

MARKET BULLETIN

REF: Y4904

Title	Capacity Markets
Purpose	Proposals to Amend the Major Syndicate Transactions Byelaw
Type	Event
From	Chairman of the Capacity Transfer Panel
Date	25 June 2015
Deadline	24 July 2015
Related links	Major Syndicate Transactions Byelaw Major Syndicate Transactions Byelaw

Introduction

The Capacity Transfer Panel (the “**Panel**”) in its meeting of 2 June 2015 concluded that the market should be consulted in relation to amendments to the Major Syndicate Transactions Byelaw before the Panel makes any recommendations to the Council for implementation of these amendments later this year.

Background

The Panel currently comprises the Chairman of the Panel (Andy Haste, Senior Independent Deputy Chairman and member of the Council of Lloyd’s), the Deputy Chairman of the Panel and independent lawyer (Margaret Chamberlain), two third party capital nominee members (Alan Lovell and Lady Delves Broughton) and two LMA nominee members (David Gittings and Paul Swain).

Lloyd’s rules for syndicate mergers, minority buy-outs, mandatory offers and syndicate cessations are set out in the Major Syndicate Transactions Byelaw.

Syndicate Cessations

The recent syndicate cessation of Syndicate 260 managed by Canopius Managing Agents Limited, and which was approved by the Panel in December 2014, included a compensation offer to the unaligned members of cash and/or the option for the members to swap their capacity on s.260 for capacity owned by Canopius on another of Canopius' managed syndicates, Syndicate 958. Special arrangements were put in place by the Capacity Transfer Panel to authorise the use of the capacity swap mechanism proposed by Canopius.

The capacity swap was requested by both the members' agents involved on this matter and the members that received the compensation offer from Canopius. The Panel is therefore giving careful consideration to amending the Major Syndicate Transactions Byelaw to generally permit capacity swaps in respect of future syndicate cessations. This would allow the byelaw to be more specific on the circumstances under which the capacity swap can be offered by a managing agent to unaligned members and make it easier for a managing agent to offer a capacity swap as part of any compensation settlement under a syndicate cessation application should they wish to do so.

The Panel would like to consult on the proposed amendments to the Major Syndicate Transactions Byelaw and these are set out in Annex 1.

Consultation

The Panel concluded that it would like to receive the views of the market on –

1. the proposed amendments to the Major Syndicate Transactions Byelaw to generally permit capacity swaps in respect of future syndicate cessations; and
2. any future observations on the question of using capacity swaps as part of any compensation settlement under a syndicate cessation application, including whether an offer of a cash alternative should be mandated where an offer of a capacity swap or an offer of shares is included in the proposed compensation settlement and whether the Capacity Transfer Panel should have regard to representations made by existing members of the successor syndicate in which an entitlement to participate is being offered under a capacity 'swap'.

The Panel invites members' agents, managing agents and their respective associations to submit written responses to the draft amendments in Annex 1 by no later than Friday 24 July 2015. Responses should be sent for the attention of:

The Secretary to the Capacity Transfer Panel
Lloyd's,
One Lime Street,
London EC3M 7HA

or by email to melinda.triggs@lloyds.com

In addition, a members' agent, managing agent or their respective associations can also request a meeting with the Lloyd's Legal & Compliance Department to discuss the proposed amendments to the Major Syndicate Transactions Byelaw.

Annex 1

Proposed Amendments to the Major Syndicate Transactions Byelaw

- (1) Paragraph 10 shall be amended by the inclusion of the following sentence:

““capacity ‘swap’” means an arrangement under which it is proposed that a member of a ceasing syndicate exchanges its entitlement to participate in the ceasing syndicate and accepts an entitlement to participate for the following year of account in another syndicate managed either by the same managing agent as the ceasing syndicate or by a managing agent that is controlled by any other person or body corporate that also controls the managing agent of the ceasing syndicate (regardless of whether the new and renewal business of the ceasing syndicate is being transferred to the syndicate on which an entitlement to participate is being offered or it is being transferred elsewhere) and where the entitlement to participate that is surrendered for exchange on the successor syndicate is owned or controlled by the managing agent for the current year of account;”

- (2) Paragraph 1(1)(e) of Schedule 4 (Syndicate Cessations) should be amended by the inclusion of the words “pursuant to paragraph 1(5) below,” at the beginning of the sub-clause.
- (3) A new paragraph 1(5) shall be added to Schedule 4 (Syndicate Cessations) and which shall read:

“

- (1) If any compensation is to be offered for the cessation of the syndicate to members of the syndicate, the managing agent of the ceasing syndicate shall have the option of making an offer:

- (a) comprising exclusively of cash; or
- (b) comprising a capacity ‘swap’ and which may also include a cash alternative if notice of the syndicate cessation application is given to Council no later than 1 August in the year during which, or at the end of which, it is intended to cease accepting new or renewal business on behalf of the syndicate, or which shall include a cash alternative if the syndicate cessation application is given to Council after 1 August; or
- (c) comprising an offer of shares and which may also include a cash alternative.

Where a capacity ‘swap’ is offered by the managing agent of the ceasing syndicate, details are required to be included in the notification to the Council

under paragraph (1) above about the valuation of the capacity 'swap', the syndicate on which participation is being offered and the basis on which the allocation of the entitlement to participate in the successor syndicate for the following year of account is to be made.

Where an offer of shares is made by the managing agent of the ceasing syndicate, details are required to be included in the notification to the Council under paragraph (1) above about the valuation of the shares, the body corporate in which the shares are being offered and the basis on which, and the amounts in which, shares in that body corporate are to be allocated."

- (4) Where the Council gives consent to a syndicate cessation application that includes a capacity 'swap', the implementation of the capacity 'swap' by the managing agent of the ceasing syndicate will be undertaken outside of the Lloyd's capacity auction process and will not be subject to the Auction Byelaw.
- (5) Paragraph 4(1)(b) of Schedule 4 (Syndicate Cessations) shall be amended to read "representations made by members of the syndicate or by members' agents under paragraph 3 of this Schedule and any representations made by existing members of the successor syndicate in which an entitlement to participate is being offered under a capacity 'swap';"