency deficiency on an individual member's two naturally open years of account and any unpaid losses or run-off deficiencies. The part of the Lloyd's deposit set aside will form the unappropriated fund and will not be available to support the future underwriting of a successor vehicle. Individual members should consult their members' agent to ascertain whether they will be required to set aside part of their Lloyd's deposit. Details of the set aside calculation are given in paragraph 1.2 of Appendix 3 to Market Bulletin Y2086 issued on 5 July 1999.
- (25B) In order to give Lloyd's, as trustee of the individual member's Lloyd's deposit, some comfort that it is prudent to make the Lloyd's deposit interavailable, a cross deficit clause will operate between the first year of account of the successor vehicle and the final year of account of the individual member prior to conversion. This cross deficit clause will operate once interavailable FAL has been exhausted, so that profits from the first underwriting year of the successor vehicle can be used to meet losses which may arise from the year of account immediately preceding conversion.

#### **Lloyd's deposit provided by way of letter of credit or guarantee**

- (26) An alternative version of the Interavailability Deed described above is available for use where the individual member has provided his Lloyd's deposit by way of a letter of credit or guarantee. This alternative version operates for letters of credit or guarantees in a similar way to that described above in relation to cash and equities and contains similar principal terms.
- (27) The individual member will be required to enter into a new Security and Trust Deed (Interavailable) or a deed which will vary the terms of his existing Security and Trust



Deed so that the funds held under it can be made interavailable. The consent of the institution providing the letter of credit or guarantee will also be required (and may be required each time funds are allocated to a separate fund for a specific successor vehicle). It is not normally necessary to reissue the letter of credit or guarantee.

### **Part III**

#### **Risk factors (interavailability)**

The following statements must be set out in any invitation document which relates to an interavailability arrangement. Reference must be made in the derogation letter to any risk warnings which are not included together with an explanation as to their omission.

- (28) The nature of the insurance underwriting business, the regulatory regime applicable to [insert name of successor vehicle], the consequences of past years' underwriting losses at Lloyd's and the nature of conversion through interavailability generally, and through [insert name of successor vehicle] in particular, will give rise to a number of specific risk factors. The following list is not exhaustive, but is intended to draw individual members' attention to certain aspects of the risks involved in investing in [insert name of successor vehicle].

### **General warning**

- (29) The past few years have seen considerable changes at Lloyd's, particularly in the composition and character of its capital base. It is likely that continuing change will remain a feature of the Lloyd's capital base for the foreseeable future. Such change might involve alterations to the present annual venture basis of participating in syndicates, which could have fundamental implications for both Lloyd's and this conversion scheme, although the Council has no plans to mandate the end of the annual venture. Individual members should bear in mind that any decision to convert to limited liability now will necessarily be made without the benefit of knowing what the effect of these changes may be and without definitive knowledge of the future structure of the Lloyd's capital base.

In this context, there has been a trend in recent years towards continuous aligned capital structures at Lloyd's. In particular, many leading Lloyd's businesses have stated their intention to become integrated Lloyd's vehicles ('ILVs') (the Lloyd's equivalent of insurance companies) that would not normally be reliant on any third-party capital. Although, as stated above, the Council has no plans to mandate the end of the annual venture and sees diversity of capital provision as a strength, the Council welcomes continuous capital.

In 1998 the Private Capital Group ('PCG') was set up to investigate ways in which private non-aligned capital may participate in the economic performance of the market without impeding or removing the advantages of integration as seen from the perspective of those managing agents wishing to form or operate ILVs. Although the PCG's proposals have not been taken up by the market, it is possible that they – or a version thereof – could be in future.

Any decision to convert to limited liability should be made after taking into account all relevant factors, including the trend towards continuous capital.

Individual members should seek advice from their members' agent if they have concerns about any of the above.

- (29A) *This paragraph has been deleted.*
- (29B) Additional risk warnings to be included where the successor vehicle is a Scottish Limited Partnership.

### **(SLP 1) Leaving an SLP**

There are four ways of leaving an SLP:

- i) A Limited Partner may transfer or assign the whole of his interest in an SLP to a third party with the consent of the General Partner and Lloyd's. Lloyd's has set out criteria for the admission of persons as Limited Partners and, therefore, as assignees of a limited partnership interest. Not less than 90 days' prior written

notice must be given and all assignments must be effective on 1st January. The amount of consideration payable is a matter to be decided between the Limited Partner and his successor. The successor must provide adequate FAL to replace those of the assigning Limited Partner. Once a full assignment is completed, the assigning Limited Partner will have no further rights or obligations to the SLP although he may remain liable to any other creditors for any remaining liabilities which were incurred prior to the assignment.

- ii) A Limited Partner can give notice to resign from the SLP before 31 August each year for the subsequent year of account though his Lloyd's Deposit will not be released before all years of account of all syndicates which he has supported have been closed and provided the SLP has sufficient FAL to meet its ongoing requirements. If the SLP has insufficient FAL, release of his Lloyd's deposit may be protracted. The resigning Limited Partner will also be entitled to an amount equal to the proceeds or deemed value of the capacity sold or deemed disposed of as a consequence of his resignation. During this time the Limited Partner will continue to be entitled to profits from syndicates in respect of the years of account for which the Lloyd's Deposit has been provided and will also be responsible for any calls in respect of losses for which he is responsible in terms of his Commitment to the SLP for the relevant year(s) of account. If the proposed resignation of a Limited Partner would result in there being less than two partners in that SLP (including the General Partner), Lloyd's prior written consent will be required.
- iii) Provided that he is not the sole Limited Partner, a Limited Partner will cease to be a Limited Partner in the event of his death with immediate effect but his FAL will continue to support the underwriting of the SLP until the end of the year of account of his death. In such circumstances his personal representatives may request from the General Partner the right to transfer the interest of the deceased Limited Partner to any beneficiary (subject always to Lloyd's approval and compliance with Lloyd's requirements applicable to Limited Partners). Where he is the sole Limited Partner, upon his death, the SLP is deemed to be dissolved immediately and the managing agents of the relevant syndicates on which the SLP participates may terminate the managing agent's agreement with the SLP by giving not less than 48 hours' notice. In the event that the managing agents give notice, the SLP will be removed from the relevant syndicates with effect from 1 January of that year. In the event that the managing agents do not give notice to terminate, the SLP will remain on the syndicates until the end of that year. In the event of a Limited Partner's sequestration or bankruptcy, insanity, insolvency, receivership or administration, the General Partner may treat the Limited Partner as if he had submitted a notice of resignation.
- iv) With the consent of Lloyd's, the interests of all Limited Partners in an SLP may be sold, following a majority vote of 75% or more of the Limited Partners (weighted relative to their Commitments) to that effect.

In addition, an SLP can cease to underwrite any new insurance business at the end of any year of account by a majority vote of 75% or more of the Limited Partners (weighted relative to their Commitments) to that effect, provided the SLP has given notice to Lloyd's it intends to resign by the prescribed date in that year.

### **(SLP 2) Lloyd's Regulatory Rights**

Certain rights and undertakings set out in the partnership agreement are specifically

granted in favour of Lloyd's and certain rights or actions of Limited Partners and/or the General Partner in an SLP are subject to the prior consent of Lloyd's. In particular, Lloyd's prior consent is required under the partnership agreement where:-

- (a) the SLP is to be, or is proposed to be dissolved, whether by operation of law or otherwise. In particular, because an SLP is required to have at least two partners at any given time (one of which must be a General Partner), a Limited Partner may not resign where such resignation will result in there being less than two remaining partners (including the General Partner) without obtaining the prior written consent of Lloyd's. A similar restriction exists in relation to the General Partner. In addition, partners may not apply to a court for dissolution of an SLP (whether under the terms of the Partnership Act 1890 or otherwise) without the prior written consent of Lloyd's;
- (b) a new Limited Partner is to be admitted to the SLP or upon the admission of an assignee as a Limited Partner; and
- (c) any amendments or variations are proposed to be made to the terms of the partnership agreement.

### **(SLP 3) Funds at Lloyd's – SLPs**

In a number of instances a Limited Partner could find himself liable for more than the value of his Commitment for any year of account. First, if a Limited Partner has increased his FAL but calls in respect of an earlier year of account exceed the value of the FAL that was in place for the earlier year of account, the additional FAL may be called on to meet the calls on earlier years. Second, if the value of the FAL provided by any Limited Partner exceeds his Commitment and the losses of the SLP in any year of account exceed the total Commitments provided, Lloyd's may take the whole of his FAL to meet the call. Third, until the effective date of his resignation, a Limited Partner will, to the extent of his FAL and partnership capital, continue to be liable for the debts and obligations of the SLP and, therefore, underwriting losses. Fourth, if the interavailable FAL of one of his fellow Limited Partners has already been called on to meet his own open year losses and such FAL have not been replaced, Lloyd's may take more than a pro rata share of the remaining FAL to meet losses of the SLP.

Following assignation, an assigning Limited Partner may still be liable, to the extent of any partnership capital removed by him or by the assignee Limited Partner, for the residual liabilities of the SLP to third party creditors incurred prior to the advertisement and registration of the change.

If, during the continuance of the SLP, a Limited Partner either directly or indirectly draws out or receives back part of his capital contribution to the SLP (which would occur in all situations when a Limited Partner leaves the SLP and is repaid part or all of his partnership capital, except in instances of sale or assignation of the Limited Partner's interest in the SLP), the Limited Partner becomes liable to the amount so drawn out or received back.

In addition, if a Limited Partner decreases his Commitment, the release of the proportionate part of the FAL he provided to enable the SLP to underwrite in security for his Commitment may be protracted and until released may be exposed to underwriting losses of the SLP.

### **(SLP 4) In relation to the SLP structure**

There are a number of ways a Limited Partner in a SLP can, at law, lose his limited liability. First, if a Limited Partner takes part in the management of the SLP, he will lose his limited liability for at least as long as his participation in the management. Second, if the SLP is not registered in accordance with the provisions of the 1907 Act whether initially or with reference to later changes, a Limited Partner is deemed to be a General Partner and, as such, his liability is unlimited. Third, if the Commitment of a Limited Partner or the provision by him of FAL to enable the SLP to underwrite at Lloyd's was deemed to be a capital contribution to the SLP but had not been registered as such in terms of the 1907 Act, the registration of the SLP would be incorrect and liability of the Limited Partners for the debts of the SLP would be unlimited. Fourth, if it were to be decided by the courts that a General Partner cannot, in terms of the 1907 Act, be a corporate body (although it is common practice for a general partner in a Limited Partnership to be a corporate body), the registration of the SLP would be incorrect and liability of the Limited Partners for the debts of the SLP would be unlimited.

If, by an assignation in part, there would result in more than 19 Limited Partners in any one SLP, the General Partner will not consent to such assignation.

There is no established market in interests in SLPs. A Limited Partner may have difficulty in assigning his interest or in obtaining reliable information about its value. A prospective Limited Partner should consider carefully whether becoming a Limited Partner is suitable for him in the light of his personal circumstances and the financial resources available to him.

If the General Partner is prohibited from acting in that capacity (e.g. if any other SLP of which he is a General Partner becomes insolvent) a new General Partner will need to be appointed or the SLP may need to discontinue underwriting.

- (29C) Additional risk warnings to be included where the successor vehicle is a Limited Liability Partnership.

### **(LLP 1) Leaving an LLP**

There are four ways of leaving an LLP:

- i) A LLP Member may transfer part or the whole of his interest in an LLP to a third party, subject to that interest being first offered to the other LLP Members in accordance with the terms of the LLP agreement. There are certain exceptions to this, for example if all the other LLP Members consent to the transfer to a third party. Lloyd's has set out criteria for the admission of persons as LLP Members, and Lloyd's consent is required to the admission of the person as a new LLP Member. The amount of consideration payable for the interest transferred is a matter to be decided between the LLP Member and his successor. The successor must provide adequate FAL to replace those of the transferring LLP Member. Following completion of the transfer, the transferor will cease to be a LLP Member and will have no entitlement to the property and assets of the LLP. The transferee, once admitted as a new LLP Member, will assume all the rights and obligations of the transferor under the LLP agreement and at law.
- ii) A LLP Member can give notice to resign from the LLP before 30 June (or such later date as may be agreed) each year, although the resignation will not take effect until the end of the year in which the last year of account of every syndicate on which the LLP participated, and which the LLP Member supported, is closed. Until this time, part or all of the Lloyd's deposit provided by the LLP Member in

support of the LLP's underwriting will be retained by Lloyd's, assuming the LLP has sufficient FAL to meet its ongoing requirements. If the LLP has insufficient FAL, release of the LLP Member's Lloyd's deposit may be protracted. The resigning LLP Member will also be entitled to an amount equal to the proceeds or deemed value of the capacity sold or deemed disposed of as a consequence of his resignation. During this time the LLP Member will continue to be entitled to profits from syndicates in respect of the years of account on which the LLP participated and which he supported, and will also be responsible for any losses and expenses for which he is responsible in terms of his Commitment to the LLP for the relevant year(s) of account. If the proposed resignation of a LLP Member would result in there being less than two remaining LLP Members in the LLP, then that resignation shall be of no effect.

- iii) A LLP Member will cease to be a LLP Member in the event of his death with immediate effect, but his FAL will continue to support the underwriting of the LLP until the end of the year of account of his death. Prior to the coming-into-line date (or such later date as the LLP agrees) and subject to Lloyd's prior written consent, either the personal representatives of the deceased LLP Member, or (with the personal representatives' consent) a beneficiary of the deceased LLP Member's estate, shall be admitted as a new LLP Member and the deceased LLP Member's interest in the LLP will transfer to the new LLP Member. In such case, and with the personal representatives' consent if necessary, the deceased LLP Member's FAL may be treated as if it had been provided by the new LLP Member. In the event of a court order on the grounds of a LLP Member's mental disorder, the LLP Member shall be treated as if he had submitted a notice of resignation.
- iv) In the event of a LLP Member committing material or persistent breaches of the LLP agreement which cannot be or are not remedied, becoming bankrupt or insolvent, failing to pay monies to the LLP when due or being guilty of any conduct likely to have a serious adverse effect on the LLP or its business, the LLP may expel that LLP Member by notice in writing. The LLP Member has the right under the LLP agreement to serve a counter-notice denying the allegations and to refer the matter to an independent expert for determination. If a LLP Member is expelled, his rights and obligations in relation to the LLP shall be the same as for a resigned LLP Member.

In addition, a LLP can cease to underwrite any new insurance business at the end of any year of account if the LLP Members carrying 90% or more of the voting rights in the LLP (as set out in the schedule to the LLP agreement) vote to that effect, provided the LLP has given notice to Lloyd's it intends to resign by the prescribed date in that year.

## **(LLP 2) Lloyd's Regulatory Rights**

Certain rights set out in the LLP agreement are specifically granted in favour of Lloyd's and certain rights or actions of the LLP Members in a LLP are subject to the prior consent of Lloyd's. In particular, Lloyd's prior consent is required under the LLP agreement where:-

- (a) the LLP Members carrying 75% of the voting rights in the LLP determine that the LLP is to be wound up voluntarily, or determine that the designated members of the LLP present a petition to the court in the name of the LLP to wind up the LLP on the grounds that it is unable to pay its debts within the meaning of s. 123 of the Insolvency Act 1986;

- (b) a new LLP Member is to be admitted to the LLP; and
- (c) any amendments or variations are proposed to be made to the terms of the LLP agreement (excluding the schedules thereto).

### **(LLP 3) Funds at Lloyd's – LLPs**

In a number of instances a LLP Member could find himself liable for more than the value of his Commitment for any year of account. For example, if a LLP Member has increased his FAL but calls in respect of an earlier year of account exceed the value of the FAL that was in place for the earlier year of account, the additional FAL may be called on to meet the calls on the earlier year. Second, if the value of the FAL provided by any LLP Member exceeds his Commitment and the losses of the LLP in any year of account exceed the total Commitments provided, Lloyd's may take the whole of his FAL to meet the call. Third, until the effective date of his resignation, a LLP Member will, to the extent of his FAL and capital in the LLP, continue to be liable for the debts and obligations of the LLP and, therefore, underwriting losses. Fourth, if the interavailable FAL of one of his fellow LLP Members has already been called on to meet his own open year losses and such FAL have not been replaced, Lloyd's may take more than a pro rata share of the remaining FAL to meet losses of the LLP.

In addition, if a LLP Member decreases his Commitment, the release of the proportionate part of the FAL he provided to enable the LLP to underwrite as security for his Commitment may be protracted and until released may be exposed to underwriting losses of the LLP.

### **(LLP 4) In relation to the LLP structure**

There are certain ways by which a LLP Member in a LLP can, at law, lose his limited liability. If a LLP carries on business with only one LLP Member for more than six months, then for the period when it carries on business after those six months with only one LLP Member and that LLP Member knows that it does so, the LLP Member is jointly and severally liable with the LLP for the payment of its debts incurred during that period. In addition, if, during the course of the business of the LLP or with its authority, a LLP Member has assumed a personal duty of care to a third party and acted in breach of it, the LLP Member will be liable to that third party. Where a LLP becomes insolvent, a liquidator may apply to a court for an order that a LLP Member should make repayment to the LLP of any withdrawals (including share of profits and loan repayments) made during the two year period ending on the commencement of the winding up of the LLP if the LLP Member, at the time of the withdrawals, had reasonable grounds to believe that the LLP was unable to pay its debts (or would become so as a result of any contemporaneous withdrawals or any in contemplation at that time).

There is no established market in interests in LLPs. A LLP Member may have difficulty in transferring his interest or in obtaining reliable information about its value. A prospective LLP Member should consider carefully whether becoming a LLP Member is suitable for him in the light of his personal circumstances and the financial resources available to him.

### **Underwriting risks**

- (30) The underwriting of insurance is a high risk business and losses can be made as well as profits. In underwriting insurance risks at Lloyd's, *[insert name of successor vehicle]* and

all the Lloyd's deposits made interavailable to it will be exposed to the risk of underwriting losses. In the worst case, all *[insert name of successor vehicle]*'s assets and all the Lloyd's deposits made interavailable to it would be used to meet underwriting losses. In this event, although participants would have lost the value of their investment in *[insert name of successor vehicle]* and their Lloyd's deposit (to the extent it was made interavailable), their liability for the underwriting losses of *[insert name of successor vehicle]* would be limited to their investment in *[insert name of successor vehicle]* and the amount of any Lloyd's deposit that they have made interavailable to *[insert name of successor vehicle]* or they have been required to make interavailable to *[insert name of successor vehicle]*. In addition, should any participants choose to pay any requests for funds made by Lloyd's in respect of underwriting losses suffered by *[insert name of successor vehicle]* otherwise than out of their Lloyd's deposit already made interavailable to *[insert name of successor vehicle]*, such payment would potentially increase this exposure. Participants however remain liable on an unlimited basis for losses relating to their personal underwriting business.

- (31) Participants should be aware that risks and rewards vary from syndicate to syndicate and the categories of business written by those syndicates. *[Insert name of successor vehicle]*'s syndicate participations will depend in part upon the amount and mix of prospective participations offered to it by individual members under this conversion scheme, although it will not accept prospective participations offered on syndicates that it does not wish to support. In future years of account, the mix of prospective participations will depend on *[insert name of successor vehicle]*'s policy of tendering existing prospective participations and/or subscribing further prospective participations in the auctions or otherwise.
- (32) Notwithstanding the "firebreak" introduced when Lloyd's implemented the Reconstruction and Renewal Plan in 1996, it must be recognised that the ongoing market, including *[insert name of successor vehicle]*, will indirectly remain exposed in a number of ways to 1992 and prior business reinsured by Equitas, including through the application of overseas deposits and the New Central Fund. Ongoing members, including *[insert name of successor vehicle]*, may also be exposed to liabilities arising from 1992 and prior years if a reinsurance policy allocated to the 1993 or any subsequent year of account of a syndicate which a member joins had provided reinsurance cover in respect of risks incurred in 1992 or prior years and originally underwritten at Lloyd's.

#### **Lloyd's own 1992 and prior liabilities**

- (33) Lloyd's has a number of contingent liabilities in respect of risks under policies allocated to 1992 or prior years of account. If Equitas is unable to pay the 1992 and prior liabilities in full, Lloyd's will be liable to meet any shortfall arising in respect of those policies. The New Central Fund, which can, subject to Lloyd's regulations, issue calls on current underwriting members of Lloyd's (which will include the *[insert name of successor vehicle]*), may be applied for these purposes. Lloyd's also has contingent liabilities under indemnities covering 1992 and prior matters. Lloyd's has provided indemnities in respect of claims against audit firms contributing to the auditors' settlement fund and to certain individuals and advisers. There may also be residual litigation involving Lloyd's, for instance from individual members who have not accepted the settlement offer, through which Lloyd's will potentially have a continuing exposure to claims relating to the 1992 and prior years of accounts.
- (34) The New Central Fund could be exposed indirectly to 1992 and prior business if Equitas' assets were insufficient to meet its liabilities. To the extent that assets of a member underwriting in 1992 or prior years, or on a syndicate which has reinsured 1992 or prior



years, are used to discharge 1992 and prior liabilities which Equitas has failed to meet, they will not be available to meet liabilities in respect of 1993 and later years. In such circumstances, Lloyd's may take the view that it is appropriate to apply the New Central Fund to discharge those liabilities.

### **Overseas deposits**

- (35) Regulatory authorities in a number of jurisdictions require the maintenance of local deposits for policyholder protection as a condition of Lloyd's members maintaining their regulatory approval. In the event that Equitas were to fail to meet in full liabilities in respect of 1992 and prior years, certain overseas deposits in place at that time may be subject to regulatory action. In addition, the New Central Fund might, with the consent of members in general meeting, be applied to prevent draw down of such deposits, or to issue good any part of the deposits used to meet liabilities reinsured by Equitas.

### **Lloyd's regulatory powers**

- (36) *This paragraph has been deleted.*
- (37) The Council has wide discretionary powers to regulate members' underwriting at Lloyd's. It may, for instance, vary the FAL ratio or the investment criteria applicable to FAL. Either might affect the amount of *[insert name of successor vehicle]*'s overall premium limit and consequently the return on an investment in *[insert name of successor vehicle]* in a given year of account.

### **Investment risks**

- (38) Individual members should recognise that the value of the assets comprising their Lloyd's deposit made interavailable to *[insert name of successor vehicle]* may fluctuate and that a fall in their value may affect the level of underwriting permissible by *[insert name of successor vehicle]*.
- (39) The *[insert details of securities]* will not be listed and no application has been made to any stock exchange for such a listing. [The *[insert details of securities]* [are *[non]-transferable*]. [There may be no market for *[insert details of securities]*]. An unlisted security is an illiquid investment. The value of an investment may go down as well as up.
- (40) Should *[insert name of successor vehicle]* cease or reduce its underwriting, the subsequent distribution by *[insert name of successor vehicle]* of any capital which would no longer be required as FAL for the purposes of coming into line may be protracted and complicated. It is recommended that participants discuss this matter with their own personal legal and taxation advisers.

### **Solvency**

- (41) Syndicate solvency results are prepared on the full UK GAAP annual accounting basis. Under annual accounting, the solvency balance at 12 months is unlikely to be a significant surplus due to the restriction on the recognition of profits to an earned premiums basis. There may be, therefore, an initial solvency strain on *[insert name of successor vehicle]* as a new Lloyd's member which, together with any cash calls which may be made by a managing agent, may result in *[insert name of successor vehicle]*'s FAL being reduced and hence its overall premium limit coming under pressure during the initial years of membership.

- (42) *[insert name of successor vehicle]*'s solvency position will be calculated at each year end to ensure that it continues to have sufficient assets to meet its share of the liabilities of syndicates supported by it.

#### **Regulatory Capital Requirements (1) Minimum Capital Requirement (MCR)**

- (43) Under Lloyd's requirements each member must demonstrate that he has sufficient assets to meet his underwriting liabilities plus a solvency margin known as an MCR. A member's solvency margin is calculated on a similar basis to any EU insurer and is the higher of a specified percentage of premiums and claims – broadly, 16 per cent. of premiums receivable by him during the previous financial year or 23 per cent. of average claims incurred by him in the three previous financial years. In relation to three classes of liability business (general, marine and aviation), premiums and claims must be increased by 50% for the purpose of the calculation of the member's solvency margin. The MCR will increase the possibility that a converting member or his successor vehicle will have a deficit which may have implications for the future underwriting of the conversion vehicle.
- (44) *This paragraph has been deleted.*
- (45) *This paragraph has been deleted.*

#### **Regulatory Capital Requirements (2) Individual Capital Adequacy Standards (ICA)**

- (45A) Risk assessed capital requirements are determined on the basis of Lloyd's Economic Capital Assessment model (ECA). In determining the level of ECA for each Lloyd's member, account will be taken of the specific individual capital assessment (ICA) for each syndicate, calculated by the managing agent in accordance with the FSA's requirements.

The ICA will have a percentage economic uplift applied by Lloyd's in order to raise it from the minimum regulatory capital requirement to a figure which Lloyd's considers prudent. This will be a syndicate specific ECA and will be the basis of calculating the member level ECA.

#### **Capital**

- (45B) Lloyd's members are required to provide funding to the New Central Fund in the form of loans out of their syndicate PTFs. The rights of members to repayment of such loans in the event of a winding-up of the Society will be subordinated to the claims of the holders of the subordinated notes issued by Lloyd's in November 2004. The amount of the loan will be determined by reference to a member's capacity for the relevant year of account (for the 2006 year of account, each member is required to lend an amount equal to 0.75% of its capacity). The actual amount loaned by any particular member may therefore vary from year to year. Details of the loans to be raised from members in 2007 for the 2007 year of account will be published by the end of *[insert date]*.

There will be no obligation on the Society to repay the loans other than in a winding-up of the Society. However, in normal circumstances, it is expected that the arrangements will involve the "rolling repayment" of a proportion of the debt to coincide with RITC of the relevant year of account, after being outstanding for approximately 3 years. This repayment is expected to be funded out of the proceeds of a new loan on the same terms from the new year of account.

Interest on the loans is payable annually but may be deferred at Lloyd's discretion. Deferred interest shall accumulate. As the loans are syndicate assets, the interest that is paid on them will form part of the syndicate profit or loss that is apportioned to the members of the syndicate for UK corporation and income tax purposes.

Further details of these syndicate loans and the requirements made by the Council are set out in Market Bulletin Y3394 dated 17 September 2004, Market Bulletin Y3516 dated 10 March 2005 and Market Bulletin Y3624 dated 9 September 2005.

### **Mutualisation**

- (46) The amount of Lloyd's deposit made interavailable by each participating individual member will be held by Lloyd's in its capacity as trustee of the trusts created by the Interavailability Deed (described above). Where there is a cash call in respect of the Lloyd's obligations of *[insert name of successor vehicle]*, Lloyd's may apply *[insert name of successor vehicle]*'s own FAL or Lloyd's deposits which have been made interavailable under this conversion scheme in satisfaction of those obligations in any order and relative amounts as between the participating individual members. Although, in the event of any such cash call, *[insert name of successor vehicle]* will inform Lloyd's of the amount of each participating individual member's Lloyd's deposit which has been used to support the underwriting of *[insert name of successor vehicle]* for each year of account, there can be no guarantee that Lloyd's will apply the Lloyd's deposits in the proportions advised by *[insert name of successor vehicle]* and a participant may have proportionately more or less of his Lloyd's deposits applied in satisfaction of *[insert name of successor vehicle]*'s Lloyd's obligations than his proportion of *[insert details of securities]* allocated to them for any year of account.
- (47) If the interavailable deposit provided by another participant is reduced for any reason and *[insert name of successor vehicle]* then sustains a loss or receives a cash call, the Lloyd's deposits provided by other participants may bear a disproportionate share of that loss or cash call. This is because all Lloyd's deposits made interavailable by participating individual members are available to support the underwriting of *[insert name of successor vehicle]*. The interavailable deposit of another participant may be reduced either due to any part of the interavailable deposit being applied in discharging that participant's own liabilities (including solvency liabilities arising from pre-conversion years of account) as an individual member or due to a fall in the value of any investments comprised within that deposit - this risk is referred to as mutualisation.
- (48) Under the Interavailability Deed, a participating individual member may, if Lloyd's so exercises its discretion, be obliged to pay to Lloyd's as trustee a sum equal to any amount of interavailable Lloyd's deposit applied in discharging the individual member's own preconversion underwriting liabilities. Any profit derived from the underwriting activities of the individual member is charged as security for this obligation and assigned to the trustee.

- (48A) An individual member wishing to convert under [*this conversion scheme*] whose Lloyd's deposit consists, in whole or in part, of assets the value of which may go up or down (e.g. securities) should be aware that:
- (a) if that Lloyd's deposit is made interavailable, any capital appreciation on the value of such assets may also be applied by Lloyd's in satisfaction of [*insert name of successor vehicle*]'s Lloyd's obligations;
  - (b) The current guidelines for the partial release of the Lloyd's deposit permit the release of "surplus" interavailable FAL. However, the guidelines are restrictive and individual members should be aware that any capital appreciation on assets made interavailable may not be released back to the individual member until all his open years have closed and [*insert name of successor vehicle*]'s liabilities are provided for in accordance with the release rules; and
  - (c) as a result of any such capital appreciation being available to meet the Lloyd's obligations of [*insert name of successor vehicle*] a participant may have proportionately more of his Lloyd's deposit applied in satisfaction of such obligations than his proportion of [*insert details of securities or loan stock in successor vehicle to be issued*] allocated to him.

For these reasons such individual members may wish to consider substituting such assets for assets the value of which does not fluctuate (e.g. a letter of credit or bank guarantee) and should consult with their members' agent.

It may not be possible for a participant to increase the amount of Lloyd's deposit made interavailable by using existing FAL that has not been made interavailable (i.e. the participant's unappropriated fund), in which case any additional FAL would have to be provided from the participant's other personal wealth.

#### **Taxation of syndicate members**

- (49) Lloyd's corporate members are taxed in the UK on the profits they derive from syndicates as trading profits, with syndicate losses being relievable as trading losses. The syndicate profits or losses are taken into account for tax purposes in the calendar year following the normal closure date of the year of account. If a syndicate goes into run-off subsequent taxable profits or losses are then taken into account annually until the year of account closes.
- (50) The amount of a syndicate's taxable profit or loss is determined by the managing agent. On occasion the syndicate's taxable profit may differ from its commercial profit, for example if expenses are disallowed for tax purposes. The syndicate's taxable result is then apportioned among the syndicate's members. As the taxable entity, a member which is a limited liability company will file a corporation tax return using its share of the syndicate result to calculate the Lloyd's profit. For a SLP or LLP, the result is allocated to the partners or the LLP Members respectively and entered into their calculation of Lloyd's profits. Non-syndicate income and expenses are also entered into in the same calculation.
- (51) *This paragraph has been deleted.*
- (51A) *This paragraph has been deleted.*
- (52) One member-level adjustment that must be taken into account for tax purposes where applicable affects members that write 4% or more of a syndicate's stamp. This results from legislation which was introduced by section 107 Finance Act 2000 and which in

certain circumstances applies a hindsight calculation to the amount of reinsurance to close deducted by such members. If a member participates on a syndicate to the extent of 4% or more, it is therefore possible that its taxable profit for an accounting period relating to its syndicate participation may exceed the profit that is actually distributed to it by the syndicate.

### **Prospective participations acquired during the year**

- (52A) Individual members wishing to convert should be aware that they are able to transfer to *[insert name of successor vehicle]* any prospective participation acquired during the year. Individual members should also be aware that a requirement of participating in *[insert name of conversion scheme]* is that they must tender their resignation to Lloyd's. Any prospective participation acquired during the year but not converted will drop back to the managing agent for nil value unless it is disposed of in response to a mandatory offer.

- (53) *This paragraph has been deleted.*

### **MAPA operators**

- (54) MAPA operators may not issue applications under the terms of *[this conversion scheme]* on behalf of individual members for whom they act unless specifically instructed to do so by that individual member. An individual member wishing to issue an application who has prospective participations held through a MAPA should note that, should his application be accepted, he will be required under the terms of *[this conversion scheme]* to cease underwriting on an unlimited liability basis with effect from the *[insert year]* year of account whether through a MAPA or otherwise. Therefore, an individual member whose application is accepted should give notice to his members' agent, MAPA operator and all relevant managing agents by *[insert notice procedure]*.

### **Miscellaneous**

- (55) Individual members who convert under *[this conversion scheme]* must tender their resignation to Lloyd's, but that resignation will not actually take effect until it is accepted by the Council. Until it is accepted the member in question will remain as a member of Lloyd's. A member's resignation will usually take effect from the later of -

- (a) the time when each year of account of each syndicate of which he has been a member has been closed by reinsurance to close; and
- (b) the time when he shall no longer have any FAL, whether made interavailable to a successor vehicle or otherwise.

- (56) *This paragraph has been deleted.*

- (57) Unless a participant's managing agent has otherwise agreed in writing, a participant, who is a member of a syndicate for the year of account in which the conversion invitation is made who has not given notice under clause 11.5 of the standard managing agent's agreement by the last date for giving such notice (*[state what that date is in the relevant year of account]*):

- (a) will be a member of the provisional syndicate for next following year of account; and
- (b) is or will be liable to pay an annual fee for the next following year of

account on the basis of his members' syndicate premium limit with which he is entitled to participate on the syndicate for the following year of account if the conversion invitation lapses and the participant is unable to dispose of his participation on that syndicate through the auction process or transferred in accordance with the requirements of Council.

- (58) If an individual member has already given notice to leave a syndicate for the *[insert year]* year of account, that individual member may not be able to transfer his prospective participation on that syndicate to *[insert name of successor vehicle]* without the relevant managing agent's approval.
- (58A) *[Insert name of successor vehicle]* will continue to have insurance obligations even after all its years of account have been closed by reinsurance to close. In order to continue to perform these obligations the *[insert name of successor vehicle]* will be required to stay in existence. It will not be possible to wind up the *[insert name of successor vehicle]* and, in the case of a body corporate, remove it from the register of companies. Accordingly there will continue to be an administrative and financial burden for *[insert name of successor vehicle]* after its membership has ceased, until its insurance obligations have been extinguished including in the case of a body corporate the completion of accounts in accordance with Schedule 9A of the Companies Act 1985. Lloyd's is in discussion with the relevant authorities to try and minimise that burden wherever possible.

## Part IV

### Reverse interavailability

- (59) Lloyd's introduced standard interavailability to provide a mechanism for individual members who wished to convert to underwriting on a limited liability basis. Reverse interavailability has the same purpose but instead of the individual member's Lloyd's deposit being made interavailable to support the underwriting of *[insert name of successor vehicle]*, the individual member will normally contribute assets to *[insert name of successor vehicle]* and *[insert name of successor vehicle]*'s own Lloyd's deposit is then made reverse interavailable to support the past liabilities of the individual member and the future liabilities of *[insert name of successor vehicle]*. Subject to the individual member's solvency position, this normally means the individual member's own FAL can be released back to him. It should be noted that *[insert name of successor vehicle]* assumes no responsibility for the past underwriting of the converting individual member other than the provision of the particular fund made reverse interavailable to that individual member. The individual member therefore remains personally liable in respect of past years if the reverse interavailable funds and any other FAL of the individual member are exhausted.
- (60) Once all the individual member's open years have closed, the funds made reverse interavailable to him by *[insert name of successor vehicle]* will be held from then on solely for the benefit of *[insert name of successor vehicle]*'s Lloyd's creditors.

**The Reverse Interavailability Deed** *[The following details will vary depending on the assets involved]*

- (61) The [Lloyd's Security and Trust Deed (Reverse Interavailability)] provides a means for a successor vehicle such as *[insert name of successor vehicle]* to establish individual specified funds of assets which are made reverse interavailable for the benefit of separate converting individual members. In order to establish such a fund for an individual member, the successor vehicle, the individual member and Lloyd's enter into a Deed of Inclusion. This segregates part of the successor vehicle's Lloyd's deposit into a separate "specified fund" which is available to the past Lloyd's creditors of the individual member and the future Lloyd's creditors of the successor vehicle. The amount of this specified fund is normally equivalent to the value of the individual member's existing Lloyd's deposit. This allows Lloyd's in its capacity as trustee of the individual member's existing Deposit Trust Deed or Security and Trust Deed to release the individual member's own Lloyd's deposit back to the individual member.

### Principal terms of the Reverse Interavailability Deed

- (62) The terms of the Reverse Interavailability Deed broadly follow the terms of the existing standard corporate member's Security and Trust Deed. However, the deposit is split into separate funds:-
- (a) the unappropriated fund which will support only the successor vehicle's business; and
  - (b) separate specified funds for each or any converting individual member, which funds will support both the converting individual member's past business and the future underwriting business of the successor vehicle.
- (63) When an individual member participates in a reverse interavailable scheme, he will be required to enter into a separate deed known as a Deed of Inclusion by which the

individual member becomes a party to the Reverse Interavailability Deed. The Deed of Inclusion will specify which assets in the successor vehicle's Lloyd's deposit are to support the individual member's past underwriting and they will become comprised in a specified allocated fund, subject to Lloyd's solvency requirements. If any payment is made out of the specified fund to meet the liabilities of an individual member, Lloyd's can require the individual member to use any future Lloyd's underwriting profits to make good the amount paid out.

- (64) If at any time the unappropriated part of the deposit (together with any other FAL of the successor vehicle) is not sufficient to meet Lloyd's solvency requirements for the successor vehicle, the funds made reverse interavailable to individual members to support their past underwriting may be reduced. This may mean the individual member will be required to provide further FAL to pass solvency tests.
- (65) Once all of a converting individual member's liabilities have been provided for and any open years closed, the specified fund relating to that particular individual member is returned to the unappropriated fund. If all the successor vehicle's liabilities have also been provided for and any open years closed, then the assets will be returned to the successor vehicle.



## **Part V**

### **Risk factors (reverse interavailability)**

The following statements must be set out in any invitation document which relates to a reverse inter availability arrangement. Reference must be made in the derogation letter to any risk warnings which are not included together with an explanation as to their omission.

- (66) *Insert paragraph (28).*

#### **General warning**

- (67) *Insert paragraph (29)*

- (67A) *This paragraph has been deleted.*

#### **Underwriting risks**

- (68) The underwriting of insurance is a high risk business and losses can be made as well as profits. In underwriting insurance risks at Lloyd's, [insert name of successor vehicle] will be exposed to the risk of underwriting losses. Where funds are made reverse interavailable by [insert name of successor vehicle], in the worst case all [insert name of successor vehicle]'s assets and all its Lloyd's deposit made interavailable to participants would be used to meet its underwriting losses. In this event, participants would be required, in respect of their preconversion underwriting business to ensure that sufficient funds were maintained in their non-interavailable Lloyd's Trust Funds. However, the participants would have no further liability in respect of the losses of [insert name of successor vehicle].

- (69) *Insert paragraph (31).*

- (70) *Insert paragraph (32).*

#### **Lloyd's own 1992 and prior liabilities**

- (71) *Insert paragraph (33).*

- (72) *Insert paragraph (34).*

#### **Overseas deposits**

- (73) *Insert paragraph (35).*

#### **Lloyd's regulatory powers**

- (74) *This paragraph has been deleted.*

- (75) *Insert paragraph (37).*

#### **Investment risks**

- (76) If the assets comprising the Lloyd's deposit of [insert name of successor vehicle] under a reverse interavailability scheme are liable to fluctuate in value, e.g. if they comprise

shares and securities as opposed to guarantees or letters of credit, the level of underwriting permissible by *[insert name of successor vehicle]* may also be affected.

(77) *Insert paragraph (39).*

(78) If applicable, the following statement:-

If *[insert name of successor vehicle]* ceases to underwrite, its FAL will not be repayable to individual members. The *[insert name of successor vehicle]* may resolve to distribute surplus assets to participants. However, the distribution by *[insert name of successor vehicle]* of any capital may be protracted and complicated. It is recommended that participants discuss this matter with their own personal legal and taxation advisers.

### **Solvency**

(79) *Insert paragraph (41).*

(80) *Insert paragraph (42).*

### **Regulatory Capital Requirements (1) Minimum Capital Requirements**

(81) *Insert paragraph (43).*

(82) *This paragraph has been deleted.*

(83) *This paragraph has been deleted.*

### **Regulatory Capital Requirements (2) Individual Capital Adequacy Standards**

(83A) *Insert paragraph (45A).*

### **Capital**

(83B) *Insert paragraph (45B).*

### **Mutualisation**

(84) Under a reverse interavailability scheme, the amount of Lloyd's deposit made reverse interavailable to each participant will be available only to the past Lloyd's creditors of that participant and the future Lloyd's creditors of *[insert name of successor vehicle]*. Where *[insert name of successor vehicle]* suffers a loss, Lloyd's as trustee and regulator has discretion as to which source of FAL it uses to pay *[insert name of successor vehicles]*'s loss. It is therefore possible that the Lloyd's deposit made reverse interavailable to support the back year underwriting of a particular participant could be drawn down disproportionately to pay *[insert name of successor vehicle]*'s loss in exoneration of the Lloyd's deposit made reverse interavailable to another converting participant. An example might be where the second converting participant had large losses from his personal underwriting which also needed to be paid.

(85) Where the Lloyd's deposit is being made reverse interavailable to an individual member, (then provided the scheme is acceptable in all respects to Lloyd's) his own deposit will normally be returned to him. Individual members should, however, remember that they remain personally liable for losses arising from business they have already written and may be liable to pay further sums in the event that the Lloyd's deposit made reverse

interavailable to them by *[insert name of successor vehicle]* is exhausted.

- (86) Under the reverse interavailability documentation, a participating individual member may, if Lloyd's so exercises its discretion, be obliged to apply any future underwriting profits firstly in repaying to Lloyd's as trustee a sum equal to any amount of reverse interavailable Lloyd's deposit applied in discharging the individual member's own liabilities. Any profit derived from the underwriting activities of the individual member is charged as security for this obligation and assigned to the trustee.

#### **Taxation of syndicate members**

- (87) *Insert paragraph (49).*
- (88) *Insert paragraph (50).*
- (89) *Insert paragraph (51).*
- (90) *Insert paragraph (52).*
- (90A) *Insert paragraph (52A).*

#### **Funds at Lloyd's**

- (91) If *[insert name of successor vehicle]*'s FAL are diminished because of its reverse interavailable Lloyd's deposit being used to pay an individual member's back year losses, the amount of business which *[insert name of successor vehicle]* can underwrite will also decrease. [The contractual terms of *[insert name of scheme]* provide that the decrease in profits will be borne directly by those participants in respect of whom interavailable Lloyd's deposit have been drawn down.]
- (92) *This paragraph has been deleted.*

#### **MAPA operators**

- (93) *Insert paragraph(54).*

#### **Miscellaneous**

- (94) *Insert paragraph (55).*
- (95) *This paragraph has been deleted.*
- (96) *Insert paragraph (58).*
- (96A) *Insert paragraph (58A).*
- (97) Reverse interavailability, as its name suggests, is a mirror image of ordinary interavailability. Instead of the individual member making his own Lloyd's deposit interavailable to *[insert name of successor vehicle]* to support *[insert name of successor vehicle]*'s underwriting going forward, *[insert name of successor vehicle]* makes its own Lloyd's deposit interavailable to the individual member to support the individual member's past year underwriting going backwards. This normally enables the individual member's own FAL to be released back to him (subject to Lloyd's approval). However, the individual member remains personally liable for any losses accruing from business

underwritten by him prior to conversion, and to the extent that the Lloyd's deposit made reverse interavailable to him by [*insert name of successor vehicle*] becomes exhausted or otherwise unavailable, the individual member may still be required to pay further sums in settlement of his own liabilities.

## **Part VI**

### **Risk factors (transition)**

- (98) The following statements must be set out in any invitation document which relates to a transition arrangement. Reference must be made in the derogation letter to any risk warnings which are not included together with an explanation as to their omission.

*[Insert such other statements as are prescribed by the Conversion Official from time to time.]*

**18. Extensions and variations**

State whether the conversion invitation can be extended or varied following the Rules.

**19. Prescribed statements**

- (a) *This paragraph has been deleted.*
  - (b) *This paragraph has been deleted.*
  - (c) *This paragraph has been deleted.*
  - (d) The permission of [*insert name of successor vehicle*] to underwrite may be withdrawn if its FAL fall below 90 per cent. of the value used to calculate its overall premium limit for the current year of account and [*insert name of successor vehicle*] has failed to make good the deficiency.
  - (e) Where the successor vehicle is to be a corporate member (other than an SLP) state that:  
  
[*Insert name of successor vehicle*] will not be permitted to take advantage of the exemptions from accounting requirements under the Companies Acts that apply to a small or medium sized company and that it will be required to prepare its accounts in accordance with Schedule 9A to the Companies Act 1985.
  - (f) *This paragraph has been deleted.*
  - (g) Notwithstanding his resignation from Lloyd's a participant will remain as a member of Lloyd's until that resignation is accepted by the Council. A member's resignation will usually take effect from the later of -
    - (i) the time when each year of account of each syndicate of which he has been a member has been closed by reinsurance to close; and
    - (ii) the time when he shall no longer have any FAL, whether made interavailable to a successor vehicle or otherwise.
  - (h) Where [*insert name of successor vehicle*] has FAL which has not been made interavailable to it by participants and that FAL includes a portfolio of investments that it wishes to be managed, it must appoint a person authorised under the Financial Services and Markets Act 2000 to carry out this function.
- 20.** An invitation document relating to an interavailability arrangement must contain the following additional prescribed statements:-
- (a) *This paragraph has been deleted.*
  - (b) *This paragraph has been deleted.*
- 21.** An invitation document relating to a transition arrangement must contain such statements as may be prescribed by the Conversion Official from time to time.

## 22. Taxation

Provide:-

- (a) a statement that taxation law and the practices of fiscal authorities are liable to change and therefore that the tax treatment outlined in the invitation document will not necessarily apply in the future.
- (b) a statement of the tax implications of the conversion scheme, which shall:-

- (i) be headed by the following wording:-

“The following paragraphs, which are intended as a general guide only, are based on current legislation and [*HM Revenue and Customs/other*] practice as at the date of this document. They summarise the principal features of the [*United Kingdom*] taxation treatment of individual members who participate in [*insert name of conversion scheme*] and the income and other profits of the [*insert name of successor vehicle*] and of the United Kingdom taxation implications for individual members who participate in the Lloyd’s market through the [*insert name of successor vehicle*]. They relate only to individual members who are resident in [*the United Kingdom*] only for tax purposes. If you are in any doubt as to your taxation position, or if you are subject to taxation in any jurisdiction other than [*the United Kingdom*], you should consult an appropriate professional adviser without delay.”;

- (ii) include a summary of:

- (aa) any tax charges which could arise as a result of the implementation of the conversion scheme;
    - (bb) the tax regime applicable to the successor vehicle;
    - (cc) the taxation of income or other profits arising from the participant’s interest in the successor vehicle; and
    - (dd) the principal differences between the tax treatment of an individual who underwrites directly as a member of one or more syndicates and an individual who participates in the Lloyd’s market through the successor vehicle; and

- (iii) include statements which (without limiting the generality of paragraph 8(16)(a)(ii)) take account of the following United Kingdom taxes:

Income Tax  
Capital Gains Tax  
Corporation Tax  
Inheritance Tax  
Stamp Duty and Stamp Duty Reserve Tax  
Value Added Tax  
Insurance Premium Tax  
National Insurance Contributions.

If the invitation document is to be issued in any jurisdiction other than the United

Kingdom, information corresponding to that required by paragraph 22(b)(ii) must be obtained from an appropriately qualified person and included in relation to individual members who are resident (or otherwise subject to taxation in) that jurisdiction. Alternatively, the invitation document should state that individual members in that jurisdiction are recommended to take their own advice.

If any features of the taxation treatment of individual members who participate in the conversion scheme or the successor vehicle are dependent on any particular state of affairs subsisting or any particular conditions being satisfied, that must be clearly spelt out as a risk factor.

**23. Acceptances**

If the invitation document contains any reference to how an over subscription will be dealt with it must provide that:

- (a) acceptances will be scaled down pro rata; or
- (b) acceptances will be balloted;

or shall specify another manner of dealing with any over subscription which has been approved in writing by the Conversion Official.

**24. Provisions relating to overseas members**

Explain how it is proposed the conversion invitation should be made to overseas members and any details of any particular terms, conditions, requirements or procedures relating to them.

**25. Disclosures**

Provide details of the sponsor and the promoter and a disclosure of any interests they have in the successor vehicle or the implementation of the conversion scheme together with details of any fees or commissions which either of them (or any of their respective connected companies or associates) will if the conversion scheme is implemented receive from the successor vehicle or any other party.

**26. Documents for inspection**

Set out details of all the material documents (being documents which the promoter reasonably believes are material to a potential participant or which a participant will be a party to if the conversion scheme is implemented) and stating where in London such material documents are available for inspection by members to whom the invitation document is issued.

**27. Syndicates**

Where applicable, provide a list of the syndicates which have been selected by the successor vehicle.

**28. Statement from directors of the promoter/successor vehicle**

Include a statement by the directors of the promoter (where more suitable) or the successor vehicle to members to whom the invitation document is addressed that the



directors of *[insert name of promoter or successor vehicle]*, who have taken all reasonable care to ensure that the invitation document has been properly prepared in accordance with the Conversion Rules and the terms proposed to participants have been clearly presented.

**29. Procedure for application**

Insert details of the application procedure.

**30. Application forms**

- (a) An application form must include the request and confirmations from participants in the following terms:-

I hereby confirm to the Council of Lloyd's that:-

- (i) I have met each and every request for funds duly made;
- (ii) I am in compliance with all applicable requirements of the Council relating to solvency;
- (iii) subject to the application being accepted, I wish to resign from membership of the Society of Lloyd's, such resignation to take effect at the year end following whichever is the later of -
  - (a) the time as from which reinsurance to close in respect of each year of account of each syndicate of which I am a member has taken effect; and
  - (b) the time when I shall no longer have any Funds at Lloyd's, whether made available to a successor vehicle or otherwise, or at such other date as the Council may in its absolute discretion determine;
- (iv) [In the case of an interavailability arrangement] I wish to make *[all or part of]* my Lloyd's deposit available to support the underwriting of *[insert name of successor vehicle(s)]* and therefore request Lloyd's as trustee to execute the prescribed documents necessary to effect this request. I further confirm that I regard such an arrangement as being for my benefit;  
  
[In the case of a reverse interavailability arrangement] I wish to have *[all or part of]* my Lloyd's deposit released back to me in consideration of *[insert name of successor vehicle(s)]* making part of its Lloyd's deposit interavailable to support my pre-conversion underwriting and therefore request Lloyd's as trustee to execute the prescribed documents necessary to effect this request. I further confirm that I regard such an arrangement as being for my benefit;
- (v) I have taken appropriate professional advice to the extent necessary to enable me to form a proper understanding of the arrangement and I have read and understood the invitation document dated *[insert date of invitation document]*;
- (vi) I am aware of the risks associated with my entering into this arrangement

as set out in the invitation document;

- (vii) I hereby acknowledge that neither the Society nor any of its officers or employers has any responsibility for the provision of, and has not given, any investment, legal, taxation or other advice to myself in respect of this arrangement;
  - (viii) I hereby authorise [*insert name of promoter of successor vehicle*] to contact Lloyd's, my [*members' agent(s)*] and any person whose consent may be required in order for my Lloyd's deposit to be [*made interavailable/released*] or otherwise to give effect to my application under [*insert name of conversion scheme*] in order to obtain from them such information in connection with my application including, without limitation, full details of my FAL, its issuer and amount, underwriting portfolio and solvency position as at 31 December 2005;
  - (ix) [in the case of an interavailability or a reverse interavailability arrangement] I undertake that, subject to this application being accepted, I shall deliver to Lloyd's [*by the prescribed date thereof*] each of the prescribed documents duly executed by me or on my behalf; and
  - (x) [in the case of a transition arrangement such additional confirmations prescribed by the Conversion Official from time to time].
- (b) An application form should also include a power of attorney given by the individual member in the form set out in Appendix XIII to the Conversion Rules.
- [(c) An application form must identify the advisers who have provided taxation advice in each jurisdiction.]

### **31. Costs**

- (a) Set out the aggregate costs of implementing the conversion scheme which will be borne by the participants (whether directly or indirectly) or if such sums cannot be calculated a warning that costs in respect of such item may be incurred. These costs should distinguish between:-
- a) Lloyd's charges including:
    - (i) charges being levied on the promoter;
    - (ii) on-going charges associated with an individual member's pre-conversion underwriting;
    - (iii) charges associated with an individual member's pre-conversion underwriting.
  - b) Promoter's charges, fees and costs including:-
    - (i) entry costs; and
    - (ii) on-going costs.

**32. Sponsor, promoter and advisers**

Insert:-

- (a) The name and business address of each of the [*directors of/directors of the operator of*] the successor vehicle;
- (b) The name, address and qualifications of the auditors of the successor vehicle;
- (c) The names and business addresses of the promoter, sponsor, bankers, legal advisers, reporting accountants and any other expert to whom a statement or report included in the invitation document has been attributed; and
- (d) A statement that any person to whom a statement or report included in the invitation document has been attributed has consented to the inclusion of that statement or report and the references to him in the form and context in which they are included.

**33. Date of document**

## APPENDIX XII

### LETTER OF CONFIRMATION FROM MEMBERS' AGENT

Form B7

[To be typed on members' agent's letterhead]

Lloyd's  
One Lime Street  
London EC3M 7HA

For the attention of: the Conversion Official

Dear Sir

#### Private Arrangements

We act as members' agent for [ ] ("the Names") who are party to a private arrangement ("the private arrangement") as defined in the Conversion Rules under which they are to transfer their prospective participations to a new corporate member of Lloyd's ("the successor vehicle") and will make part or all of their Lloyd's deposits interavailable to support, amongst other things, the underwriting of the successor vehicle.

We confirm to Lloyd's that:

1. each of the Names has received directly from us and/or from his other professional advisers all such information as he (and his professional advisers) would reasonably require and reasonably expect to receive for the purpose of enabling him (in conjunction with his professional advisers) to make an informed decision as to whether to enter into the private arrangement, which information included (but was not limited to) information regarding the following:-
  - the costs involved in establishing and maintaining the successor vehicle as a corporate member of Lloyd's including an explanation that the successor vehicle will continue to have insurance obligations even after all its years of account have been reinsured to close and must therefore remain in existence and the associated cost consequences of this;
  - an explanation that the Name must remain a member of Lloyd's until whichever is the later of -
    - (a) the time when each year of account of each syndicate of which he has been a member has been closed by reinsurance to close; and
    - (b) the time when he shall no longer have any funds at Lloyd's, whether made interavailable to the successor vehicle or otherwise;
  - an explanation that the Lloyd's deposit made available to the successor vehicle will not be repaid to him, even once every year of every syndicate of which he was a member has been closed by reinsurance to close, unless and until substitute security acceptable to Lloyd's has been provided in respect of open years of the successor vehicle or all the successor vehicle's own open and run off years have themselves been closed by reinsurance to close;

- the implications for any future MAPA participation;
  - an explanation that the range of assets acceptable for funds at Lloyds (“FAL”) is more restrictive for corporate members than for individual members;
  - a disclosure that the successor vehicle will be required to put up extra FAL to support the same level of underwriting;
  - an explanation that the successor vehicle will not be permitted to take advantage of the exemptions from accounting requirements under the Companies Acts that apply to a small or medium sized company and that it will (if it is a body corporate) be required to prepare its accounts in accordance with Schedule 9A to the Companies Acts and the cost implications thereof;
  - the tax implications of the private arrangement;
  - the tax regime applicable to the successor vehicle;
  - an explanation of the risks associated with making fluctuating assets interavailable in that any capital appreciation on such assets may be applied to meet the successor vehicle's losses and that currently there is no automatic facility to affect release of any surplus interavailable Lloyd's deposit; and
  - the Names are all either connected individuals or employees of the same underwriting agent.
2. We have at all times observed the Lloyd’s Code for Members’ Agents: Responsibilities to Members.

For and on behalf of  
Members’ Agent

## APPENDIX XIII

### POWER OF ATTORNEY

A POWER OF ATTORNEY given on the *[insert date in words]* day of *[month and year in words]* by *[INSERT FULL NAME OF INDIVIDUAL MEMBER]* (hereinafter called the “individual member”) whose address is *[insert address of individual member]*.

#### WHEREAS

- A           The individual member carries on the business of underwriting insurance and related activities as a member of Lloyd’s with unlimited liability.
- B           The individual member wishes to cease carrying on all of his business of underwriting insurance and related activities at Lloyd’s in his capacity as a member with unlimited liability either by transferring some or all of his prospective participations and Lloyd’s deposit to a limited liability member of Lloyd’s in which he has a direct or indirect interest or by transferring his prospective participations to a third party in which he has no direct or indirect interest with a view to realising value for his prospective participations.
- C           In order to facilitate the transfer of some or all of the individual member’s prospective participations and Lloyd’s deposit the individual member wishes to appoint an attorney on the terms and subject to the conditions set out below to act on his behalf to perform all acts and sign all necessary deeds and/or documents to facilitate such transfer and to implement the acceptance by the individual member of *[insert details of the conversion invitation]*.

NOW THIS DEED WITNESSES as follows:

#### 1. Definitions and interpretation

- 1.1. Unless the context otherwise requires expressions defined in the Conversion Rules made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) (the “Rules”) shall have the same meanings in this Deed.
- 1.2. Any reference in this Deed 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.
- 1.3. Unless the context otherwise requires, references to any gender include all genders and words in the singular include the plural and vice versa.

#### 2. Appointment of Attorney

- 2.1 The individual member hereby appoints *[insert name of attorney]* of *[insert address of attorney]* and *[insert name of second attorney if required]* of *[insert address of second attorney]* jointly and severally (“the Attorney”) as his attorney for him and in his name and on his behalf to do and execute all or any acts, deeds and things as the individual member may be required by Lloyd’s to do or execute or as the Attorney shall in his absolute discretion consider desirable, expedient or necessary to enable the individual member to participate in *[insert details of the conversion invitation]*.
- 2.2 In particular and without prejudice to the generality of clause 2.1, the Attorney shall have power and authority:

- 2.2.1 to execute such deeds and to sign, issue, provide, attest, authorise or certify all such documents, including but not limited to those documents described in the [*conversion invitation*] as may be required by Lloyd's or as the Attorney shall in his absolute discretion deem necessary, expedient or desirable to enable the individual member to participate in [*insert details of the conversion invitation*];
- 2.2.2 to notify Lloyd's that the resignation of the individual member is effective once the individual member's application in response to the [*conversion invitation*] has been accepted;
- 2.2.3 to issue any arrangements and give any such instructions to any third party (including any relevant trustee or any financial institution which has issued any asset held as part of the funds at Lloyd's of the individual member) to enable the funds at Lloyd's of the individual member to be released or made available to support the underwriting at Lloyd's of or to be transferred to [*insert details of the successor vehicle*] referred to in [*insert details of the conversion invitation*] or to be returned in whole or in part to the individual member; and/or
- 2.2.4 to do any other act or thing to enable the individual member to participate in [*insert details of the conversion invitation*] which would be in the power of the individual member to do personally.

### **3. Ratification of acts of attorney**

The individual member hereby ratifies and agrees to ratify and confirm from time to time and at all times everything that the Attorney shall lawfully do or cause to be done by virtue of and in accordance with this Deed.

### **4. Indemnity**

The individual member agrees to indemnify and keep indemnified the Attorney from and against all demands, claims, losses, costs and expenses which may be brought against or incurred by him as a result of acting in pursuance of this Deed.

### **5. Revocation**

This power of attorney shall be irrevocable until and shall expire on 31 December [*insert year*].

### **6. Governing law and jurisdiction**

This power of attorney is governed by and shall be construed in accordance with the laws of England and the individual member and the Attorney hereby irrevocably and unconditionally submit for all purposes of and in connection with this Deed to the non-exclusive jurisdiction of the English courts.

IN WITNESS whereof the individual member has executed this power of attorney as a deed on the day and year first above written

SIGNED as a deed and delivered by )  
[insert full name of the individual member] ) .....  
in the presence of:- )

Witness:      Signature: .....

                 Name: .....

                 Address: .....

                 Occupation: .....



**GUIDANCE NOTES**  
**Power of Attorney for Conversion**

1. The attached form of power of attorney may be used where an individual member has accepted an identifiable conversion invitation to participate in a conversion scheme. The attorney is authorised to execute all applicable documentation to give effect to the acceptance of such conversion invitation. It is anticipated the power of attorney will be given to one or more directors of either the sponsor or the promoter of the conversion scheme or the individual member's relevant members' agent.
2. The power of attorney may be used for conversion schemes and private arrangements.
3. In accepting any directions as a trustee of any funds at Lloyd's of the individual member from anyone other than the individual member, Lloyd's would expect to see a power of attorney in this or a substantially similar form.
4. As stated, the power of attorney must be executed as a deed and this requires a witness to the signature of the individual member.
5. Where an individual member accepting the conversion invitation is an overseas individual member, confirmation of due execution and enforceability of the power of attorney should be obtained from a lawyer in the relevant jurisdiction and produced at any time that the power of attorney is to be produced.

## **APPENDIX XIV**

### **SUMMARY OF REQUIREMENTS FOR INTERAVAILABILITY ARRANGEMENTS BY INDIVIDUAL MEMBER**

*This appendix has been deleted  
(See Section 13, paragraph 13(2)(a)(ii) for the amended requirement).*

## APPENDIX XV

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### PRIVATE ARRANGEMENT CONFIRMATION AND REQUEST TO LLOYD'S

Lloyd's  
One Lime Street  
London  
EC3M 7HA  
For the attention of: [                      ]

Dear Sir,

[*Name of Corporate Member*] (the "Successor Vehicle")

I intend to transfer my syndicate capacity to the Successor Vehicle and to make part or all of my Lloyd's deposit interavailable to support, amongst other things, the underwriting of the Successor Vehicle.

I hereby confirm to the Council of Lloyd's that:

- (i) I have met each and every request for funds duly made;
- (ii) I am in compliance with all applicable requirements of the Council relating to solvency;
- (iii) I wish to resign from membership of the Society of Lloyd's, such resignation to take effect at the year end following whichever is the later of (1) the time as from which reinsurance to close in respect of every year of account of every syndicate of which I am a member has taken effect and (2) the time when I shall no longer have any funds at Lloyd's (whether made available to the Successor Vehicle or otherwise), or at such other date as the Council may in its absolute discretion determine to accept such a resignation;
- (iv) I wish to make [*all or part of*] my Lloyd's deposit available to support the underwriting of the Successor Vehicle and therefore request Lloyd's as trustee to execute the prescribed documents necessary to effect this request. I further confirm that I regard such an arrangement as being for my benefit;
- (v) I have taken appropriate professional advice to the extent necessary to enable me to form a proper understanding of the arrangement;
- (vi) I am aware of the risks associated with my entering into this arrangement;
- (vii) I have been provided with such information either by my members' agent and/or my professional advisers as I reasonably require for the purpose of making an informed decision whether to enter into this arrangement, which information has included (but was not limited to) those matters set out below:
  - the costs involved in establishing and maintaining the Successor Vehicle as a corporate member of Lloyd's including an explanation that the Successor Vehicle will continue to have insurance obligations even after all its years of account have been reinsured to close and must therefore remain in existence and the associated

cost consequences of this;

- an explanation that I must remain a member of Lloyd's until whichever is the later of -
    - (a) the time when each year of account of each syndicate of which I have been a member has been closed by reinsurance to close; and
    - (b) the time when I shall no longer have any funds at Lloyd's, whether made interavailable to the Successor Vehicle or otherwise;
  - an explanation that the Lloyd's deposit made available to the Successor Vehicle will not be repaid to me, even once every year of every syndicate of which I was a member has been closed by reinsurance to close, unless and until substitute security acceptable to Lloyd's has been provided in respect of open years of the Successor Vehicle or all the Successor Vehicle's own open and run off years have themselves been closed by reinsurance to close;
  - the implications for any future MAPA participation;
  - an explanation that the range of assets acceptable for funds at Lloyds ("FAL") is more restrictive for corporate members than for individual members;
  - a disclosure that the Successor Vehicle will be required to put up extra FAL to support the same level of underwriting;
  - an explanation that the Successor Vehicle will not be permitted to take advantage of the exemptions from accounting requirements under the Companies Acts that apply to a small or medium sized company and that it will (if it is a body corporate) be required to prepare its accounts in accordance with Schedule 9A to the Companies Acts and the cost implications thereof;
  - the tax implications of the private arrangement;
  - the tax regime applicable to the Successor Vehicle;
  - an explanation of the risks associated with making fluctuating assets interavailable in that any capital appreciation on such assets may be applied to meet the Successor Vehicle's losses and that currently there is no automatic facility to affect release of any surplus interavailable Lloyd's deposit; and
  - where more than one individual member is a party to this private arrangement, the individual members are all either connected individuals or employees of the same underwriting agent.
- (viii) I hereby acknowledge that neither the Society nor any of its officers or employees has any responsibility for the provision of, and has not given, any investment, legal, taxation or other advice to myself in respect of this arrangement.

Yours faithfully

[INSERT NAME]

[N.B. This form must be signed by the Name].