

# Market Bulletin

Ref: Y5435

<b>Title</b>	Y5435 - Clarification of Membership & Underwriting Conditions and Requirements ("M&URs"): Investments
<b>Purpose</b>	Lloyd's has published updates to the investments section of the M&URs in order to provide clarity following market feedback
<b>Type</b>	
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## Membership & Underwriting Conditions and Requirements ("M&URs")

The new M&URs that came into effect on 1st January 2022 were published by Lloyd's on 25th October 2021 (Market Bulletin Y5353). Since publication, Lloyd's Treasury & Investment Management ("LTIM"), in its continued role of conducting oversight and market engagement, has identified a need for clarification of certain items within the investments section of the M&URs. The proposed clarifications, which represent enhancements to the control environment and supplement existing controls, have been discussed and agreed with representative bodies of market participants and approved by the Lloyd's Executive Risk Committee.

Accordingly, the following clarifications have now been implemented:

- The minimum rating for securitisations backed by governments has been updated to align with government bonds minimum rating of A- (for OECD countries only)
- A broader range of CIC codes have been included to allow for a more diverse range of investable assets
- A definition of Alternative Assets has been included to reduce market confusion between Illiquid Assets and Alternative Assets
- A definition of Fund has been included to aid clarity as no current definition exists
- A definition of Illiquid Assets has been included to aid asset classifications
- The Illiquid Asset approval and acceptance process has been included in the M&UR Guidance Notes.

LTIM acknowledges that the complexities of the FAL structure would preclude certain fund structures from admissibility, for example GP/LP private equity structures. In order to aid efficient investing in FAL, LTIM will continue to investigate the potential admissibility of:

- Illiquid Assets that fall outside of the SSAA requirements on a case-by-case basis.
- Semi-liquid structures.

Changes have been made to give effect to the above in section 3.1 and Appendices 3 - 5 of the M&URs. Details of the changes are set out in the table below.

Separately, the M&UR Guidance Notes have been updated to reflect the revisions described above – a

copy of the Notes can be obtained from Member Services.

**For the avoidance of doubt, the revised M&URs set out in this bulletin replace those previously attached to market bulletin Y5353 dated 25 October 2021.**

**M&URs – table of changes**

<b>Provision</b>	<b>Change</b>
<b>Appendix 3: Complementary Identification Codes (“CIC”) for collateralised securities</b>	Updated to include collateralised securities mainly exposed to interest rate risk (CIC code 62 as defined by EIOPA).
<b>Appendix 3: Complementary Identification Codes (“CIC”) for alternatives</b>	Updated to remove Private Equity Funds. Due to their illiquid nature, such funds will fall under the definition of Illiquid assets, not alternative assets.
<b>Appendix 3: ABS / MBS limits</b>	Updated for securitisations backed by OECD countries with a credit rating of A- or higher.
<b>Appendix 4: Complementary Identification Codes (“CIC”) for collateralised securities and alternatives</b>	Updated to reflect changes in Appendix 3 as outlined above.
<b>Appendix 5: Alternative Asset definition</b>	Updated to include a definition for Alternative Assets.
<b>Appendix 5: Fund definition</b>	Updated to include a definition for Funds.
<b>Appendix 5: Illiquid Asset definition</b>	Updated to clarify the definition for Illiquid Assets. Assets that cannot be redeemed for cash within 90 days (previously 20 days) are considered to be Illiquid Assets. Further provisions are also included.

# Membership & Underwriting Conditions and Requirements

# Contents

<b>1 Application to membership</b>	<b>3</b>
<b>2 Member's capital – provision and maintenance</b>	<b>4</b>
<b>3 Member's capital – acceptable assets</b>	<b>8</b>
<b>4 Member's capital – income, distribution and drawdowns</b>	<b>12</b>
<b>5 Appointment of investment managers</b>	<b>13</b>
<b>6 Taxation and accredited investors</b>	<b>14</b>
<b>7 Additional underwriting requirements</b>	<b>15</b>
<b>8 Cessation of membership</b>	<b>16</b>
<b>9 Capacity and Auctions</b>	<b>16</b>
<b>10 Supplemental and commencement</b>	<b>17</b>
<b>Appendices</b>	
A1 Applicant requirements and documentation	18
A2 Funds at Lloyd's trust deed requirements	23
A3 Standard strategic asset allocation	25
A4 EIOPA CIC classifications	26
A5 Interpretations and definitions	27

The conditions and requirements of this document are made under paragraph 6, 7, 11, 16, 27, 29, 32, 33, 34 and 40 of the Membership Byelaw (No. 5 of 2005) and all other powers enabling.

# 1. Application to membership

## 1.1 Eligibility

- A. Every candidate applying to be a member of the Society shall be either:
  - a) a company incorporated with limited liability under the laws of England & Wales or Scotland; or
  - b) a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000 (LLP).
- B. Every candidate shall be capable of complying with section 8(1) of the Lloyd's Act 1982, which requires that a member shall be a party to a contract of insurance underwritten at Lloyd's only if it is underwritten with several liability, each member for their own part and not one for another, and if the liability of each member is accepted solely for their own account.
- C. A candidate which is a company shall comply with the provisions set out in paragraph A1.1 in Appendix 1.
- D. A candidate which is a LLP shall comply with the provisions set out in paragraph A1.2 in Appendix 1.

## 1.2 Retention of professional advisers

- A. Every applicant shall, prior to the making of its application for membership of the Society, have retained the services of a Legal Adviser, an Auditor and a Members' Agent.

## 1.3 Application process

- A. The application process comprises:
 

Stage 1 – the deadline for which is specified in paragraph C below; and

Stage 2 – the deadline for which is specified in paragraph D below.

The application and supporting documentation required to be submitted to the Council for each stage is set out in Appendix 1, at paragraphs A1.3 and A1.5 (in respect of an applicant which is a company) and at paragraphs A1.4 and A1.5 (in respect of an applicant which is a LLP).
- B. With effect from the date on which the specific Lloyd's Stage 1 forms to be completed as part of the application are available on an online portal, the forms must be completed and submitted to the Society electronically via the portal.
- C. Stage 1 documentation for every application for membership of the Society and for permission to underwrite insurance business at Lloyd's shall be submitted to the Council no later than three months prior to the intended underwriting start date, or by such later date as the Council may permit.
- D. Stage 2 documentation shall be submitted to the Council no later than one month prior to the intended underwriting start date, or by such later date as the Council may permit.
- E. Every candidate in which interests are held by one or more US persons shall duly complete and provide, or procure the provision of, to the Society such additional declarations, documents and forms in relation to the application of the United States securities laws as the Council may require.
- F. Every candidate shall:
  - a) to the extent that it applies, comply with, or ensure is complied with, the requirements of Part 25 of the Companies Act 2006 (as amended) for the registration of each charge created by its execution of, or by its becoming party to or otherwise, any deed or other document in connection with its proposed activities as an underwriting member of the Society; and
  - b) if the candidate's Lloyd's deposit or Lloyd's life deposit has been provided by another person to whom Part 25 of the Companies Act 2006 (as amended) applies (except insofar as that Lloyd's deposit or Lloyd's life deposit consists of a LOC or Guarantee), procure that other person to comply with, or ensure is complied with, the requirements of Part 25 of the Companies Act 2006 (as amended) for the registration of each charge created by that other person's execution

of, or by its becoming party to or otherwise, any deed or other document in connection with the candidate's proposed activities as an underwriting member of the Society.

#### **1.4 Direct Corporate Participants**

- A. Under paragraph 24 of the Membership Byelaw, every member must appoint and retain a Members' Agent unless the Council otherwise consents. A member (other than an individual member) may apply for consent not to have a Members' Agent. In order for the Council to consider whether to grant consent, the member must demonstrate that they have, or have access to, the knowledge and resources necessary to manage all aspects of membership of the Society and to discharge all the responsibilities of a member.
- B. A member that successfully applies for consent under paragraph 24 of the Membership Byelaw is referred to as a Direct Corporate Participant (DCP). Consent may be withdrawn at any time if the Council considers that it is no longer appropriate.

#### **1.5 Power of Attorney**

- A. No member shall underwrite insurance business at Lloyd's unless they have executed a power of attorney in the form for the time being prescribed by the Council relating to the carrying on of insurance business of all classes and matters incidental thereto in jurisdictions outside the United Kingdom.

#### **1.6 FAL Online Portal**

- A. No member shall underwrite insurance business at Lloyd's unless they have, and have procured that any Third Party Capital Provider has, registered for, and agreed to the terms of use of, the FAL Online portal that provides access to FAL data and documents.
- B. From a date or dates to be specified by the Society, use of the FAL Online portal and the onboarding portal referred to elsewhere in these conditions and requirements will be mandatory.

## **2. Member's capital – provision and maintenance**

### **2.1 Provision of capital**

- A. No member shall underwrite at Lloyd's unless they have executed the relevant trust deeds pursuant to which their FAL will be held, as identified in Appendix 2.
- B. Any member that underwrites or is proposing to underwrite both general business and long-term business must maintain separate FAL or FIS for each type of business, each in an amount determined in accordance with paragraph 2.2D below.
- C. Where FAL in respect of a member are to be provided or procured directly or indirectly by a third party, the member shall procure the provision to the Society of:
  - a) a Third Party Funding Arrangement form, in whichever of the prescribed forms is applicable, completed by the third party; and
  - b) a copy of any agreement evidencing the provision or procurement of FAL.
- D. No third party shall provide FAL on behalf of a member without the prior approval of the Society.
- E. A member which is the sole member of a syndicate the managing agent of which is a connected company may satisfy their FAL requirement through the provision of FIS within the managing agent's sub-fund.
- F. A member shall not by any voluntary act or omission effect or permit any reduction in the value of their member's assets below their Adjusted ECA, except for the purpose of meeting any Lloyd's obligations in accordance with the terms of a trust deed under which any such member's assets are held.

## 2.2 Member's capital requirement

- A. A member's solvency capital requirement (SCR) is derived from the agreed SCR for each syndicate (including any syndicate in a box and Special Purpose Arrangement) on which that member participates.
- B. The SCR of a member that only supports one syndicate will be the member's share of the syndicate as a proportion (up to 100%) of the syndicate's SCR. For a member that underwrites on more than one syndicate, the SCR will be the aggregate of the member's shares of each syndicate's SCR, subject to a diversification credit.
- C. The Society applies a Capital Uplift to the member's SCR, via an uplift to the underlying syndicate SCRs, to determine the economic capital assessment requirement (ECA) for that member. The purpose of the Capital Uplift is to meet the Society's financial strength, licence and ratings objectives. Where applicable, a member's ECA will be increased by a Capital Loading imposed pursuant to paragraph 3.2D below to determine the member's Adjusted ECA. For the avoidance of doubt, the Adjusted ECA of a member that has not had a Capital Loading imposed will be the same as the member's ECA.
- D. **Subject to paragraph 2.2E and to paragraph 2.3 below, every member shall provide FAL (or, where available, FIS) so that their member's assets are in an amount not less than their Adjusted ECA, as determined in accordance with the provisions at paragraphs A – C above. A member which underwrites both general and long term business shall, for the purposes of this paragraph, have a separate Adjusted ECA for each type of business.**
- E. Where a member has ceased underwriting and all of its underwriting years of account have closed, the capital requirement for that member will be determined by reference to an assessment of the member's overseas tax liabilities as set out in paragraph 6E.

## 2.3 Member's assets

- A. For the purposes of these conditions and requirements, "member's assets" represents, at any one time, the aggregate net position of the member's participation at Lloyd's and comprises:
  - 1. FAL (including interest on cash and income arising thereon if paid into FAL and as determined in accordance with section 3, as well as any assets available for distribution to the member);
  - 2. FIS (if any);
  - 3. the member's share of a syndicate's solvency result once that result has been notified to the Council;
  - 4. liabilities in respect of any Request for Funds.

## 2.4 Coming into Line

- A. The process by which a member provides or procures FAL to meet its Adjusted ECA requirement is known as coming into line (CIL).
- B. Prior to commencing underwriting, a new member must provide or procure the required level of FAL as determined by its Adjusted ECA:
  - a) for a member that commences underwriting on 1 January, FAL will be required to be in place by close of business on the Q4 Corridor Test Deadline (or, where part of those FAL are provided by way of a LOC or Guarantee, by the Cut-Off Date); and,
  - b) for a member that commences underwriting on a different date, FAL will be required to be in place in accordance with a timetable agreed with an Authorised Person.
- C. The Society will perform a Capital Test in Q2 of each year, the details of which will be set out in the Annual CIL Statement published on Working Day 10 of Q2. Subject to paragraph 2.5D below, where a member's assets, as defined in paragraph 2.3 above, are less than its most recent Adjusted ECA, the member will be required to provide or procure additional FAL or FIS so that their total member's assets are at least equal to their Adjusted ECA.

- D. Subject to paragraph 2.5D below, where a member's assets are in excess of the amount of their Adjusted ECA, the member may make an application to release the surplus from FAL or FIS.
- E. The relevant date for valuing a member's FAL or FIS will be 31 December of the preceding year and the deadline for providing or procuring additional FAL or FIS will be the Annual CIL Date. For FAL provided by way of a LOC or Guarantee, the deadline is the Mid-Year Cut-Off Date.
- F. Any member that does not hold member's assets in an amount equal to or higher than their Adjusted ECA at the Annual CIL Date will be served with an Overdue Notice and required to pay an administrative fine. Should the member have failed to make good the shortfall within 10 Working Days, the Council will be asked to make a direction under paragraph 40 of the Membership Byelaw that the member cease underwriting at the end of the then current year of account, unless the member undertakes to and subsequently does sell sufficient capacity in the capacity auctions to provide funds in an amount equal to or higher than 150% of the CIL shortfall. Subject to compliance with all applicable requirements (including the payment of all outstanding sums owed to the Society), a member may recommence underwriting no earlier than 12 months after the end of the year of account in which the Council direction was given. An individual member may not recommence underwriting other than through a limited liability vehicle.
- G. A member may elect to hold a higher level of capital in an amount of up to 165% of their Adjusted ECA.
- H. Any member that has been issued with an administrative fine pursuant to paragraph 2.5H below shall not be deemed to have CIL unless that administrative fine has been settled in full by the Annual CIL Date.

## 2.5 Maintenance of Capital

### Ongoing maintenance of capital (Quarterly Corridor Tests)

- A. Outside of the annual CIL process a member must maintain their member's assets in an amount which is at least 90% of their Adjusted ECA. Any amount in excess of 110% of the member's Adjusted ECA will be eligible for release pursuant to paragraph 2.5C below.
- B. A member's share of a syndicate's solvency position will be determined on a quarterly basis and statements will be provided to the member based on their latest asset position. The quarterly statement will also set out the member's FAL valuation and Adjusted ECA at the end of the previous quarter and will be provided to the member on Working Day 35 of each quarter.
- C. If the value of a member's assets as set out in the quarterly statement drops below 90% of their Adjusted ECA the member must provide or procure additional funds by Working Day 55 in the quarter so that the value of the member's assets is at least 90% of their Adjusted ECA; however, no additional funds will be required if the amount of the shortfall below 90% is less than the De Minimis Amount. A member may make an application for the release of any surplus FAL or FIS if the value of their member's assets as set out in the quarterly statement is above 110% of their Adjusted ECA.
- D. The quarterly statement provided on Working Day 35 in Q2 will supplement the Annual CIL Statement for the purposes of determining whether further funds are required (to ensure that the member meets the quarterly test under paragraph 2.5C as well as the CIL requirement under paragraph 2.4C), or the amount of FAL or FIS that may be available for release (where the amount of member's assets held to meet the CIL requirement under paragraph 2.4C entitles the member to a release under the quarterly test in accordance with paragraph 2.5A).
- E. Subject to paragraph G below, where (i) funds are provided by way of a LOC or Guarantee, or (ii) changes are to be made to an existing LOC or Guarantee, or (iii) a LOC or Guarantee under notice of cancellation is required to be replaced prior to the next Corridor Test Deadline, the LOC or Guarantee must be provided, amended or replaced within the Quarterly Amendment Period.
- F. In respect of each quarter, a LOC or Guarantee may not be submitted into a member's FAL outside of the Quarterly Amendment Period, nor may any changes be made after the Quarterly Amendment



Period to the amount of any LOC or Guarantee already comprising a member's FAL unless agreed with an Authorised Person.

- G. A LOC or Guarantee may be substituted in full outside of the Quarterly Amendment Period, provided that it is replaced with another type of acceptable asset (other than another LOC or Guarantee) as described in paragraph 3.1H.
- H. With the exception of Q4, any member that fails to comply with paragraph 2.5C above in a quarter will be served with an Overdue Notice and required to pay an administrative fine until the shortfall has been cleared.
- I. Any member that fails to comply with paragraph 2.5C above in Q4 must drop sufficient capacity so that their Adjusted ECA (as amended to take account of the dropped capacity) means that they are able to comply with paragraph 2.5A. Should the member fail to do so the Council will be asked to make a direction under paragraph 40 of the Membership Byelaw that the member cease underwriting at the end of the then current year of account.
- J. The Society may amend the percentages set out in paragraph A above no later than six months prior to the revised percentages coming into effect, as notified to members.
- K. Further details on both the annual CIL process and the ongoing maintenance of capital process are set out in the guidance on the FAL Online portal.

### **Major solvency event**

- L. On the occurrence of an event, or series of events, that has a material impact on the level of a member's solvency, the Society may temporarily prohibit releases of surplus FAL or FIS until such time as the full impact on the member's solvency can be adequately assessed.
- M. A Capital Test will be performed for every member, to assess the impact of the major event on the member's solvency. Where as a result the value of a member's assets is less than 90% of its Adjusted ECA, the member will be required (if the amount is in excess of the De Minimis Amount) to provide or procure additional FAL or FIS to make up the shortfall in accordance with a timetable specified by the Society.
- N. Where the deadline for the provision of additional FAL or FIS under paragraph M above differs from that set out in paragraph 2.5C, prior notice will be given to the member in advance of funds being required.
- O. Notwithstanding the above, the Society may at any time require a member to provide or procure additional FAL or FIS so that their member's assets are at an amount up to 100% of their Adjusted ECA.

### **Cash Calls**

- P. A member that does not intend to meet a cash call through the provision of new monies shall give instructions to the Society as to how that cash call shall be met from their FAL, either directly or through their members' agent (if one). If the member fails to provide such instructions then the Society may give effect to a compulsory drawdown.

## **3. Member's capital – acceptable assets**

### **3.1 Acceptable assets within FAL**

#### **General requirements**

- A. A member's FAL shall only be invested in assets and instruments that comply with the PRA Rulebook applicable to Solvency II firms and all other applicable legal and regulatory requirements, and whose risks can be properly identified, measured, monitored, managed, controlled, reported and appropriately taken into account in the assessment of the member's overall solvency needs.
- B. A member must ensure that their FAL is held in accordance with the most recent guidance by the

PRA in accordance with the Solvency II: Prudent Person Principle<sup>1</sup>. This includes, but is not limited to, investment strategy, investment risk management, counterparty risk, diversification, outsourcing of investment activities, exposure to non-traded assets, valuation uncertainty and intra-group loans and participations.

- C. Subject to paragraph E below, a member's FAL shall only be invested in assets and instruments that:
- a) are cash, LOCs or Guarantees (subject to the applicable provisions in paragraphs 3.1J – 3.1T) and assets or holdings as categorised by the CIC codes provided for in Appendix 3; and
  - b) (subject to paragraph R) are capable of being settled electronically; and
  - c) are denominated in an acceptable currency (see paragraph 3.4A); and
  - d) (other than Illiquid Assets) are capable of being accurately and fairly valued on an ongoing basis (in practice this means at least once every month) and are sufficiently liquid to enable realisation at or around the quoted price; and
  - e) (except for cash, LOCs and Guarantees, Collective Investment Undertakings, Alternative Assets or Illiquid Assets) are of a class quoted or listed on an approved stock exchange or are traded on a *regulated market*; and
  - f) are neither in, nor have been issued by, a corporate member; and
  - g) are neither in, nor have been issued by, any company in an Ineligible Group; and
  - h) are neither in, nor have been issued by, an underwriting agent registered to act as such by the Society, and
  - i) have been cleared under the Society's sanctions screening process.
- D. In the event that a member's FAL comprise assets which cease to be acceptable assets, and the member (or their members' agent, if applicable) has been advised that this is the case, the member shall procure that such assets are replaced within 30 days or by the next Corridor Test Deadline if earlier.
- E. Assets that cannot be settled electronically are no longer permitted to be held in FAL. Such assets that are held in FAL at the date on which these requirements came into force will be grandfathered. These assets include, but are not limited to:
- a) Guarantees (subject to paragraph 3.1R below)
  - b) National Savings Certificates
  - c) Life Assurance Policies and Bonds
  - d) Annuities
- <sup>1</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/solvency-ii-prudent-person-principle>
- F. Assets may only be transferred into FAL if beneficially owned by the member or Third Party Capital Provider at the time of transfer and will only be accepted from a verified bank account or investment manager approved by the Society.

### **EIOPA CIC Codes**

- G. EIOPA CIC codes categorise each asset by a) asset category; and b) underlying risk, as demonstrated by Appendix 4.
- H. Appendix 3 describes those assets that are acceptable in FAL by CIC category, in accordance with EIOPA definitions<sup>1</sup>.
- I. The Society may update Appendix 3 and Appendix 4 from time to time on reasonable prior notification to members (including by way of market bulletin). Further guidance is provided on the FAL Online portal.

<sup>1</sup> [https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa\\_13\\_415\\_final\\_report\\_on\\_cp10.pdf](https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa_13_415_final_report_on_cp10.pdf)

## Letters of Credit and Guarantees

- J. Subject to paragraphs K, P - Q (in the case of LOCs), and R - S (in the case of Guarantees), FAL maybe provided in the form of a LOC or Guarantee.
- K. Where a member wishes to use a particular credit institution to provide a LOC or Guarantee they should contact an Authorised Person to establish whether the credit institution is an Approved Credit Institution.
- L. The Society monitors the quantum of LOCs and Guarantees that an Approved Credit Institution may issue at the aggregate level. Before entering into any new LOC or Guarantee arrangement, a member should confirm with an Authorised Person that the issue of their proposed LOC or Guarantee will not breach the aggregate limits for the Approved Credit Institution.
- M. LOCs and Guarantees are classified as tier 2 assets under Solvency II and treated as ancillary own funds that require approval by the PRA.
- N. Where a member intends to provide a LOC or Guarantee as part of its FAL, a maximum threshold of ECA is applied for members with an ECA over a prescribed limit (see Appendix 3, including footnote 2, and the guidance on the FAL Online portal, for further details).
- O. For a LOC or Guarantee under notice of cancellation to remain eligible for FAL it must not be due to expire on or before 30 September in the fourth year following the then last Annual CIL Date so that, for example, if the LOC or Guarantee is due to expire on or before 30 September 2025 it will not be an acceptable asset for the 2022 and any subsequent year of account.
- P. A LOC issued on behalf of a member must:
  - a) contain the terms set out in Lloyd's prescribed form without any material additions to such terms and have been completed in strict compliance with the notes for completion set out therein;
  - b) have been issued or confirmed by an Approved Credit Institution;
  - c) have been issued on the headed notepaper of the issuer or confirmer or sent by an authenticated teletransmission system such as SWIFT;
  - d) be denominated in an approved currency (as set out in paragraph 3.4);
  - e) unless an Authorised Person otherwise agrees, be effective as of 1st January or 30<sup>th</sup> June of the year in relation to which it is given;
  - f) be clean and irrevocable;
  - g) be subject to not less than 4 years' notice of cancellation;
  - h) be governed by English law and subject to the exclusive jurisdiction of the English courts;
  - i) if issued or confirmed after 31 December 1994 have not been issued or confirmed on the basis that the collateral (if any) securing the repayment of any amounts payable under it comprises directly or indirectly a security interest over a principal private residence unless the Members' Agent of the member on whose behalf such a LOC has been issued has satisfied itself that the person who has provided such collateral security has readily realisable assets outside Lloyd's at least equal in value to the face value of the LOC. This limitation shall not apply in relation to a LOC issued in connection with an interavailability arrangement in substitution of a LOC issued on or before 31 December 1994.
- Q. A member must provide details of the collateral supporting any LOC which the member wishes to hold in FAL and which is in an amount equal to or greater than 5 million of the currency in which is denominated. If the collateral is provided by a person other than the member then that person must be approved as a Third Party Capital Provider by the Society.
- R. LOCs or Guarantees in paper form will remain acceptable assets for FAL purposes until such time

that they can be accepted by the Society electronically. From the point in time at which LOCs or Guarantees can be accepted electronically (as notified by the Society), any existing LOCs or Guarantees in paper form will be grandfathered (pursuant to paragraph 3.1E above) but not capable of amendment in that form, and new LOCs or Guarantees will need to be submitted electronically in order to be accepted by the Society into FAL.

S. A Guarantee must:

- a) in the case of Guarantees issued on behalf of an individual member, be –
  - i) if given (or to be given) by joint guarantors, in the relevant Lloyd's prescribed form and have been completed and executed in strict compliance with the relevant notes for completion;
  - ii) if given (or to be given) by an Approved Credit Institution, in the relevant Lloyd's prescribed form and have been completed and executed in strict compliance with the relevant notes for completion;
- b) in the case of Guarantees issued on behalf of a corporate member, be –
  - i) if given (or to be given) by joint guarantors, in the relevant Lloyd's prescribed form and have been completed and executed in strict compliance with the relevant notes for completion;
  - ii) in the case of any other Guarantee, in the relevant Lloyd's prescribed form and have been completed and executed in strict compliance with the relevant notes for completion;
- c) have been provided by an Approved Credit Institution, an approved building society or an approved life assurance company;
- d) be denominated in an approved currency (as set out in paragraph 3.4);
- e) unless an Authorised Person otherwise agrees, be effective as of 1st January or 30<sup>th</sup> June of the year in relation to which it is given;
- f) be subject to not less than 4 years' notice of cancellation;
- g) be governed by English law and subject to the exclusive jurisdiction of the English courts; and
- h) if provided after 31 December 1994 have not been provided on the basis that the collateral (if any) securing the repayment of any amounts payable under it comprises directly or indirectly a security interest over a principal private residence unless the Members' Agent of the member on whose behalf such a guarantee has been issued has satisfied itself that the person who has provided such collateral security has readily realisable assets outside Lloyd's at least equal in value to the face value of the guarantee. This limitation shall not apply in relation to a guarantee issued in connection with an interavailability arrangement in substitution of a guarantee issued on or before 31 December 1994.

T. If any Guarantee a member wishes to hold in FAL is collateralised by a person other than the member, the name of that person must be provided to the Society and they must be approved as a Third Party Capital Provider by the Society.

U. A member may invest up to 10% of their FAL or FIS in Illiquid Assets, subject to the prior approval of an Authorised Person. Illiquid Assets shall be categorised as non-core assets.

## 3.2 Strategic Asset Allocation Requirements

### Standard strategic asset allocation requirements

- A. A member's Aggregate Capital is required to comply with the standard strategic asset allocation (SSAA) requirements as set out in Appendix 3, which identifies admissible assets by CIC code per asset class.
- B. Each asset class identified in Appendix 3:
  - a. has a maximum SSAA limit expressed as a percentage of Aggregate Capital; and
  - b. is categorised as a 'core' or 'non-core' asset. Non-core asset classes must comply with individual asset class limits and the aggregate non-core asset class limit.

## Issuer exposure

- C. Appendix 3 describes the maximum issuer exposure per acceptable asset class that will apply to the Aggregate Capital of a member whose ECA is greater than £20m. The Society will monitor issuer exposure within the Aggregate Capital and in the event that the maximum limits are breached will liaise with the member to discuss the remedial action that can be taken.

## Capital loading

- D. If a member's Aggregate Capital does not comply with the SSAA as required under paragraph A the member may be subject to an additional capital loading. The FAL Online portal includes details of:
  - a. the additional capital loading per asset class;
  - b. the method of calculation of a member's capital loading; and
  - c. worked examples for the application of a capital loading.
- E. An additional capital loading will apply:
  - a. to any amount in excess of an individual asset class limit; and then
  - b. to any amount in excess of the aggregate non-core asset class limit.

## 3.3 Valuation of FAL or FIS

- A. Subject to paragraphs B and C, the assets comprised in a member's FAL or FIS shall be valued at fair value.
- B. A LOC or Guarantee will be valued by the Society at its net realisable value as at the relevant valuation date.
- C. As regards that amount of a member's FAL which is equal to 30 per cent of the member's OPL, no credit shall be taken for the value of any SRF held by the member (but for all other purposes of these requirements a member's SRF (if any) shall be taken into account in determining the value of their FAL).
- D. For an asset transferred into FAL or FIS to meet the requirements set out in paragraph 2.4 or 2.5, the valuation of that asset must be calculated using an FX rate or security price within the last 10 Working Days prior to the transfer.

## 3.4 Acceptable currencies

- A. The acceptable currencies in which FAL or FIS may be held are USD, GBP, EUR, AUD, CAD and JPY.
- B. In the case where a member has appointed an investment manager with an execution only mandate, a member must ensure that the asset is acceptable pursuant to paragraph 3.1H and that sufficient cash is in place and in the correct currency for a trade to settle.
- C. A member must hold a bank account, verified by the Society, for all cash transactions relating to FAL. One or more bank accounts must be in place that are able to accept each currency held by the member within FAL.
- D. The release or transfer out of any assets from FAL will be made in the currency in which the assets are held. Any assets will only be released to the member or Third Party Capital Provider and the cash element to the bank account verified by the Society in the currency it is held.
- E. A member's share of a syndicate's result will (if a profit) be distributed to a member in the currency in which they are reported (USD and/or GBP). In the event of a loss, either new money must be submitted (in USD and/or GBP as appropriate) to cover the loss, or FAL held in other currencies will be converted by the Society to provide the right currency to settle the loss.

## 3.5 Restriction on mortgage - corporate member

- A. No corporate member shall create or permit to exist over all or part of the monies and assets comprising its FAL or any other fund established by it as security for the payment of its underwriting liabilities (or, in either case, any interest therein) any mortgage, charge, pledge, lien, assignment, encumbrance, right of set-off, title transfer or retention arrangement or agreement, or any security

interest whatsoever (other than in favour of the Society or as permitted or required under these conditions and requirements).

### 3.6 Variation

Nothing in these conditions and requirements shall prevent the Council or an Authorised Person from varying the categories of assets which are acceptable as FAL or FIS from time to time.

## 4. Member's capital – income, distribution and drawdowns

### 4.1 Asset income on FAL

- A. Income received on assets held within FAL (other than cash) will be paid out to the member or Third Party Capital Provider on a quarterly basis (in the currency in which it was received) unless the member or Third Party Capital Provider elects for it to be paid into FAL. Income that was previously paid direct from the registrar to the member, or Third Party Capital Provider, will now be collected by the Society and paid out quarterly as above.
- B. Interest received on cash held in FAL will be paid to the member or Third Party Capital Provider at least every six months, unless the member or Third Party Capital Provider elects for it to be paid into FAL.
- C. For members other than DCPs, and their Third Party Capital Providers, tax vouchers of all income arising on FAL will be provided on a regular basis.

### 4.2 Corporate Actions

- A. Subject to paragraph 4.2C, a member or Third Party Capital Provider will be informed of all voluntary corporate actions where an instruction is required and given the options available to them.
- B. A member must ensure that if a capital sum is required to take up a corporate action event that cleared funds (in the correct currency) are available in FAL by the deadline date set out in the notification. The funds must have been submitted from a bank account verified by Lloyd's; failure to comply with this requirement may prevent the corporate action from being able to be taken up.
- C. Where a member has an investment manager with a discretionary mandate in place the corporate action notification will be sent to the investment manager for their instruction.
- D. Where a mandatory corporate action affects a holding within a member's FAL, the member will be notified via the FAL Online portal after the event of the change to their FAL.
- E. New assets received as a result of a corporate action event will remain in the jurisdictional custody account and /or currency in which they have been delivered. If the new asset resulting from a mandatory corporate action is not an acceptable asset for the purposes of paragraph 3.1C, the member will be required to substitute it within 30 days. A voluntary corporate action will not be offered by the Society if no acceptable asset is available as a result.
- F. Subject to paragraph 4.2E, all cash or assets resulting from corporate actions will be retained within FAL.

### 4.3 Distribution

- A. The allocation of assets to debts within distribution will be carried out in line with the allocation timetable, as notified to members. Instructions will be executed as expeditiously as possible but without any liability on the Society's part for any interest or other expense incurred by the member after the date of receipt.
- B. As per paragraph 2.5D, surpluses will only be released to the member at distribution to the extent that their member's assets (excluding distribution surpluses) are in excess of their Adjusted ECA.
- C. Members are not permitted to settle their members agents' Non-PTF expenses through the distribution process.

### Drawdowns to meet insurance losses

- D. For individual members with a SRF, any drawdowns will be made from the SRF in the first instance as required under HMRC rules.
- E. Assets held subject to the premiums trust fund under the premiums trust deed must be utilised prior to submission of any drawdown request. The Society will proceed with compulsory drawdowns on the PRF 21 days after a loss payment date.



- F. Further guidance on deposit drawdowns is set out on the FAL Online portal.

## 5. Appointment of investment managers

- A. Except where the FAL comprises cash and LOCs or Guarantees only, a member or Third Party Capital Provider must nominate a person to be appointed to act as investment manager of their FAL. The appointment is subject to approval by the Council that the proposed appointee meets the criteria set out in paragraph 5D below and is a suitable person to act as investment manager.
- B. The Council may also on an ongoing basis review appointed investment managers to ensure they continue to be fit and proper to act as such and able to meet the requirements of this section 5.
- C. If the Council refuses to grant approval for any proposed appointee to act as investment manager; or following the review of such appointment concludes that the investment manager is no longer fit and proper to act as such or unable to meet the current requirements, the candidate or member shall be notified in writing with the reason(s) for such refusal or conclusion and shall select a different investment manager and make an application for that investment manager to be approved by the Council.
- D. In order to be appointed, investment managers must be authorised or exempt under the Financial Services and Markets Act 2000 (or local regulatory equivalent) and have signed a Master Agreement with Lloyd's. With effect from 1 July 2022, or such other date as notified by the Society, investment managers must have SWIFT messaging capability that meets the Society's requirements or the ability to meet the Society's requirements for trade confirmations (where applicable).
- E. Where members have existing investment managers that are unable to meet the requirements in paragraph D, the member or Third Party Capital Provider will need to select an alternative investment manager and make an application for approval.
- F. Subject to a Master Agreement being in place, the form for appointing an investment manager (LFOA) (available on the FAL Online portal) must be completed by the member or depositor. Once completed to the Society's satisfaction, it must be signed by the member or depositor and the investment manager and then with effect from a date required by the Society submitted electronically via the document upload facility on the FAL Online portal.
- G. Any investment guidelines included with the LFOA will need to be submitted to the Society for prior approval. Subsequent changes to the investment guidelines will not require the Society's approval provided the guidelines continue to comply with the requirements of the SSAA and the assets are within the scope of those permitted under paragraph 3.1H.
- H. An investment Manager which has been appointed pursuant to a LFOA will be provided with access to the FAL Online portal to manage FAL transactions and assist with reconciliations (subject to having registered for, and agreed to the terms of use, of the FAL Online portal).

## 6. Taxation and accredited investors

- A. All members should take professional advice in relation to taxation.
- B. No member shall underwrite insurance business at Lloyd's unless resident in the United Kingdom for tax purposes.
- C. A member which is a SLP or a LLP shall not underwrite insurance business at Lloyd's unless all of the partners of the SLP or all of the members of the LLP (as applicable) are resident in the UK for tax purposes.
- D. Prior to the commencement of a year of account, every member wishing to underwrite for that year of account shall complete a tax declaration in the prescribed form confirming that they (or in the case of a member which is a LLP or a SLP, the members or partners thereof) will be resident in the United Kingdom for tax purposes for the Tax Year in which that year of account commences (and fully expects to be so resident for the next Tax Year thereafter). Should such a declaration fail to be provided by the Q4 Corridor Test Deadline prior to that year of account, the Society will take steps to terminate the member from underwriting before the year of account commences.
- E. Where a member has ceased actively underwriting and all of their underwriting years of account have closed, the member's capital requirement shall be an amount which makes provision for any

outstanding or potential overseas tax liabilities of the member in respect of their underwriting business at Lloyd's (as adjusted from time to time). This amount shall be as determined by the Tax Department at Lloyd's and notified to the member (or their members' agent). Until such time as such notification is given, the amount required shall be the member's Adjusted ECA for the year of account prior to the closure of the member's last underwriting year of account.

- F. With the prior approval of an Authorised Person, a member may arrange for an indemnity (in a form acceptable to the Society) to be provided to the Society in lieu of its capital requirement as determined under paragraph E.
- G. **Accredited Investors** - Subject to paragraph B, a member: (i) whose shareholders, if a company; (ii) whose limited partners, if a SLP; or (iii) whose members, if a LLP, include individuals who are domiciled or resident in the US shall not underwrite insurance business for any year of account unless confirmation (in the required format) has been provided to the member's members' agent (or the Society, if none) between 31 March and 30 June in the previous year that each such individual is an Accredited Investor.

## 7. Additional Underwriting Requirements

### 7.1 Agreements, undertakings etc by corporate members

- A. Every member shall:
  - a) procure that all underwriting receipts by or on behalf of the member in respect of such business are carried to the premiums trust fund subject to a premiums trust deed in the form prescribed for general business and/or long term business as appropriate;
  - b) on such date as the Council may prescribe, execute, or procure the execution of, a premiums trust deed in the then prescribed form for general business and, where applicable, long term business;
  - c) on a continuing basis throughout the period of its membership comply with these conditions and requirements and provide such additional documentation or deeds of undertaking required by the Council as and when requested; and
  - d) supply or have supplied a copy of any certificate evidencing the registration or variation of a charge made pursuant to a filing made under paragraph 1.3F.
- B. Where during any year of membership any person becomes:
  - a) an additional or replacement director of a member;
  - b) a controller of a member;
  - c) a member of a LLP which is a member at Lloyd's;
  - d) a partner of a SLP which is a member of Lloyd's;

that member shall procure that that person completes a questionnaire on fitness and propriety in whichever of the prescribed forms is applicable in the circumstances, unless that person is exempted from the requirement to do so pursuant to paragraph C below. Approval must be sought from the Society prior to any appointment.
- C. Unless the Council shall otherwise require, the following persons are exempted from providing a questionnaire on fitness and propriety under paragraph B above:
  - a) a member of the Society;
  - b) a person who has already been approved, or has made an application to be approved, as a director, LLP member, limited partner or controller of another corporate member or as a director or controller of a managing agent;
  - c) a person who is approved by the FCA or the PRA as a controller of an authorised firm; or
- D. The provisions of paragraph 10.2B shall apply to such documentation as is required to be entered into by a member of the Society.

### 7.2 Declaration of compliance

- A. Every declaration of compliance required to be prepared by a member shall:
  - a) be in the prescribed form and prepared as at the date each year prescribed by the Council;



- b) contain such information relating to the collateral supporting any LOC provided as part of the member's FAL as the Council may require; and
- c) be filed with the Council for approval within 30 days after the date to which the declaration of compliance has been prepared.

### **7.3 Submission of accounts**

- A. Every member registered or domiciled outside of the United Kingdom shall submit its accounts to the Council within six months of the date to which the accounts have been prepared.

## **8. Cessation of membership**

### **8.1 Member's Undertaking**

- A. Every individual member agrees and undertakes that upon ceasing to be a member of the Society, during any subsequent period in which they may be obliged to carry out any contract of insurance that they have underwritten, shall comply with the provisions set out in paragraphs 49 and 50 (former members and change of address) of the Membership Byelaw and shall:
  - a) notify the Secretary to the Council of Lloyd's in writing of any change of address not later than one month after the change; and,
  - b) make and maintain arrangements for the Secretary to the Council of Lloyd's to be notified in writing in event of their death.

### **8.2 Resignation and Termination**

- A. A member may apply to resign from membership of Lloyd's at any time by submitting a written application to the Society.
- B. An unlimited member that ceases underwriting shall not be permitted to recommence.
- C. Subject to paragraphs 45 and 46 of the Membership Byelaw, and except where paragraph 6E applies, a member's membership will terminate once the member's last syndicate year of account has also been closed by reinsurance to close. The termination letter will be sent to the member and members' agent.
- D. In accordance with paragraph 47 of the Membership Byelaw, whether or not a notice of resignation has been submitted, the Council may at any time terminate a member's membership for any of the following reasons:
  - a) the member is not suitable to be a member;
  - b) the member has not underwritten insurance business at Lloyd's for a period of three or more years;
  - c) the member has failed to comply with any provision of Lloyd's Acts 1871 to 1982 or with any requirement of the Council (including, for the avoidance of doubt, the conditions and requirements set out in this document);
  - d) the member has been convicted of a reportable criminal offence; or
  - e) the member is bankrupt or insolvent.

## **9. Capacity and auctions**

- A. Lloyd's operates an auction process whereby members, and candidates for membership, can buy and sell capacity on syndicates underwriting at Lloyd's.
- B. All subscribers for capacity on a syndicate must be in compliance with requirements relating to solvency and FAL.
- C. The specific rules relating to the auction process and the timetable can be found on the FAL Online portal.

## **10. Supplemental and Commencement**

### **10.1 Exemptions and variations**

- A. The Chief Financial Officer, the Head of Member Services or the Chief Accountant may grant any member or members exemption from such provisions of these conditions and requirements, or vary the application of these conditions and requirements to that member or those members, on such terms and conditions as they see fit.

## **10.2 Specified forms**

- A. The Council or an Authorised Person may at any time alter or replace any of the documents and forms referred to in these conditions and requirements.
- B. All such documents and forms submitted by or on behalf of a member or in connection with any of these conditions and requirements shall be in the prescribed form, subject to any variations or additions thereto as may be agreed by the Council.

## **10.3 Revocation**

- A. The Membership & Underwriting Conditions and Requirements (Funds at Lloyd's) which came into force on 31 October 2016 are hereby revoked.
- B. The Membership & Underwriting Conditions and Requirements (Corporate Members) which came into force on 10 September 2007 are hereby revoked, except insofar that any requirements applicable to continuing membership of a member which is a SLP shall remain in force.

## **10.4 Commencement**

- A. Except where otherwise stated, these conditions and requirements shall come into force on 1<sup>st</sup> January 2022. The Quarterly Corridor Test pursuant to paragraph 2.5 and the provisions of paragraph 4.1 will commence with effect from Q4 2021.

## A1.1 Company applicants

### Provisions to be complied with by company candidates

- A. No part of a company candidate's issued share capital shall comprise bearer shares.
- B. A company candidate shall have at least one director who is an individual.
- C. A company candidate which has two or more corporate directors shall also have an equivalent number of directors who are individuals.

## A1.2 LLP applicants

### Provisions to be complied with by LLP candidates

#### Eligibility

- A. A LLP candidate shall be a body corporate formed by being incorporated in England and Wales under the Limited Liability Partnerships Act 2000 and registered as such with the Registrar of Companies.

#### Members' Agreement

- B. The members of a LLP shall enter into a members' agreement which shall:
  - a) satisfy the requirements as to its form and content set out in paragraphs O – U below;
  - b) be in terms approved by the Council; and
  - c) other than in respect of Schedule 2 thereof, not be amended or varied in any manner without the prior written consent of the Council and shall be amended or varied in the manner required by the Council.

#### Structure

- C. The structure of a LLP candidate shall comprise:
  - a) at least one member who is not a 'Non-contributing member';
  - b) two corporate 'Non-contributing members', identified as such in the LLP members' agreement, at least one of which shall be a connected company of that LLP candidate's members' agent.
- D. A Non-contributing member of the LLP shall not make any contribution of capacity to the LLP, nor provide any FAL to support the LLP's underwriting, nor participate in its profits or losses.
- E. At least one of the designated members of the LLP shall be a corporate Non-contributing member which is a connected company of that LLP candidate's members' agent.

#### Continuing obligations of the LLP

- F. The LLP shall ensure that:
  - a) the requirements of the Limited Liability Partnerships Act 2000 are at all times complied with in respect of the LLP; and
  - b) at all the times the LLP comprises a minimum of two members.
- G. The LLP shall not cause or permit any of the events listed below to occur, unless the Council has given its prior written consent:
  - a) a merger between the LLP and any other corporate member or LLP;
  - b) an insolvency event in relation to the LLP;
  - c) any event requiring the agreement of the Council under any of the provisions of the Byelaw or these conditions and requirements (including those in this Schedule); or
  - d) any other event which the Council may prescribe for the purposes of this paragraph.
- H. The LLP shall promptly deliver to the Council a copy of:
  - a) any notice of resignation given by a member of the LLP;

- b) any notice of transfer of a member of the LLP's interest in the LLP;
  - c) any notice of intention of a member of the LLP to change his country of residence or his nationality or his domicile; or
  - d) any notice of an insolvency event relating to a member of the LLP.
- I. The LLP shall promptly notify the Council in writing of the occurrence of any of the following, together, in each case, with such information as the Council may specify:
- a) the resignation of a member of the LLP;
  - b) the appointment of an auditor of the LLP;
  - c) the auditor of the LLP vacating office;
  - d) the occurrence of any insolvency event in relation to the LLP;
  - e) a material change in any information furnished to the Council;
  - f) upon becoming so aware, the death of any member of the LLP; and
  - g) any other event which the Council may prescribe for the purposes of this paragraph.
- J. The members of the LLP shall be responsible for the selection of the syndicates on which the LLP at any time is to participate or the decision for the LLP to participate through a MAPA, and in each case the level of such participation.

### **Admission to membership of the LLP**

- K. No person may be admitted as a member of a LLP without the prior written consent of the Council. Without prejudice to the generality of this paragraph K, the Council shall have regard to the following factors in determining whether to grant its approval:
- a) the financial position of the candidate member;
  - b) in the case of an individual, the country of residence, nationality and domicile of the candidate member;
  - c) in the case of a body corporate, the country under the laws of which the candidate member has been incorporated;
  - d) the manner in which the LLP has been promoted to the candidate member and any advice which the candidate member has received; and
  - e) the manner in which and the countries in which interests in or securities of the candidate member have been promoted.
- L. Subject to paragraph C above, a member of the LLP shall be either an individual or a body incorporated with limited liability under the laws of England & Wales or Scotland.
- M. An application for approval of a candidate member of the LLP shall be:
- a) made in whichever of the prescribed forms is applicable in the circumstances;
  - b) submitted to the Council in accordance with the published timetable before 1 January of the year in which the admission of that candidate partner is to take effect or such later date as the Council may permit;
  - c) accompanied by a questionnaire on fitness and propriety in whichever of the prescribed forms is applicable in the circumstances (unless exempted from the requirement to provide one pursuant to paragraph 7.1C of these conditions and requirements).
- N. Every candidate member shall execute, or procure the execution of such deeds and other documents, in a form approved by the Council, binding the candidate member to observe and perform the terms of the members' agreement of the relevant LLP.

### **Form and content of a LLP members' agreement**

- O. The agreement shall be expressed to be governed by and required to be construed in accordance

with the laws of England and Wales.

- P. Other than in relation to the contents of Schedule 2, the agreement shall not be capable of being varied or amended in any manner whatsoever without the prior consent in writing of the Council, provided that no such variation or amendment shall be made if it would result in any of the members losing day to day control of the LLP.
- Q. The provisions of the agreement shall be varied or amended in such manner as the Council shall require from time to time with effect from 1 January in any year provided notification of the requirement shall be given in writing to the LLP not less than three months before that date, and provided that no such variation or amendment shall be made if it would result in any of the members losing day to day control of the LLP.
- R. The accounting reference date of the LLP shall be 31 December (or such other date as the Council may with prior written consent permit) and the accounting reference period of the LLP shall correspond to a calendar year.
- S. A transfer of a member's share may relate to the whole or part of the transferor's interest in the LLP. A transfer shall be carried out in accordance with the requirements of the agreement and may only be made with the consent of and to a transferee approved by the Council.
- T. The agreement shall provide that the members of the LLP may not, without the written consent of the Council:
  - a) determine by resolution that the LLP is to be wound up voluntarily; or
  - b) determine by resolution that the designated members may present a petition to a court to wind up the LLP pursuant to the Insolvency Act 1986 on the grounds that the LLP is unable to pay its debts within the meaning of s. 123 of that Act.
- U. Resignation:
  - a) A member of the LLP who wishes to resign must give notice of resignation no later than 30 September in any year, subject to the designated members agreeing (with the prior written consent of the Council) to accept notice after that date.
  - b) The notice of resignation shall only take effect at the year end following the date as from which the last relevant year of account of every syndicate of which the LLP was a member remaining open is closed by reinsurance to close or is otherwise finally provided for. A 'relevant year of account' for this purpose is a year of account in respect of which the member is entitled to share in the underwriting profits or losses of the LLP on that year of account.
  - c) A resigning member shall cease to be a member of the LLP at the end of the period referred to in paragraph (b) above.

### A1.3 Application Documentation – companies

#### Stage 1 application documentation

- A. Lloyd's prescribed Stage 1 forms must be completed and submitted in accordance with paragraph 1.3B.
- B. Application form (CMIF88).
- C. Lloyd's Membership Agreement (Form MA(EW)).
- D. Fitness and Propriety questionnaire for every director of the company candidate (unless exempted from the requirement to provide one pursuant to paragraph 9(2)(b) of these conditions and requirements) (PIF250, CIF251, TIF262).
- E. Fitness and Propriety questionnaire for every controller of the company candidate (unless exempted from the requirement to provide one pursuant to paragraph 9(2)(b) of these conditions and requirements) (PIF250, CIF251, TIF262 or PLIF263).
- F. Certificate of incorporation of the company candidate (or equivalent constitutional documents) and any shareholders' agreements relating to the company candidate (and to any holding company).
- G. Detailed structure chart, identifying: all controllers of the company candidate and all connected

companies (including the level of interest, both equity and voting, held by each controller in the company which it controls); the jurisdiction in which each controller is incorporated (including the registration number of the corporate controller or equivalent if registered outside the UK); where a controller is a regulated entity, the name of the regulatory body and its regulator's reference number (where applicable); all insurance and reinsurance carriers, underwriting agents, corporate members and Lloyd's brokers within the group; and whether any company is listed on any stock exchange.

- H. Any marketing material including any information memorandum issued by, in relation to or on behalf of, the company candidate containing any invitation to acquire an interest in the company candidate, or containing information calculated to lead persons to do so.

### Stage 2 application documentation

- I. The documentation listed in paragraph A1.5 relevant to all applicants.
- J. If the company candidate is controlled by an individual member, or controlled by an individual who controls another member (including a member which is a LLP or SLP in which that individual participates), a deed of undertaking in the appropriate prescribed form.
- K. Any documentation required to be provided pursuant to paragraph 2.1C of these conditions and requirements.
- L. If the company candidate has for the time being no members' agent, a duly completed corporate member's syndicate list.

### A1.4 Application Documentation - LLPs

#### Stage 1 application documentation

- A. Lloyd's prescribed Stage 1 forms must be completed and submitted in accordance with paragraph 1.3B.
- B. Application form (CMIF88).
- C. Lloyd's Membership Agreement (MA (LLP)).
- D. Fitness and Propriety questionnaire from every member of the LLP (PIF250) (unless exempted from the requirement to provide one pursuant to paragraph 7.1C of these conditions and requirements).
- E. The LLP candidate's certificate of incorporation.
- F. The application for incorporation of the LLP candidate (PLIF263).
- G. Any marketing material including any information memorandum issued by, in relation to or on behalf of, the LLP candidate containing any invitation to acquire an interest in the LLP candidate, or containing information calculated to lead persons to do so.

#### Stage 2 application documentation

- H. The documentation listed in paragraph A1.5 applicable to all applicants in the appropriate prescribed form for a LLP candidate.
- I. If a member of the LLP candidate is an individual member, or controls another member (including a member which is a SLP of which that individual is a partner), a deed of undertaking in the appropriate prescribed form.
- J. The LLP candidate's members' agreement signed by all members of the LLP.
- K. Any other constitutional documents of the LLP candidate or agreements between any of the LLP candidate's proposed members.

### A1.5 Stage 2 Application Documentation (to be provided by all corporate candidates)

- A. Premiums trust deed in the prescribed form for general business, and, where applicable, in the prescribed form for long term business.
- B. Subject to paragraph 10.2B, any opinion(s) of Legal Adviser(s) required by the Council in whichever of the prescribed forms is applicable in the circumstances.

- C. Managing agent's confirmation relating to introductory commissions in the prescribed form.
- D. Members' agent's confirmation(s) relating to introductory commissions and syndicate selection in the prescribed form.
- E. Power of Attorney and Declaration of Representative (Form CM35B) in the prescribed form.
- F. United States Federal Income Tax Questionnaire (Corporate Member) (Form CM36) in the prescribed form with such amendments (if any) as the Council may approve.
- G. Application for Employer Identification Number (SS-4) in the prescribed form.
- H. US Tax Agreement (Corporate Member) in the prescribed form with such amendments (if any) as the Council may approve.
- I. Combined Substitute Form W-8 – Certificate of Foreign Status and Substitute Form W-9 – Request for Taxpayer Identification Number and Certification in the prescribed form.
- J. Subject to paragraph 10.2B, an Auditors' undertaking in the prescribed form.
- K. Notice of Provision of the Lloyd's Deposit, in whichever of the prescribed forms is applicable.
- L. One or more of the following FAL trust deeds, in whichever of the prescribed forms is applicable:
  - a) Deposit Trust Deed (General business);
  - b) Deposit Trust Deed (Long term business);
  - c) Deposit Trust Deed (Third Party deposit) (General business);
  - d) Deposit Trust Deed (Third Party deposit) (Long term business);
  - e) Security and Trust Deed (Letter of Credit and Guarantee) (General business);
  - f) Security and Trust Deed (Letter of Credit and Guarantee) (Long term business);
- M. LOC or Guarantee (if any), in whichever of the prescribed forms is applicable.
- N. Credit institution confirmation, in the applicable prescribed form.
- O. Agency agreements, in the prescribed forms.
- P. Customer Agreement and LFOA, in whichever of the prescribed forms is applicable.



### A2.1 Deposit and Security Trust Deeds

- A. Subject to paragraph C below, no member shall underwrite general business or long term business unless they have executed one or more Lloyd's deposit trust deeds and/or Lloyd's security and trust deeds in the respective form for the time being prescribed and pursuant to which a Lloyd's deposit or Lloyd's life deposit is held in accordance with these conditions and requirements. The list of the deeds is set out in Appendix 1, paragraph A1.5 above.
- B. Subject to paragraphs 3.1E and A2.2, a member's Lloyd's deposit and Lloyd's life deposit (if any) shall comprise:
  - a) any sums and investments held under the terms of a Lloyd's deposit trust deed in the prescribed form;
  - b) any guarantee or letter of credit, in each case in the prescribed form, provided to the Society and held under the terms of the Lloyd's security and trust deed in the prescribed form; or
  - c) partly such sums and investments and partly such guarantees and letters of credit.
- C. For the avoidance of doubt, a member may underwrite general business or long term business if they holds FAL in accordance with the capital requirements for general business or long term business respectively solely in the form of monies and other assets in their PRFs.

### A2.2 Third Party Trust Deeds

- A. For the purposes of paragraph 2.1C, and with the prior consent of an Authorised Person, a Lloyd's deposit or Lloyd's life deposit may constitute sums and investments provided by a third party and held under the terms of a Lloyd's Deposit Trust Deed (Third Party Deposit) in the appropriate prescribed form;
- B. Where an Authorised Person gives their consent under paragraph A, they may require any one or more of the following to be given:
  - a) a Third Party Funding Arrangements Questionnaire, Declaration and Deed of Undertaking in the prescribed form;
  - b) a Legal Opinion in the prescribed form;
  - c) a confirmation of financial position in the prescribed form.

### A2.3 Interavailable Trust Deeds

- A. Subject to paragraphs B and C, for the purposes of paragraph 2.1A, and with the prior consent of an Authorised Person, a Lloyd's deposit or Lloyd's life deposit may constitute sums, investments, guarantees or letters of credit provided by a participant held under the terms of an interavailable deposit trust deed and/or interavailable Lloyd's security and trust deed in the respective form for the time being prescribed whether or not the participant has open years of account and (in the case of an interavailable security and trust deed) whether or not the Guarantees or LOCs remain held on interavailable terms.
- B. In the case of a successor member, the value of any FAL that have been made interavailable by a participant to the successor member under an interavailability arrangement shall be included in the calculation of the value of the successor member's FAL save to the extent that such interavailable funds are earmarked to cover any capital requirement of the participant (as calculated in accordance with paragraph 2.2D).
- C. In relation to an interavailability arrangement within the scope of paragraph A above, with effect from 24 months from the end of the year in which closure of the last year of account of the member takes effect, the FAL of a successor member may not include a Lloyd's deposit or Lloyd's life deposit held on an interavailable basis between the member and the successor member. Any FAL still in place at that time shall be disregarded for the purposes of determining whether the successor member has met their capital requirement under paragraph 2.2D.
- D. Where a participant who has entered into an interavailability arrangement has no open years of



account and in respect of which an instrument in the form for the time being prescribed is entered into by the Society, the effect of which is to release the participant's obligations under an interavailable deposit trust deed or interavailable security and trust deed which relate to the member's own underwriting business but not those which relate to the underwriting business of the successor member, the assets held subject to that trust deed shall be treated as no longer being held on interavailable terms and shall be included in the calculation of the value of the successor member's FAL.

## Appendix 3 – Standard strategic asset allocation

No additional risk capital charges apply within the stated limits

Core/ Non-Core Assets	Asset Class	SAA Min	SAA Max	Issuer Exposure Max	CIC Guidance
	<b>Letters of Credit &amp; Guarantees<sup>1</sup></b>	0%	50% <sup>2</sup>	N/A	79
<b>Core Assets</b>	<b>Cash:</b> overnight cash deposits, CP, CDs, term deposits, and money market funds	5%	100%	10%	72,23,24,43
	<b>Government Bonds:</b> A- or higher, National savings certificates <sup>1</sup> <b>Securitisation backed by OECD countries:</b> with a credit rating of A- or higher		100%	100%	11,12,13,14,15,19 65
	<b>IG Corporate bonds, Government bonds and bond funds<sup>3</sup>:</b> BBB- or higher <b>Collateralised Securities:</b> AA- or higher	0%	80%	10% (100% for bond funds)	11,12,13,14,15,19,21,22,25,26,27,28,29,42 64,65,66
<b>Non-Core Assets</b>  (max. aggregate 40% of a member's Aggregate Capital)	<b>Sub-IG Corporate Bonds, Government bonds and bond funds<sup>3</sup>:</b> BB+ or lower & NR		Sub-IG max 40%	10%	11,12,13,14,15,19,21,22,25,26,27,28,29,42
	<b>Equities<sup>4</sup></b>	0%	40%	10%	31,32,33,34,39
	<b>Equity Funds</b>	0%	40%	100%	41
	<b>Alternative Assets (Funds)</b>	0%	40%	100%	44,45,46,49
	<b>Collateralised securities (A and BBB only) and life products<sup>1</sup></b>	0%	10%	10%	62,64,65,66,89
	<b>Illiquid Assets<sup>5</sup></b>	0%	10%	10%	Asset dependent

<sup>1</sup> Assets that cannot be electronically traded are no longer permissible (other than Illiquid Assets), however, those currently held in FAL may be grandfathered (see paragraph 3.1E)

<sup>2</sup> Letters of credit and Guarantees are subject to all limits as imposed by Member Services. The 50% limit may be reduced subject to overall market utilisation and any changes will be notified by Member Services.

<sup>3</sup> Issuer exposure limits for funds are max 100%

<sup>4</sup> Equities traded on an approved stock exchange and priced in one of the six core currencies are permissible

<sup>5</sup> Illiquid Assets must be approved in line with the Illiquid Asset approval process as outlined in the M&UR Guidance Notes

Members are required to stay in line with any Lloyd's requirements relating to potential cash calls

Solvency II Risk Retention compliance applies to all securitised exposures within FAL portfolios

## Appendix 4 – EIOPA CIC Classifications

### Permissible assets according to CIC Category

1- Government Bonds								
11	12	13	14	15	19			
Central Government bonds	Supra-national bonds	Regional government bonds	Local authority bonds	Treasury bonds	Other			
2 - Corporate Bonds								
21	22	23	24	25	26	27	28	29
Corporate bonds	Convertible bonds	Commercial paper	Money market instruments	Hybrid bonds	Common covered bonds	Covered bonds subject to specific law	Subordinated bonds	Other
3 - Equity								
31	32	33	34	39				
Common Equity	Equity of real estate related corporation	Equity rights	Preferred Equity	Other				
4 - Collective Investment Undertakings								
41	42	43	44	45	46	49		
Equity funds	Debt funds	Money market funds	Asset allocation funds	Real estate funds	Alternative funds	Other		
6 - Collateralised Securities								
62	64	65	66					
Interest Rate Risk	Credit risk	Real estate risk	Commodity risk					
7 - Cash and Deposits								
72	79							
Transferable deposits	Other							
8 – Mortgages and Loans								
89								
Other								

Except where otherwise provided or where the context otherwise requires, the words and expressions used in these conditions and requirements shall have the meanings given to them in the Definitions Byelaw or, where shown in italics, the Glossary of the *PRA Handbook*.

In these conditions and requirements, except where the context otherwise requires –

**Accredited investor means:**

- a) an individual who has attested that their net worth, or joint net worth with their spouse, exceeds \$1,000,000; or
- b) an individual who in each of the two most recent years, has individual income in excess of \$200,000, and has a reasonable expectation that their individual income in the current year will be in excess of \$200,000; or
- c) an individual who in each of the two most recent years, has joint income with their spouse in excess of \$300,000, and has an expectation that their joint income with their spouse in the current year will be in excess of \$300,000.

**Adjusted ECA** means, in respect of a member, the ECA for that member as increased by a Capital Loading.

**Administrative fine** means an administrative fine levied by the Council pursuant to the Enforcement Byelaw (as amended).

**Aggregate Capital** means the aggregate of a member's FAL and/or FIS (if applicable) and the member's share of the assets held in the managing agent's sub-fund(s) under the member's premiums trust deed.

**Alternative Asset** means:

Funds that do not fall under conventional investment categories (e.g. equity, fixed income, securitisations and cash), but where the fund can be realised for cash within 90 days, without significant loss in fair market value. For alternative fund investments members must perform full look-through reporting, in line with Solvency II reporting requirements, of underlying asset line items and be comfortable they meet Prudent Person Principle requirements. Examples include hedge funds (CIC 46), real estate investment trusts (CIC 45) and commodity funds (CIC 46).

**Annual CIL Date** means Working Day 55 in Q2.

**Annual CIL Statement** means the statement issued by the Society on Working Day 35 setting out the member's capital position and any funding requirement.

**Approved Credit Institution** means a *credit institution* that has been approved by the Council in accordance with the 'Criteria to be Applied in the Approval of Credit Institutions', as made by the Council from time to time.

**Approved stock exchange** means the principal stock exchange in each *EEA State* and each *OECD* member country, the principal stock exchange in each of Hong Kong, Malaysia, Singapore and South Africa and any other stock exchange as may from time to time be added to this list by an authorised person. Assets in FAL that are traded on an approved stock exchange must be in an acceptable currency (paragraph 3.4A).

**Auditor** means a person having qualifications acceptable to the Council to act as auditor to corporate candidate or corporate member;

**Authorised person** means, in relation to any provision in these requirements, the Council or any sub-committee or officer or employee of the Society authorised by the Council to discharge the duties and functions or to exercise the powers and discretions specified in that provision.

**Capital Loading** means an additional capital loading imposed on a member pursuant to paragraph 3.2D.

**Capital Test** means a comparison of the member's assets held by the member at a particular point in time against the member's Adjusted ECA.

**Capital Uplift** means the percentage uplift applied to the SCR to determine a member's ECA, the amount of which is subject to annual review and will be published by Lloyd's via the FAL Online portal.

**CIL** means coming into line.

**Collective Investment Undertakings** means those assets categorised as such in Appendix 4 of these conditions and requirements.

**Company candidate** means a corporate candidate which complies with paragraph A1.1 of Appendix 1 of these conditions and requirements.

**Corporate candidate** means an entity applying for membership of the Society and which is either a company candidate or a LLP candidate.

**Corridor Test Deadline** means, in relation to a quarter, Working Day 55 in that quarter.

**Cut-Off Date** means, in any one year, Working Day 25 in Q4, or such other date as the Council may from time to time prescribe.

**Definitions Byelaw** means the Definitions Byelaw (No. 7 of 2005) (as amended from time to time).

**De Minimis Amount** means £1 million (or such other amount as determined by the Council from time to time).

**Double taxation arrangements** means arrangements that have effect under section 2(1) of the Taxation (International and Other Provisions) Act 2010.

**ECA/Economic capital assessment requirement** means in relation to a member or a participant, the amount required by the Society in accordance with its economic capital assessment model, as from time to time varied or supplemented, of the capital resources required to support the insurance business of the member or of the participant. The ECA may be revised by the Society (i) to take account of revised FX rates, for the purposes of the corridor tests under paragraph 2.5A - C, and (ii) in the event of an additional capital test under the provisions of paragraphs 2.5L – O.

**EIOPA CIC codes** means the codes set out in Appendix 4.

**FAL** means funds at Lloyd's.

**FAL Online portal** means the online tool by which members and Third Party Capital Providers can access details of and give instructions in respect of FAL provided by them.

**FCA** means Financial Conduct Authority.

**FIS** means funds in syndicate.

**Fund** means collective investment scheme (CIS), i.e. any arrangement with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income.

**Guarantee** means a guarantee that complies with the requirements set out in paragraph 3.1

**Illiquid Asset** means assets or Funds invested in assets including, but not limited to, Private Equity, Private Credit, Direct Real Estate and Infrastructure, and any other assets or Funds which cannot be easily realised for cash within 90 calendar days, without a significant loss in fair market value, or that cannot be accurately and fairly valued.

This means that dealing points cannot be less frequent than quarterly, with a maximum notice period of 180 calendar days. Settlement cannot be less frequent than 45 calendar days after dealing.

This does not include investments in a Fund portfolio with the following characteristics: (a) no asset is more than 5% of the Fund portfolio; (b) the Fund portfolio has an average duration of less than 90 calendar days; and (c) over 50% of the investment can be redeemed within 180 calendar days.

**Ineligible group** means a group which includes a corporate member or an underwriting agent where the turnover of the corporate member or the underwriting agent is greater than 5 per cent of the turnover of the group as a whole.

**Interavailability arrangement** means an arrangement whereby:

- a) a member ceases to underwrite insurance business at Lloyd's; and
- b) its Lloyd's deposit or its Lloyd's life deposit is held so as to provide security both for its past underwriting business at Lloyd's and the future underwriting business of a successor member whether by way of variation or modification to the trusts, powers, terms, conditions and other arrangements under which its Lloyd's deposit or its Lloyd's life deposit is held;

**Lloyd's obligations** means, in relation to any member, all underwriting obligations incurred by the member as an underwriting member, including obligations to the Society and to the trustees of any trust deed under which any part of the member's FAL are held and obligations arising under:

- a) any byelaw, regulation, rule, direction or other requirement of the Society; and
- b) any deed, contract, instrument or other arrangement of any kind approved by the Society;

but does not include obligations arising in respect of any letter of credit, guarantee or other security given to secure the performance of any of the member's underwriting obligations in favour of the person giving such guarantee or other security.

**Legal adviser** means a person having qualifications acceptable to the Council to act as legal adviser to a corporate candidate or corporate member.

**LFOA** means Lloyd's form of appointment.

**Limited partner** means an individual or company which is registered as a limited partner of a SLP pursuant to the Limited Partnerships Act 1907.

**LLP** means a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000.

**LLP candidate** means a corporate candidate which complies with paragraph A1.2 of Appendix 1 of these conditions and requirements.

**LOC** means letter of credit that complies with the requirements set out in paragraph 3.1.

**Managing agent's sub-fund** in relation to a member, has the meaning given in that member's premiums trust deed.

**Master Agreement** means an agreement between Lloyd's and an investment manager which provides for the entering into of agreements by which the investment manager can be appointed to manage the investment of FAL provided by a member or depositor.

**Member Services** means the department at Lloyd's by that name (or any successor thereto).

**Member's assets** has the meaning given in paragraph 2.3.

**Membership Agreement** means the Lloyd's Membership Agreement in the relevant prescribed form executed by a corporate member on its admission to membership of Lloyd's.

**Membership Byelaw** means the Membership Byelaw (No. 5 of 2005) (as amended from time to time).

**Membership and Underwriting Requirements (Corporate Member)** means the conditions and requirements so-called and made under the Membership Byelaw (No.5 of 2005) and for the time being in force.

**Mid-Year Cut-Off Date** means, in any one year, Working Day 22 in Q2, or such other date as the Council may from time to time prescribe.

**OPL** means overall premium limit.

**Overdue Notice** means the notice issued by the Society to a member to advise that the member has not met their funding obligation at either the Annual CIL Date or quarterly Corridor Test deadline.

**Participant** means a member of Lloyd's (other than the successor member) which takes part in an interavailability arrangement including in circumstances where, as a result of paragraph A2.4C of Appendix 2, the assets in question are treated as no longer being held on interavailable terms.

**PRA** means Prudential Regulation Authority.

**PRF** means the personal reserve sub-fund under the premiums trust deed.

**Quarterly Amendment Period** means:

- a) in Q1 and Q3, the period between Working Day 35 and Working Day 55 of each quarter;
- b) in Q2, the period from the commencement of Q2 to the Mid-Year Cut-Off Date;
- c) in Q4, the period from the commencement of Q4 to the Cut-Off Date.

**Relevant valuation date** means:

- a) in the case of a corporate member which wishes to commence underwriting insurance business at

Lloyd's on a date prior to 1 January next following its admission to membership of the Society, the date on which that member provides FAL;

- b) in relation to the Annual CIL Date, 31 December in the previous calendar year;
- c) in any other case:
  - i. as may be prescribed next before the CIL date; or
  - ii. where assets are received after the valuation date referred to in (i), the date on which they are paid or transferred to the trust fund concerned;

**Request for Funds** means a request for funds made by the managing agent of a syndicate under any standard managing agent's agreement (general) or any standard managing agent's agreement (corporate member).

**Resident in the United Kingdom for tax purposes** means (i) in the case of an individual, as determined in accordance with the provisions of the Finance Act 2013, and (ii) in the case of a company, as determined in accordance with the provisions of the Corporation Tax Act 2009 and any applicable double taxation arrangements.

**SCR** means solvency capital requirement, as defined in paragraph 2.2A.

**SLP** means a Scottish limited partnership.

**Solvency statement** has the meaning given in paragraph 1 of the Definitions Byelaw.

**SRF** means Special Reserve Fund.

**SSAA** means the standard strategic asset allocation set out in Appendix 3.

**Successor member** means, in relation to an interavailability arrangement including an arrangement where, in accordance with paragraph 8(4), the assets in question are treated as no longer being held on interavailable terms, a corporate member which will continue to underwrite for the next following year of account and to which the Lloyd's deposit or Lloyd's life deposit of one or more participants is made interavailable or which, in accordance with paragraph A2.4C of Appendix 2 is included in the FAL of the corporate member;

**Tax Year** means (i) in the case of an individual, the period from 6 April to the following 5 April, and (ii) in the case of a company, the calendar year.

**Third Party Capital Provider** means a person (other than the member) approved by the Society to provide assets to be held in a member's FAL and who has entered into the appropriate form of Lloyd's trust deed.

**US person** means (i) any natural person resident in the United States; (ii) any partnership or corporation organised or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a US person; (iv) any trust of which any trustee is a US person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US person; or (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States.

**Working Day** means a day other than a Saturday, Sunday or public holiday in England.

**Year of account** means an accounting year at Lloyd's.

For the purposes of the conditions and requirements, a year of account of a syndicate shall be treated as being closed at the time as from which reinsurance to close that year of account takes effect, and a year of account shall be treated as open until it is closed.

In these conditions and requirements:

- a) Words and expressions importing the masculine gender include the feminine and neuter and words and expressions importing the feminine gender include the masculine and neuter; and
- b) Words in the singular include the plural and vice versa.

The headings in these conditions and requirements shall not affect the interpretation of these conditions and requirements.