

# MARKET BULLETIN

REF: Y4474

<b>Title</b>	Agency Agreement Terminations
<b>Purpose</b>	<p>To set out the arrangements for:-</p> <ul style="list-style-type: none"> <li>(1) managing agents to change their fees or profit commission;</li> <li>(2) members' agents to change their fees or profit commission;</li> <li>(3) managing agents to merge syndicates;</li> <li>(4) managing agents to effect a minority buy-out; and</li> <li>(5) any other proposed variations to the standard agency agreements</li> </ul> <p>in accordance with paragraphs 11A and 11B of the Agency Agreements Byelaw and schedules 1 and 2 of the Major Syndicate Transactions Byelaw as applicable.</p>
<b>Type</b>	Scheduled
<b>From</b>	<p>Peter Spires Head of Legal &amp; Compliance General Counsel Division</p>
<b>Date</b>	15 March 2011
<b>Deadline</b>	As set out below
<b>Related links</b>	<p><a href="#">Business Timetable</a> <a href="#">Agency Agreements Byelaw</a> <a href="#">Major Syndicate Transactions Byelaw</a></p>

Please note that all notices and applications referred to in this bulletin should be submitted by email to the email addresses shown.

## 1. Changes in managing agent's fees or profit commissions

### 1.1 *Unaligned syndicates*

A managing agent that wishes to change its fees or profit commissions in respect of an unaligned syndicate must make an initial application for conditional consent to give notice of termination under the relevant managing agent's agreements to Paul Brady (020 7327 5750 / [paul.brady@lloyds.com](mailto:paul.brady@lloyds.com)) by no later than 29 April 2011. A copy of the application should also be sent to members' agents and direct corporate participants where applicable. A full application must then be made in accordance with the requirements set out in Annex 1 by no later than 20 June 2011.

It is in the best interests of managing agents, members and Lloyd's if agreement in respect of changes in fees or profit commissions can be reached prior to any application to Lloyd's. Managing agents and members' agents should use their best endeavours to establish whether agreement can be reached and for that reason Lloyd's will expect parties to enter into any relevant discussions at the earliest practical opportunity.

Syndicates which are unaligned, but where each member of the syndicate has individually agreed in writing to the change in fees or profit commission, may follow the process for aligned syndicates below.

### 1.2 *Aligned syndicates (and where there is agreement between all the parties)*

In the case of fully aligned syndicates or where there is agreement between the managing agent and all the members of the syndicate such change may be made at any time during the year without prior application being made to Lloyd's. Managing agents should, however, continue to report all changes to fees or profit commission to Lloyd's Market Services (Simon Tyler: [simon.tyler@lloyds.com](mailto:simon.tyler@lloyds.com)) for the purposes of updating the Register of Agent Charges. It is the responsibility of managing agents to ensure that where the fees or profit commission is changed by consent that the change is properly documented and managing agents should retain evidence of consent from all the members of the syndicate.

In circumstances where there is no agreement as to the fee or profit commission change managing agents must follow the same process for unaligned syndicates above. Where any disagreement arises outside the timetable set for unaligned syndicates the managing agent should contact Paul Brady.

Please note that Lloyd's Market Services will contact all aligned syndicates in September to confirm the managing agent's fees/profit commission in respect of the forthcoming year of account. It would be appreciated if all entries for the forthcoming year of account could be advised to Lloyd's Market Services by the end of November.

## 2. **Changes in members' agents fees or profit commissions**

A members' agent that wishes to effect a change to its fees or profit commission must make an application for conditional consent to give notice of termination under the relevant members' agent's agreements to Paul Brady by no later than 29 April 2011. Lloyd's will then discuss with the members' agent how the application should be taken forward.

It is for members' agents to deal with changes in fees or profit commission in the most administratively convenient manner (subject always to their agency obligations and paragraph 11A of the Agency Agreements Byelaw).

### **3. Syndicate mergers**

#### *3.1 Unaligned syndicate*

A managing agent that wishes to effect a syndicate merger (other than where all of the syndicates in question are wholly aligned) must follow the requirements set out in schedule 1 to the Major Syndicate Transactions Byelaw. Notice of intention to effect a syndicate merger must be given to Claire Schrader (020 7327 6173 / [claire.schrader@lloyds.com](mailto:claire.schrader@lloyds.com)) by no later than 29 April 2011. A copy of the notice should also be sent to members' agents and direct corporate participants where applicable.

#### *3.2 Aligned syndicates*

A managing agent that wishes to effect a syndicate merger where all of the syndicates in question are wholly aligned should contact Claire Schrader.

### **4. Minority buy-outs**

A managing agent which wishes to effect a minority buy-out for the 2012 year of account must make an application to Claire Schrader by no later than 29 April 2011 for conditional consent to give notice of termination under the relevant managing agent's agreements. Applications must be made in accordance with paragraph 11B of the Agency Agreements Byelaw and schedule 2, paragraph 2 of the Major Syndicate Transactions Byelaw. Managing agents are reminded that they should provide members' agents and direct corporate participants with a copy of their application and give them 21 days from the point of despatch to make representations to Lloyd's (for the attention of Claire Schrader).

Where Lloyd's grants conditional consent to the giving of notice of termination, managing agents must give notice of that conditional consent to members' agents and direct corporate participants by 30 June 2011 (or such later date as Lloyd's may agree to).

Managing agents must ensure that, when making the capacity offer which precedes a minority buy-out, they comply with the Capacity Offer Rules. The Rules for 2011 will be issued to the market in April and will include a table of the 2011 prescribed dates relating to capacity offers and minority buy-outs. Managing agents proposing to effect minority buy-outs in 2011 should contact Claire Schrader at the earliest opportunity.

Following the capacity offer, if the conditions set out in paragraph 2 of the Major Syndicate Transactions Byelaw are met, application may be made to Lloyd's for permission to effect the minority buy-out. Requests for minority buy-outs are considered by the Capacity Transfer Panel. Guidance on minority buy-outs is set out in [Regulatory Bulletin 041/2000](#) "Guidance on Minority Buy-Outs" issued on 18 April 2000.

### **5. Any other proposed variations to the standard agency agreements.**

Underwriting agents are reminded that any proposed variation to the standard agency agreements requires Lloyd's consent. In the event that an underwriting

agent proposes to make a variation they are invited to contact Claire Schrader at the earliest opportunity.

**6. Questions**

Any questions with regard to changes to managing agent's fees or profit commissions should be directed to Paul Brady (020 7327 5750 / [paul.brady@lloyds.com](mailto:paul.brady@lloyds.com)). Any other questions with regard to this bulletin should be directed to Claire Schrader (020 7327 6173 / [claire.schrader@lloyds.com](mailto:claire.schrader@lloyds.com)).

Peter Spires  
Head of Legal & Compliance

### **Changes in managing agents' fees or profit commissions Unaligned syndicates**

1. If, following the initial application, a managing agent wishes to proceed to change its fees or profit commission in respect of an unaligned syndicate it must make a full application in accordance with paragraph 11B of the Agency Agreements Byelaw by no later than 20 June 2011. The application must include –
  - a. the rationale for the proposed transaction giving rise to the agency agreement termination and that the application has been considered and approved by the managing agent's board;
  - b. details of discussions held with members and members' agents, if applicable; and
  - c. the information requested at paragraph 4 below and any other information that the managing agent believes to be relevant.
2. Managing agents should provide members' agents and direct corporate participants with a copy of their application and give them at least 21 days from the point of despatch to make written representations to the Legal & Compliance team (marked for the attention of Paul Brady - [paul.brady@lloyds.com](mailto:paul.brady@lloyds.com)).
3. Applications will be determined by Lloyd's in accordance with the following terms of reference –
  - 3.1 In determining whether an application for consent to terminate the standard managing agent's agreement in respect of a proposed increase in fee and/or profit commission should be granted, the Franchise Board must be satisfied that the increase is reasonable in that it will not materially adversely affect the rights of members who participate on the syndicate in question (or the value of those rights) or, if it does, that such effect is objectively and reasonably justified.
  - 3.2 The burden of satisfying the Franchise Board of the above matters is on the managing agent.
  - 3.3 Every application will be determined on its merits in a consistent manner having regard to all relevant matters including:
    - a. the rights of the members to participate on the syndicate in question;
    - b. the fees previously charged by the managing agent; and
    - c. the information submitted by the managing agent in support of the application.
  - 3.4 Each application must be approved by the managing agent's board of directors and must include supporting information in accordance with the requirements contained in this annex.

4. The application shall include the following information –
- a. summary details of the proposed increase in fees for all members (expressed as a monetary amount and / or as a percentage increase).
  - b. the impact of the proposal on members stating their current position and their position following the proposal in monetary and percentage terms.
  - c. the reason(s) why the increase in expenditure will not be treated as a syndicate expense.
  - d. a statement of the commercial or business case for the proposed fee increase including and cross referring where necessary to supporting budgets and estimates in respect of any proposed increased expenditure. The information shall be presented in such a way as to clearly show to which managed syndicates and to which years of account any proposed increase in expenditure will relate and shall include an explanation of the benefit that will accrue from the proposed increase in expenditure in respect of each managed syndicate.
  - e. details of the annual fee and/or profit commission (expressed both as a percentage and as a monetary amount) charged or to be charged by the agent for all managed syndicates for the current year of account and for each of the three preceding years of account (estimated figures may be provided where actual figures are not yet available).
  - f. details of the expenditure incurred or to be incurred and not recharged to the syndicate by the managing agent for all managed syndicates for the current year of account and for each of the three preceding years of account, together with details of the period over which any material or exceptional items of expenditure are to be amortised (estimated figures may be provided where actual figures are not yet available).
  - g. details of the budget for the managing agent and for each of the syndicates managed by the managing agent for the current year of account and the estimated budgets for future years of account, up to and including the first year of account in which it is considered by the managing agent that members of the relevant syndicate will begin to derive benefit from the proposed expenditure. This information must also include a statement of the period over which any material and/or exceptional items are to be amortised.
  - h. details of any changes in the syndicate allocated capacity of the relevant syndicate for the current year of account as compared to each of the three preceding years of account and any proposed changes.
  - i. a copy of the agent's policy for the allocation of syndicate expenses which should include an explanation of the basis on which expenses arising from profit related remuneration payable to directors and consultants are allocated. This should highlight any changes made to the policy over the last three years and any proposed changes to be made to the policy.
  - j. particulars of any proposed acquisition or disposal by the agent or any connected company or any connected person of rights to participate in the relevant syndicate (whether through the auction or under any other scheme or arrangement as may be permitted from time to time by Lloyd's).
  - k. particulars of any proposed transactions by the agent or any connected company or connected person for the purpose of effecting any change in participation in syndicates, including but not limited to any transaction falling within the scope of the Major Syndicate Transactions Byelaw.