

# MARKET BULLETIN

<b>From</b>	Head Market Reporting (extn 5129)
<b>Date</b>	9 August 2006
<b>Reference</b>	Y3857
<b>Subject</b>	<b>The Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) (M&amp;URs)</b>
<b>Subject areas</b>	<b>Coming-into-line &amp; Mid Year Coming into line 30 June 2007</b>
<b>Attachments</b>	(i) M&URs for 2007 (ii) Summary of asset concentration restrictions (iii) Approved Credit Institution Criteria (iv) Coming into line timetable
<b>Action points</b>	<b>Members agents and direct corporate members to note</b>
<b>Deadlines</b>	<b>Coming into line Deadline 29 November 2006</b>

The purpose of this bulletin is to issue the full text of the Membership and Underwriting Conditions and Requirements (M&URs) attached at Annex 1 and to advise of the arrangements for mid year coming-into-line in June 2007. Members' agents and direct corporate members should particularly note the following:-

## **CIL for 2007 in November 2006**

All members must meet their CIL requirement in full. The 10% tolerance of Economic Capital Assessment (ECA) up to a maximum of £100,000 afforded to members with mid year CIL shortfalls is not available in November for CIL 2007.

## **Bank guarantees and Letters of Credit under notice of cancellation**

Bank guarantees (BG) and Letters of Credit (LOC) under notice of cancellation can be used for CIL purposes to cover solvency deficiencies for the years of account for which they were valid eg. notice of cancellation given in 2003 (prior to 30 September 2003) BG/LOC can be

used to cover 2003 & prior year of account deficiencies before utilising later year of account surpluses. Example:-

BG / LOC under notice of cancellation valid for 2003 YOA

Years of Account	Solvency Position
2005	(150,000)
2004	50,000
2003 & prior	(20,000)

In the above example where the BG / LOC is valid for the 2003 & prior years of account the maximum credit is £20,000 leaving net solvency liabilities to be covered of £100,000. Where use of BG / LOCs under notice of cancellation leads to a release of funds we would expect for prudential reasons that such BG / LOCs to be released first.

**Assets excluded due to concentration of assets requirements**

- Assets excluded due to the application of the concentration of assets requirements may be used towards meeting 10% of a members ECA or minimum capital requirement (whichever is the greater) subject to a maximum of £100,000.
- The asset concentration restrictions are set out in Annex 2. These are applicable for coming into line and release test purposes. Please note for solvency the concentration limits applied are in accordance with the FSA Prudential SourceBook which does not make separate provision for small corporate members.

**Half Year Interim results**

Members agents and direct corporate members are reminded that half year interim results will be recognised, for active members, within the CIL exercise and the Release Test subject to the restrictions set out in the market bulletin “Half Year Results for Capital Purposes” ref:Y3807 dated 8 May 2006. Half year results will be made available by 8 September 2006.

**Acceptable funds at Lloyd’s**

The M&URs have been amended to reflect the extension of the range of permitted investments for funds at Lloyd’s to allow currency forward contracts (FX contracts) as an acceptable asset provided the conditions set out in the PRU 4.3.5R are met. See market bulletin “Changes to Syndicate and Funds at Lloyd’s Investment Criteria (ref:Y3831) dated 13 June 2006.

### **Mid Year Coming into line June 2007**

The 10% tolerance of Economic Capital Assessment (ECA) up to a maximum of £100,000 for shortfalls within the mid year CIL calculation is subject to review but is expected to continue. However, given the nature of and the seasonal exposures of much of Lloyd's business, which may translate into losses in the second half year, it would be imprudent if CIL shortfalls were not made good when known. Mid year CIL shortfalls will, therefore, required to be made good by 30 June 2007. Where there is material exposure to the central fund and policyholder security, underwriting restrictions or other measures may be imposed to mitigate risks until capital is lodged at Lloyd's.

Members who are required to make good their shortfall and have not done so by 27 July 2007 will be subject to the more prudent 'non-active' members release test calculation for any future release test calculations up to and including the calculation made in May 2008. Assets provided after the 30 June up to 27 July 2007 will be processed subject to specific charges to cover the additional work involved in the same way as those provided after the 29 November CIL deadline (currently £50 per £5m or part thereof shortfall per day).

Further where members remain out of line mid year beyond 27 July a charge equivalent of 27 days delay in provision of funds, as set out above, will be levied.

If you have any queries relating to this bulletin please address them to Kevin Nethersell ext. 6253 ([kevin.nethersell@lloyds.com](mailto:kevin.nethersell@lloyds.com)) or Mike Steer ext 5709 ([mike.steer@lloyds.com](mailto:mike.steer@lloyds.com)). This bulletin is being sent to members agents, direct corporate members, recognised accountants, and market associations for information.

John Parry  
Head  
Market Reporting

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**MEMBERSHIP AND UNDERWRITING CONDITIONS AND REQUIREMENTS**  
**(FUNDS AT LLOYD'S)**

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**MEMBERSHIP AND UNDERWRITING CONDITIONS AND REQUIREMENTS  
(FUNDS AT LLOYD'S)**

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## **MEMBERSHIP AND UNDERWRITING CONDITIONS AND REQUIREMENTS (FUNDS AT LLOYD'S)**

These conditions and requirements are made under paragraphs 3, 20, 21, 51A and 53 of the Membership Byelaw (No. 17 of 1993) and all other powers enabling.

### **PART A - PRELIMINARY**

#### **1. Interpretation**

The provisions of Appendix 1 (interpretation) shall have effect.

### **PART B – OVERALL PREMIUM LIMITS AND NET FUNDS AT LLOYD'S**

#### **2. Overall premium limits**

Every member who wishes to commence or to continue underwriting for a year of account shall determine an overall premium limit, and, if that member wishes to underwrite long term business, a general business premium limit and a long term business premium limit, for that year of account.

#### **3. Net funds at Lloyd's**

Appendix 2 shall have effect for the purpose of determining the amount of net funds at Lloyd's to be provided by a member for the year of account next following the coming into line date by reference to the overall premium limit determined by him for that year of account.

### **PART C - FUNDS AT LLOYD'S**

#### **4. Provision and maintenance of funds at Lloyd's**

- (1) No member shall underwrite insurance business for a year of account unless as at the coming-into-line date for that year of account he maintains funds at Lloyd's of an amount not less than the aggregate of -
  - (a) the amount of net funds at Lloyd's specified by Appendix 2; and
  - (b) certain liabilities in respect of his underwriting business specified in, and valued in accordance with, paragraph 5.
  
- (2) No member shall underwrite long term insurance business for a year of account, or, having underwritten long term business as a member of a syndicate for any year of account for the time being remaining open, underwrite general business, unless, at the coming into line date for the new year of account, he maintains separate funds at Lloyd's exclusively for his general business and for his long term business respectively and in each case those funds are of an amount not less than the aggregate of -
  - (a) the amount of net funds at Lloyd's specified by Appendix 2, as modified by sub-paragraph (3), as a proportion of his general business premium limit or his long term business premium limit (as applicable) for that year of account; and
  - (b) certain liabilities in respect of that general business or long term

business specified in, and valued in accordance with, paragraph 5.

- (3) For the purpose of calculating the proportions to be borne by a member's net funds at Lloyd's exclusively maintained for the member's general business or the member's long term business to the member's general business premium limit or to the member's long term business premium limit respectively, Appendix 2 shall apply as if for references to "overall premium limit" there were substituted references to "general business premium limit" or "long term business premium limit" respectively.

## **5. Liabilities to be taken into account in calculating net funds at Lloyd's**

- (1) The liabilities to be deducted from the value of a member's funds at Lloyd's in accordance with paragraph 4(1)(b) for the purpose of calculating his net funds at Lloyd's are -

- (a) liabilities in respect of any request for funds made by the managing agent of a syndicate; and
- (b) open year solvency deficiencies but only to the extent they exceed the aggregate of the value of any open year solvency surpluses,

after taking into account the aggregate value of any anticipated recoveries under personal stop loss contracts which are eligible assets for the purposes of the annual solvency test and any amounts that the member has paid into the relevant premiums trust funds to fund the relevant loss or deficiency by the coming into line date.

- (2) Sub-paragraph (1) shall apply for the purpose of calculating the value of a member's net funds at Lloyd's in relation to the member's general business premium limit and to the member's long term business premium limit respectively as well as the member's overall premium limit; and
  - (a) references to liabilities, open year solvency surpluses and open year solvency deficiencies shall be taken to be references to liabilities, open year solvency surpluses and open year deficiencies in respect of the member's general business or long term business, as the case may be; and
  - (b) for the purpose of calculating the amount of liabilities to be deducted in accordance with sub-paragraph (1) in respect of the member's general business and long term business respectively, the member or the member's members' agent where relevant, shall apportion any anticipated personal stop loss recoveries between such classes of business.

## **6. Maintenance of deposit**

- (1) No member shall underwrite general business unless he has executed a Lloyd's deposit trust deed or a Lloyd's security and trust deed in the respective form for the time being prescribed and maintains a Lloyd's deposit subject thereto and in accordance with these conditions and requirements.
- (2) No member shall underwrite long term business unless he has executed a Lloyd's deposit trust deed for long term business or a Lloyd's security and



trust deed for long term business in the respective form for the time being prescribed.

- (3) Subject to sub-paragraphs (4) and (6), 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.
- (4) With the prior written consent of an authorised person, a corporate member may, wholly or partly in lieu of the forms of Lloyd's deposit referred to in sub-paragraph (3), provide a Lloyd's deposit in one or both of the following forms set out in sub-paragraphs (a) and (b) and may provide a Lloyd's life deposit in the form set out in (b) -
  - (a) an approved covenant by a third party secured by an approved charge over a property by the third party and subject, if so agreed between the third party and an authorised person, to a master agreement in the prescribed form, such approved covenant and approved charge being entered into together with such custody agreements, investment management agreements and other supporting agreements as may be requested by an authorised person;
  - (b) any sums and investments provided by third party and held under the terms of a Lloyd's Deposit Trust Deed (Third Party) in the prescribed form.
- (5) Where an authorised person gives his consent under sub-paragraph (4), he may require any one or more of the following to be given:
  - (a) a FAL Provider Declaration and Undertaking in the prescribed form;
  - (b) a Lloyd's Act Legal Opinion in the prescribed form; and/or
  - (c) a Significant FAL Provider Undertaking in the prescribed form.
- (6) With the prior written consent of an authorised person, the Lloyd's deposit of a corporate member may be provided in the manner described in sub-paragraph (4)(a) by the corporate member itself in which case references in that sub-paragraph to a "third party" shall be construed as references to that corporate member.

## **7. Reduction in value of funds at Lloyds**

- (1) A member shall not by any voluntary act or omission effect or permit any reduction in the value of that member's Lloyd's deposit or Lloyd's life deposit or in his other funds at Lloyd's below the amount which that member was required under any membership or underwriting conditions or requirements at

any time in force to maintain in relation to his overall premium limit for any year of account which for the time being remains open, save for the purpose of meeting any Lloyd's obligations in accordance with the terms of the trust deed under which the funds concerned are held.

- (2) Where at any time during the course of a year the value of a member's Lloyd's deposit or Lloyd's life deposit or other funds at Lloyd's has reduced below the value used to calculate the member's overall premium limit for the year of account corresponding to that year (the "required value") whether by virtue of-
  - (a) a withdrawal for the purposes of meeting any Lloyd's obligations in accordance with the terms of the trust deed under which the funds concerned are held; or
  - (b) a diminution in value of any assets or monies comprised in the member's funds at Lloyd's by more than 10 per cent of the required value;

the individual member by his member's agent or the corporate member (by its member's agent if it has one) shall notify the Relevant Person and shall, unless otherwise permitted by the Relevant Person, make good the deficiency within 28 days of the deficiency arising.

- (3) Where a member is a non-underwriting member and the value of that member's Lloyd's deposit or other funds at Lloyd's has reduced below the value which that member was required under any membership or underwriting conditions or requirements at any time in force to maintain in relation to that member's overall premium limit for any year of account which for the time being remains open by virtue of a withdrawal for the purpose of meeting any Lloyd's obligations in accordance with the terms of the trust deed under which the funds concerned are held, that member (by its members' agent if it has one) shall notify the Relevant Person and shall, unless permitted by the Relevant Person, make good the deficiency within 28 days of the deficiency arising.

## **8. Funds at Lloyd's – acceptable assets**

A member's funds at Lloyd's shall consist only of assets listed in Part 1 of Appendix 3 ("acceptable assets") and may be included in the valuation of a member's funds at Lloyd's provided the conditions set out in Part 1 of, and the general principles in the introductory paragraphs 1 to 3 (inclusive), of Appendix 3 are complied with.

## **9. Funds at Lloyd's - calculation and valuation**

- (1) Subject to sub-paragraphs (2), (3) and (4), the assets comprised in a member's funds at Lloyd's shall be taken into account for the purposes of these conditions and requirements at their respective values determined in accordance with PRU1.3 or, in the case of letters of credit, guarantees and life assurance policies, LLD18.3.7, as at the relevant valuation date.
- (2) In respect of the proportion of the amount of a member's net funds at Lloyd's specified by Appendix 2 which is equal in amount to 30 per cent of the member's overall premium limit, no credit shall be taken for the value of any special reserve fund held by the member (but for all other purposes of these

conditions and requirements a member's special reserve fund (if any) shall be taken into account in determining the value of his funds at Lloyd's).

- (3) In the case of a successor member –
  - (a) the value of any funds at Lloyd's 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 funds at Lloyd's save to the extent that such interavailable funds are earmarked to cover any relevant liabilities or economic capital requirement of the participant or are taken into account in determining the net funds at Lloyd's of the participant in accordance with Appendix 2; and
  - (b) until such time as the last open year of account of the participant has been closed by reinsurance to close, the funds at Lloyd's made interavailable by the participant to the successor member shall be taken into account for the purposes of these conditions and requirements at the value which would have been attributed to those funds at Lloyd's under the requirements applicable to individual members had the participant not entered into the interavailability arrangement and subject to such deductions as would have been required under those conditions and requirements.
- (4) In the case of a continuing member, the value of any funds at Lloyd's that have been made interavailable by a ceasing member to the continuing member under an approved corporate interavailability arrangement shall be included in the calculation of the value of the continuing member's funds at Lloyd's save to the extent that such interavailable funds are earmarked to cover any relevant liabilities of the ceasing member.

## **10. Valuation of Covenant and Charge**

- (1) For the purposes of these conditions and requirements the value at any time of a Lloyd's deposit provided in the form of an approved covenant and an approved charge shall be taken to be whichever is the lesser of -
  - (a) the maximum sum which may at that time be demanded under the approved covenant given in respect of or by the relevant member (after taking account of any sums already paid under that approved covenant); and
  - (b) the value at that time attributable to the relevant member of the acceptable assets which are subject to the fixed charges granted to the Society under the approved charge by way of security for the performance of the approved covenant referred to in (a) above and of any other approved covenants secured by the approved charge.
- (2) The value of the acceptable assets which are subject to the fixed charges granted to the Society under an approved charge ("the mortgaged assets") shall be attributed to the corporate members in respect of which the approved covenants secured by that approved charge are provided ("the relevant members") as follows -

- (a) when the approved covenants are first provided, such value shall be attributed to the relevant members in proportion to the respective nominal values of the approved covenants provided in respect of each of them;
  - (b) any increase or decrease in the value of the mortgaged assets between the time referred to in (a) above and the first adjustment event (as defined in sub-paragraph (3)) shall be attributed to the relevant members in the proportions referred to in (a) above;
  - (c) where a payment is made to the Society under any approved covenant, the amount (if any) by which the value of the mortgaged assets is reduced by reason of that payment (whether as a result of the exercise of the powers of sale of the Society under the relevant approved charge or as a result of a release granted by the Society to enable the relevant payment to be made) shall be deducted from the value of the mortgaged assets attributed to the relevant member in respect of which the relevant approved covenant was provided;
  - (d) where the nominal amount of any approved covenant is altered with the agreement of the Society, the value of the mortgaged assets immediately following the relevant valuation date or other date by reference to which the alteration was agreed shall be attributed, and shall be deemed to have been attributed, to the relevant members in such proportions as shall, before or at the time the alteration takes effect, be agreed by the relevant members and approved by an authorised person;
  - (e) any increase or decrease in the value of the mortgaged assets occurring between one adjustment event and the next shall be attributed to the relevant members in the proportions in which the value of the mortgaged assets was attributed to them immediately after the former such adjustment event.
- (3) For the purposes of this paragraph an "adjustment event" occurs whenever -
- (a) a payment is made to the Society under any approved covenant provided in respect of a relevant member and the value of the mortgaged assets is reduced by reason of that payment; or
  - (b) the nominal amount of any approved covenant is altered with the agreement of the Society (but so that for this purpose the adjustment event shall be deemed to occur on the relevant valuation date or other date by reference to which the alteration is agreed).
- (4) In relation to a relevant member, the reference in the definition of "relevant valuation date" to the provision of further assets and monies shall be treated as a reference to the procuring of an increase in the value of the mortgaged assets attributable to that relevant member or in the nominal value of the approved covenant provided in respect of that relevant member, or in both, to the extent that such increase reverses any diminution in the value of the funds at Lloyd's provided in respect of that relevant member.
- (5) In this paragraph 10 references to the Society shall be deemed to include references to any other person who is for the time being the trustee of any

Lloyd's security and trust deed under which the benefit of the approved covenant concerned is held.

**11. Restriction on Mortgage – corporate member**

No corporate member shall, except with the prior written consent of the Council, create or permit to exist over all or part of the monies and assets comprising its funds at Lloyd's 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).

**PART D – ADDITIONAL UNDERWRITING REQUIREMENTS**

**12. Solvency shortfall**

No member shall underwrite insurance business for the year of account next following the coming into line date if he has failed to extinguish not later than the coming into line date any solvency shortfall shown in the most recent solvency statement or additional solvency statement issued by the Society in relation to him.

**13. Requests for funds**

- (1) Subject to sub-paragraphs (2) and (3), no member shall underwrite insurance business for the year of account next following the coming into line date if that member has failed to meet in full by the coming into line date any request for funds made by a managing agent where such request was due to be met by such date.
- (2) In determining for the purposes of sub-paragraph (1) whether a member has failed to meet in full a request for funds no account shall be taken of any interest for which he is liable under clause 7.1(c) of any agreement in the form of the standard managing agent's agreement (general) or the standard managing agent's agreement (corporate member) (as the case may be).
- (3) Sub-paragraph (1) shall not apply if no later than the coming into line date the member has duly authorised the application of such amount of funds at Lloyd's as is sufficient to meet his liabilities in respect of all requests for funds referred to in sub-paragraph (1).

**14. Power of Attorney**

No member shall underwrite insurance business at Lloyd's unless he has 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.

**15. Franchise Board**

Nothing in these conditions and requirements shall prevent the Franchise Board or any person or body of persons authorised by the Franchise Board from prescribing other categories of assets at some future date which are acceptable for funds at Lloyd's.

## **PART E - SUPPLEMENTAL AND COMMENCEMENT**

### **16. Exemptions**

The Director, Finance and Risk Management, the Director, Operations or the Head of Market Reporting may grant any member exemption from such provisions of these conditions and requirements and on such terms and conditions as they see fit.

### **17. Confirmation Form**

- (1) A members' agent (or where the member has more than one members' agent, the co-ordinating agent) shall, in the case of each member for whom it acts as such, lodge with the Member's Services Unit by such date as may be prescribed in each year a statement in the form set out in Appendix 4 confirming that that member has either complied with these conditions and requirements or has been excused compliance with these conditions and requirements by the Council of Lloyd's.
- (2) A corporate member which has not retained the services of a members' agent for the next following year of account shall lodge with the Members' Services Unit by such date as may be prescribed in each year a statement in the form set out in Appendix 5 confirming that the corporate member has either complied with all these conditions and requirements or has been excused compliance with these conditions and requirements by the Council of Lloyd's.
- (3) A members' agent, or as the case may be, a co-ordinating agent, or a corporate member which has not retained the services of a members' agent shall, upon being required to do so by a Relevant Person, have the statement referred to in sub-paragraph (1) or (2) (as appropriate), or any calculation made in confirming the member's required funds at Lloyd's, audited by a recognised accountant.

### **18. Accredited Investor – individual members**

An individual member who is domiciled or resident in the US shall not underwrite insurance business for any year of account unless he has provided confirmation (in the required format) to his members' agent between 31 March and 30 June in the previous year that he is an accredited investor.

### **19. Prescribed Forms**

A form or other document is in the prescribed form if it is in the form referred to in the Membership and Underwriting Requirements (Corporate Member) or in such other form as an authorised person may prescribe from time to time for the purposes of these conditions and requirements.

### **20. Revocation**

Any conditions or requirements of membership or of underwriting made by or on behalf of the Council before [ ] July 2005 are revoked to the extent that they are inconsistent with these conditions and requirements.

### **21. Commencement**

These conditions and requirements shall come into force on [ July 2005].

## APPENDIX 1

### INTERPRETATION

1. 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 (No. 7 of 2005) or, where shown in italics, the FSA Glossary.

2. In these conditions and requirements, except where the context otherwise requires -

**acceptable assets** means the assets listed in Appendix 3;

**accredited investor** means -

- (a) an individual who has attested that his net worth, or joint net worth with his 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 his 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 his spouse in excess of \$300,000, and has an expectation that his joint income with his spouse in the current year will be in excess of \$300,000.

**additional solvency statement** has the meaning given in Schedule 1 to the Solvency and Reporting Byelaw (No. 13 of 1990);

**approved building society** means a building society authorised under the Building Societies Act 1986 which has a general reserve (as shown in its most recent audited accounts) of at least £100m, excluding revaluation reserve;

**approved charge** means a fixed and floating charge in the form set out at Appendix 36 to the Membership and Underwriting Requirements (Corporate Member) with such variations or additions as may be approved by an authorised person, provided by way of Lloyd's deposit, or Lloyd's life deposit, in respect of a corporate member or corporate candidate under paragraph 6(4), (5) or (7);

**approved corporate interavailability arrangement**

means an arrangement approved by an authorised person whereby –

- (a) a corporate 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 an associated corporate 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;

**approved covenant**

means a deed of covenant in the form set out at Appendix 35 to the Membership and Underwriting Requirements (Corporate Member) with such variations or additions as may be approved by an authorised person, provided by way of Lloyd's deposit, or Lloyd's life deposit, in respect of a corporate member or corporate candidate under paragraph 6(4), (5) or (7);

**approved currency**

means Australian dollars, Canadian dollars, Euros, Hong Kong dollars, New Zealand dollars, Singapore dollars, United States dollars, Japanese yen, South African rand or the currency of any *EEA State*;

**approved depository**

means the Depository Trust Company (DTC), the Canadian Depository for Securities (CDS), CHESSE, fedwire, Euroclear, Clearstream, any depository system mentioned in the definition of "approved stock exchange" and any depository system approved by an authorised person for the purpose of acting as a depository through which securities may be traded;

**approved life assurance company** means an insurance company which -

- (a) (i) has permission given by the Financial Services Authority under Part IV of the Financial Services and Markets Act 2000 to carry on long term business in the UK;
- (ii) is authorised under the European Communities (Life Assurance)



Regulations 1984 (S.I. No. 57 of 1984) of the Republic of Ireland to carry on life assurance business (as defined therein) in the Republic of Ireland; or

(iii) is authorised under the Insurance Act 1986 of the Isle of Man to carry on long term business (as defined therein) in the Isle of Man; and

(b) has a financial strength rating for the time being ascribed to it by any one or more of Standard and Poor, Moody's, AM Best or Fitch IBCA of not less than "A";

**approved stock exchange**

means the Montreal Stock Exchange, NASDAQ/Amex, the London Stock Exchange, the New York Stock Exchange and the Toronto Stock Exchange and the principal stock exchange established in each of the following countries if and for so long as there are no exchange controls on the export of capital from that country (and the depository systems through which securities traded on such exchanges may be held are, in each case, specified in brackets after the name of the country concerned) -

Austria (WSB), Australia (CHESS), Belgium (CIK), Denmark (VPC), Finland, France (SICOVAM), Germany (Kassenverein), Greece (Apothetirio Titlon A.E.), Hong Kong (CCASS), Italy (Monte Titoli), Ireland (IFOX), Japan (JASDEC), Luxembourg, Malaysia (MCD), the Netherlands (NECIGEF), New Zealand (CHESS), Norway (VPC), Portugal (Interbolsa), Singapore (CDP), South Africa, Spain (SCLV), Sweden (VPC) and Switzerland (SEGA); or such other country which may from time to time be added to this list by an authorised person;

**associated corporate member**

means in relation to a corporate member any body corporate which is –

(a) a subsidiary (within the meaning of section 736 Companies Act 1985) of the same holding company; or

(b) otherwise associated with that corporate member;

**authorised person**

means, in relation to any provision in these

requirements and the Membership and Underwriting Requirements (Corporate Member), the Franchise Board or any sub-committee or officer or employee of the Society authorised by the Council or Franchise Board to discharge the duties and functions or to exercise the powers and discretions specified in that provision;

**ceasing member**

means, in relation to an approved corporate interavailability arrangement, a corporate member which has ceased to underwrite or is to cease underwriting at the end of the current year of account and which has made its Lloyd's deposit or its Lloyd's life deposit interavailable to a continuing member;

**close relative**

means a person's spouse, his children and step-children, his parents and step-parents, his brothers and sisters and his step-brothers and step-sisters;

**coming into line date**

means, in relation to a year of account, ("Year B") the date or such other date as the Council may from time to time prescribe in the year of account immediately preceding Year B by which a member of the Society or a candidate must have provided its funds at Lloyd's if it is to be eligible to underwrite in Year B;

**connected individuals**

means persons each of whom is or is to be –

- (a) a director of the successor member;
- (b) a director of the holding company of the successor member;
- (c) in the case of an SLP, a director of the operator of the SLP; or
- (d) a close relative of any person falling within sub-paragraphs (a) to (c) above;

**connected person**

in relation to a participant, means -

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

	persons falling within (a) or (b) above;
<b>continuing member</b>	means, in relation to an approved corporate interavailability arrangement, 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 ceasing members is made interavailable;
<b>conversion arrangement</b>	has the meaning given in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);
<b>Conversion Official</b>	has the meaning given in the Conversion Rules;
<b>Conversion Rules</b>	means the rules so called and made under the Conversion and Related Arrangements Byelaw (No. 22 of 1996) and for the time being in force;
<b>co-ordinating agent</b>	means, in relation to a member, the members' agent appointed by the member to co-ordinate the administration of that member's affairs at Lloyd's in circumstances where more than one members' agent is obliged to provide services as a members' agent to that member;
<b>corporate candidate</b>	means a candidate for membership of the Society as a corporate member;
<b>economic capital requirement</b>	means in relation to a participant, the amount calculated in accordance with Lloyd's economic capital assessment model, as from time to time varied or supplemented, to meet any outstanding underwriting liabilities of the participant;
<b>employee group</b>	means two or more individual members who are connected with an underwriting agent by reason of their employment;
<b>existing member</b>	means a person who is either an individual member or corporate member of the Society when these requirements come into force;
<b>interavailability arrangement</b>	has the meaning given in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);
<b>investment company</b>	means a company whose shares are listed, or are the subject of an application for listing on the London Stock Exchange and which is or has applied to be classified as an investment company under the listing rules made by the London Stock Exchange and shall be deemed to include any third party which is not otherwise an investment company and which has obtained

the consent of an authorised person under paragraph 6(4) to provide the funds at Lloyd's of a corporate candidate or corporate member;

**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 funds at Lloyd's 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;

**Membership and Underwriting Requirements (Corporate Member)**

means the conditions and requirements so-called and made under the Membership Byelaw (No.17 of 1993) and for the time being in force;

**net funds at Lloyd's**

means -

- (a) in relation to any member's overall premium limit the amount of the member's funds at Lloyd's valued in accordance with paragraph 9 less the value of certain liabilities specified in and valued in accordance with paragraph 5; and
- (b) in relation to his general business premium limit or to the member's long term business premium limit, the amount of the member's funds at Lloyd's valued in accordance with paragraph 9 maintained exclusively as security for the member's general business or long term business respectively less the value of certain liabilities specified in and valued in accordance with paragraph 5;

**OPL**

means overall premium limit;

**open year solvency deficiency**

means in relation to coming into line date the figure (if negative) shown on the most recent

solvency statement or additional solvency statement in respect of any year of account not closed at the 31st December next before the coming into line date;

**open year solvency surplus**

means in relation to the coming into line date the figure (if positive) shown on the most recent solvency statement or additional solvency statement in respect of any year of account not closed as at the 31st December next before the coming into line date, less such amount, if any, as has been transferred from the Managing Agent's Sub-Fund to the Personal Reserve Sub-Fund of the member's premiums trust fund since the last solvency test date and prior to the relevant valuation date;

**participant**

has the meaning given in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);

**private successor member**

means a qualifying successor member under a conversion arrangement in which there is only one participant or two or more participants who are connected individuals or an employee group and where the participant or participants (as the case may be) and/or any connected person, either:

- (a) in relation to a qualifying successor member which is a body corporate, hold shares in that body corporate which represent:
  - (i) not less than 85 per cent. (or such other percentage as the Council may prescribe) of the voting rights exercisable at a general meeting of the body corporate on all matters; and
  - (ii) the right to receive not less than 85 per cent. (or such other percentage as the Council may prescribe) of the amount distributable by way of dividend or on a winding up of the body corporate; or
- (b) in relation to a qualifying successor member which is an SLP, are entitled to:
  - (i) exercise not less than 85 per cent. (or such other percentage as the Council may prescribe) of the voting rights exercisable at

	any meeting of the partners of the SLP; and
	(ii) receive not less than 85 per cent. (or such other percentage as the Council may prescribe) of the distributable income of the SLP or of the SLP's assets available for distribution on a winding up of the SLP;
<b>qualifying successor member</b>	means a successor member under an interavailability arrangement or a transition arrangement under which, in either case, not less than 75 per cent of the successor member's funds at Lloyd's are provided directly or indirectly by the participants;
<b>relevant liabilities</b>	means liabilities calculated in accordance with the conditions and requirements prescribed by the Council under paragraph 9 of the Solvency and Reporting Byelaw (No.13 of 1990);
<b>Relevant Person</b>	means for the purposes of paragraphs 7 and 17, the Head of Market Reporting or the Director, Operations;
<b>relevant valuation date</b>	(i) 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 funds at Lloyd's;
	(ii) in any other case -
	(aa) 30 June or such later date as may be prescribed next before the coming into line date; or
	(bb) where assets are received after the valuation date referred to in (aa), the date on which they are paid or transferred to the trust fund concerned;
<b>request for funds</b>	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);
<b>required funds at Lloyd's</b>	means, in relation to a member and any given year of account, the funds at Lloyd's that a

member is required to provide if that member is to be eligible to underwrite insurance business at Lloyd's with a particular overall premium limit for that year;

<b>SLP</b>	means a Scottish limited partnership
<b>Society</b>	means the Society incorporated by Lloyd's Act 1871 by the name of Lloyd's;
<b>solvency statement</b>	has the meaning given in Schedule 1 to the Solvency and Reporting Byelaw (No. 13 of 1990);
<b>successor member</b>	has the meaning given in the Conversion and Related Arrangements Byelaw (No. 22 of 1996);
<b>transition arrangement</b>	has the meaning given in the Conversion and related party Arrangements Byelaw (No. 22 of 1996);
<b>year of account</b>	means an accounting year at Lloyd's currently the calendar year.

3. 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.
4. In these conditions and requirements:
  - (1) 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
  - (2) Words in the singular include the plural and vice versa.
5. The headings in these conditions and requirements shall not affect the interpretation of these conditions and requirements.

## APPENDIX 2

MEMBER	REQUIRED NET FUNDS AT LLOYD'S
Existing member other than a corporate member incorporated in any state of the United States of America	<p>The highest of:</p> <p>(a) (i) 40% of OPL; or</p> <p style="padding-left: 40px;">(ii) where 85% or more of the member's OPL is allocated to a syndicate or syndicates underwriting direct EU motor business, 25% of OPL;</p> <p>(b) the percentage of OPL as may be set for the member in accordance with Lloyd's economic capital assessment model or as set by the Council; or</p> <p>(c) the member's <i>capital resources requirement</i>.</p>
Existing corporate member incorporated in any state of the United States of America	<p>The highest of:</p> <p>(a) (i) 40% of OPL; or</p> <p style="padding-left: 40px;">(ii) where 85% or more of the member's OPL is allocated to a syndicate or syndicates underwriting direct EU motor business, 25% of OPL;</p> <p>(b) the percentage of OPL as may be set for the member in accordance with Lloyd's economic capital assessment model or as set by the Council;</p> <p>(c) £1.5 million;</p> <p>(d) the member's <i>capital resources requirement</i>.</p>



MEMBER	REQUIRED NET FUNDS AT LLOYD'S
<p>Member (whether an individual member or a corporate member) admitted to membership of the Society on or after 1 January 2005</p>	<p>The highest of:</p> <ul style="list-style-type: none"> <li>(a) (i) 40% of OPL; or</li> <li>(ii) where 85% or more of the member's OPL is allocated to a syndicate or syndicates underwriting direct EU motor business, 25% of OPL;</li> <li>(b) the percentage of OPL as may be set for the member in accordance with Lloyd's economic capital assessment model or as set by the Council;</li> <li>(c) the member's <i>capital resources requirement</i>; or</li> <li>(d) (i) in the case of a corporate member incorporated in any state of the United States of America, £1.5 million;</li> <li>(ii) in the case of a private successor member, but only in respect of the first year of account in which the member underwrites insurance business at Lloyd's, whichever is the lowest of - <ul style="list-style-type: none"> <li>(aa) £100,000 multiplied by the number of participants in the relevant arrangement;</li> <li>(bb) £350,000; or</li> <li>(cc) such amount as the Conversion Official may specify;</li> </ul> </li> <li>(iii) in any other case, but only in respect of the first year of account in which the member underwrites insurance business at Lloyd's, £350,000.</li> </ul>

## APPENDIX 3

### FUNDS AT LLOYD'S

#### General principles for the determination of acceptable assets

1. Assets must be diversified and spread in such a way as to ensure that there is no excessive reliance on any particular category of asset, investment market or investment.
2. Investments in particular types of asset which show high levels of risk, whether because of the nature of the asset or the quality of the issuer, must be restricted to prudent levels.
3. Assets must be readily realisable, capable of objective and verifiable valuation and must not give rise to unacceptable custody risk or onerous holding duties.

#### Part 1

#### Categories of assets which are acceptable for funds at Lloyd's

##### 1. Debt securities, bonds and other money and capital market instruments

- (a) *Debt securities*, bonds and other money and capital market instruments (other than those falling within sub-paragraphs (b), (c), (d) and (e)) which -
  - (i) are denominated in an approved currency; and
  - (ii) are of a class quoted or listed on an approved stock exchange or are traded on a *regulated market*;
- (b) Loan notes which -
  - (i) are denominated in an approved currency; and
  - (ii) are of a class quoted or listed on an approved stock exchange or are issued by a company incorporated in England, Wales or Scotland, all or some of the securities of which company are quoted or listed on an approved stock exchange; or
  - (iii) are issued or guaranteed by an approved credit institution;
- (c) US municipal bonds which -
  - (i) are denominated in an approved currency; and
  - (ii) have a Standard and Poor's rating and a Moody's rating of at least AA in each case, and, if only having one such rating, of AA or better;
- (d) Certificates of deposit which -
  - (i) are denominated in an approved currency; and

- (ii) are issued by an approved building society or approved credit institution;
- (e) Commercial paper which –
  - (i) is denominated in an approved currency;
  - (ii) has one or more of the following ratings:
    - (aa) Moody's rating of at least Prime 1;
    - (bb) Standard and Poor's rating of at least A1;
    - (cc) Fitch IBCA rating of at least F1; and
  - (iii) has a maturity of not more than 30 days.

## 2. Shares and other variable yield participations

- (a) *Shares* and other variable yield participations which -
  - (i) are of a class quoted or listed on an approved stock exchange or are traded on a *regulated market*;
  - (ii) are denominated in an approved currency;
  - (iii) are held either in an approved depository or by Members' Services Unit;
  - (iv) are neither in, nor have been issued by, a corporate member;
  - (v) are neither in, nor have been issued by, any company in the same group as a corporate member unless the turnover of the corporate member is equal to 5 per cent. or less of the turnover of the group of which the corporate member is a member;
  - (vi) are neither in, nor have been issued by, an underwriting agent registered to act as an underwriting agent by the Society; and
  - (vii) are neither in, nor have been issued by, any company in the same group as an underwriting agent registered to act as an underwriting agent by the Society unless the turnover of the underwriting agent is equal to 5 per cent. or less of the turnover of the group of which the underwriting agent is a member.
- (b) The figures to be used for the purposes of sub-paragraphs (a)(v) and (vii) shall be those shown in -
  - (i) the then latest published audited accounts of the corporate member or underwriting agent, as the case may be; and
  - (ii) the then latest published audited consolidated accounts of the group of which the corporate member or underwriting agent, as the case may be, is a member.

### **3. Holdings in *collective investment schemes***

Holdings in *collective investment schemes* which -

- (a) either are authorised or recognised by the Financial Services Authority; or
- (b) in the case of US mutual funds are authorised and regulated by the Securities and Exchange Commission.

### **4. Cash at bank, in hand and in deposits with *credit institutions* and building societies**

- (a) Cash which -
  - (i) is in an approved currency; and
  - (ii) is held by an approved credit institution or approved building society.
- (b) Cash in hand, namely cash which is in an approved currency and held by Members' Services Unit.
- (c) National Saving Certificates.

### **4A. Forward currency contracts**

Forward currency contracts which satisfy the conditions in PRU 4.3.5R.

### **5. Letters of credit**

Letters of credit which –

- (a) in the case of letters of credit issued on behalf of an individual member, contain the terms set out in Lloyd's standard form MEM 380 without any material additions to such terms and have been completed in strict compliance with the notes for completion set out therein;
- (b) in the case of letters of credit issued on behalf of a corporate member, contain the terms set out at Appendix 29 to the Membership and Underwriting Requirements (Corporate Member) without any material addition to such terms and have been completed in strict compliance with the notes for completion set out on the reverse side of that Appendix 29;
- (c) have been issued or confirmed by an approved credit institution, an approved building society or an approved life assurance company;
- (d) have been issued on the headed notepaper of the issuer or confirmer or sent by an authenticated teletransmission system such as SWIFT;
- (e) are denominated in an approved currency;
- (f) unless an authorised person otherwise agrees, are effective as of 1st January of the year in relation to which they are given;
- (g) are clean and irrevocable;

- (h) are subject to not less than 4 years' notice of cancellation;
- (i) are governed by English law and subject to the exclusive jurisdiction of the English courts;
- (j) 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 them comprise directly or indirectly a security interest over a principal private residence unless the members' agent of the member on whose behalf such a letter of credit 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 letter of credit. This limitation shall not apply in relation to a letter of credit issued in connection with an interavailability arrangement in substitution of a letter of credit issued on or before 31 December 1994; and
- (k) if under notice of cancellation must not be due to expire on or before 30th September in the fourth year following the then last coming-into-line date so that, for example, if it is due to expire on or before 30th September 2010 it will not be an acceptable asset for the 2007 and any subsequent year of account.

## 6. Guarantees

Guarantees which -

- (a) in the case of guarantees issued on behalf of an individual member, are -
  - (i) if given (or to be given) by joint guarantors, in Lloyd's standard form MEM 171 or MEM 199 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 Lloyd's standard form MEM 170 or MEM 178 and have been completed and executed in strict compliance with the relevant notes for completion;
  - (iii) if given (or to be given) by an insurance company, in Lloyd's standard form MEM 174 or MEM 179 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, are -
  - (i) if given (or to be given) by joint guarantors, in the form set out at Appendix 30 to the Membership and Underwriting Requirements (Corporate Member) and have been completed and executed in strict compliance with the guidance notes set out at Appendix 32 to the Membership and Underwriting Requirements (Corporate Member);
  - (ii) in the case of any other guarantee, in the form set out at Appendix 31 to the Membership and Underwriting Requirements (Corporate Member) and has been completed and executed in strict compliance with the guidance notes set out at Appendix 33 to the Membership and Underwriting Requirements (Corporate Member);
- (c) have been provided by an approved credit institution, an approved building society or an approved life assurance company;

- (d) are denominated in an approved currency;
- (e) unless an authorised person otherwise agrees, are effective as of 1st January of the year in relation to which they are given;
- (f) are subject to not less than 4 years' notice of cancellation;
- (g) are governed by English law and subject to the exclusive jurisdiction of the English courts;
- (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 them comprise 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; and
- (j) if under notice of cancellation must not be due to expire on or before 30th September in the fourth year following the then last coming-into-line date so that, for example, if it is due to expire on or before 30th September 2010 it will not be an acceptable asset for the 2007 and any subsequent year of account.

## **7. Life assurance policies**

In the case of individual members only, life assurance policies, provided the following conditions are met –

- (a) contracts of life assurance must be underwritten by an approved life assurance company;
- (b) the member must be the sole beneficial owner and bonds must not be encumbered by mortgages, loans or other charges of any kind, or be the subject of prior trusts;
- (c) the contracts must be duly assigned to Lloyd's using whichever of the prescribed forms of assignment for contracts to be included in a member's funds at Lloyd's is appropriate in the circumstances;
- (d) notice of assignment must be given to the company which has underwritten the policy in a form approved by an authorised person;
- (e) permitted contracts are -
  - (i) fully-paid or partly-paid bonds;
  - (ii) paid-up endowment or whole life policies on which no further premiums are due or payable;
  - (iii) partly paid endowment or whole life policies; or

- (iv) broker managed bonds;
  - (v) contracts falling within (ii), (iii) or (iv) may only be taken into account if the issuing company undertakes to provide automatic annual valuations;
  - (vi) contracts which consist of two or more interdependent policies may be acceptable provided that any inter-change of value does not involve payments out of, or receipts into, the member's funds at Lloyd's. A bond may be written on a joint life basis;
- (f) the contracts must maintain their value, subject to normal fluctuations in market values of the underlying investments in the life company's funds. In general, any surrender of units, bonuses or sums assured which could reduce the value of policies or bonds below the value at which they were accepted into the member's funds at Lloyd's, is not permitted; however, income may be drawn subject to the following conditions -
- (i) in the case of guaranteed income from bonds, provided that the capital value of the bonds is not reduced;
  - (ii) in the case of income from bonds linked to units on which income is distributed, provided no surrender of units is involved;
  - (iii) in the case of bonds linked to units where income is accumulated, income may be drawn by surrender of units, provided that such surrender does not reduce the value of the bond below 95 per cent of the agreed value at the time of entry to the member's funds at Lloyd's;
  - (iv) withdrawals may not be taken on an automatic basis, unless the life company has agreed to monitor the value of the policy, in order that it shall not fall below 95 per cent of its admitted value.
- (g) the contracts must be readily realisable -
- (i) bonds linked to units must have surrender values which can be determined by multiplying the bid price of the units as published daily in the Financial Times, by the number of units held, without deductions of any kind by the company; or
  - (ii) in the case of paid-up life or endowment policies, they must have a surrender value determined by the company actuary and guaranteed to hold for 30 days; or
  - (iii) for other types of contract they must have a minimum surrender value guaranteed from the time of receipt into funds at Lloyd's for the duration of the policy or bond; and
  - (iv) in any contract where the maturity proceeds are expressed as payable by instalments, there must be an option to take a lump sum in lieu.

In all cases, cash on surrender must be payable within 14 calendar days, on production of the policy document and deed of assignment.

- (h) second-hand life policies which have been solely assigned to a member and which meet the requirement listed above will be acceptable.

## **8. Concentration limits**

Holdings in assets of the kind listed in this Appendix (other than *approved securities*, holdings in *UCITS schemes*, letters of credit, guarantees and life assurance policies) shall not exceed the limits set out in PRU 3.2.22R(3), expressed as a percentage of the overall value of a member's funds at Lloyd's.



APPENDIX 4

**MEMBERS' COMPLIANCE WITH UNDERWRITING REQUIREMENTS**

**Year of Account .....**

**Members' Agent's Confirmation Form**

Members' Agent: .....

Date: ...../...../.....

We confirm (in respect of those members underwriting on the ..... account) that each member for whom we act (either as co-ordinating or sole members' agent) has either complied with the Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) or has been excused compliance with those requirements by the Council of Lloyd's and that each member has signed a syndicate list confirming that member's underwriting participations for the [ ] year of account.

**IMPORTANT NOTICE**

The confirmations made in this Form are important and will be relied upon by Lloyd's. Signatories must take care to ensure the accuracy of their confirmations. Any queries relating to this Form should be made in the first place to the Manager, Membership Arrangements, Members' Services Unit.

Signature of Director/Partner .....  
(or other authorised signatory)

Name (in block capitals) .....  
Title/Position

Please return this form to the Manager, Membership Arrangements, Members' Services Unit, by such date as may from time to time be prescribed.

**APPENDIX 5**

**PART 1**

**MEMBER'S COMPLIANCE WITH UNDERWRITING CONDITIONS AND REQUIREMENTS**

**Year of Account .....**

**Corporate Member's Confirmation Form**

Corporate Member :	(“the Corporate Member”)
Membership Number:	

Date: ...../...../.....

I confirm that the Corporate Member has either:

- (a) complied with the Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) and has sufficient funds at Lloyd's to support the following year's underwriting as demonstrated by the calculation in Part 2 of this statement; or
- (b) has been excused compliance with those conditions and requirements by the Council of Lloyd's;

**AND** that the Corporate Member has signed a syndicate list confirming its underwriting participations for the [ ] year of account.

<b>IMPORTANT NOTICE</b>
The confirmations and figures stated within both pages of this Form are important and will be relied upon by Lloyd's. Signatories must take care to ensure the accuracy of their confirmations. Any queries relating to this Form should be made in the first place to the Manager, Membership Arrangements, Members' Services Unit.

Signature of Director/Partner .....  
of the Corporate Member

Name (in block capitals) .....  
Title/Position

Please return this form to the Manager, Membership Arrangements, Members' Services Unit, by such date as may from time to time be prescribed.

(Cont'd overleaf)

**APPENDIX 5**

**PART 2**

**MEMBER'S COMPLIANCE WITH UNDERWRITING CONDITIONS AND REQUIREMENTS**

**Year of Account .....**

**Corporate Member's Confirmation Form (Cont'd)**

Name of Corporate Member			
<b>A</b>	Level of Underwriting (OPL) for next year	£	
<b>B</b>	Relevant percentage of OPL		%
<b>C</b>	Net FAL Requirement	£	
<b>D</b>	Amount of liabilities specified in paragraph 5 of the M&URS (Funds at Lloyd's)	£	
<b>E</b>	FAL Requirement (C + D)		£
<b>F</b>	FAL Value at [relevant valuation date]	£	
<b>G</b>	Value of FAL assets added since [relevant valuation date]	£	
<b>H</b>	Value of FAL released since [relevant valuation date]	£	
<b>I</b>	Total FAL available to support Underwriting for next year (F + G – H)		£

Asset Concentration Restrictions

Asset type	% of total FAL permitted		
	Corporate Members	Small Corporate members	<i>Individuals underwriting in 2007 &amp; post YOAs</i>
Shares in any one group of companies	5%	10%	10%*
Corporate bonds and debt securities	5%	10%	10%*
Collective investment schemes which are UCIT funds	100%	100%	100%
Bonds and securities issued/guaranteed by government of zone A countries	100%	100%	100%
Bonds and securities issued/ guaranteed by government of non-zone A countries	5%	10%	10%
Cash deposited at single bank	20%	20%	20%
Corporate bonds and debt securities from approved counterparties	10% (up to 40% in agg.) then 5%	10%	10%*

Notes

1. The percentages marked '\*' have been reduced by 2.5% until 2007 at which point they will level out at 10%.

**CRITERIA TO BE APPLIED IN THE APPROVAL  
OF CREDIT INSTITUTIONS**

The criteria for the approval of credit institutions for the purposes indicated are set out below, *subject to the proviso that no institution may be approved or remain approved should it fail to meet the requirements of Article 21 of EC Council Directive 92/49 or any applicable UK requirement:*

- i) For holding Syndicate Premiums Trust Funds and cash in respect of Members' Funds at Lloyd's (i.e. deposit, special reserve fund and personal reserve fund):-
- a) (1) Credit institutions authorised to ***accept deposits in the UK*** by the Financial Services Authority ("authorised institutions") with net tangible assets \* of not less than £100 million (or equivalent) ("Lloyd's approved institutions");
  - (2) wholly owned subsidiaries of Lloyd's approved institutions which are themselves authorised institutions; and
  - (3) authorised institutions the whole of the share capital of every class of which is beneficially owned by two or more Lloyd's approved institutions to the exclusion of any other body or person.
- b) Authorised institutions which are wholly owned subsidiaries of the trustees of Lloyd's American or Lloyd's Canadian Trust Funds.
- ii) For the issue or confirmation of Letters of Credit and Bank Guarantees (in Sterling, US Dollars and Canadian Dollars) in respect of members' Lloyd's means and deposits:-
- a) Credit institutions in the categories in i) above that have a long term debt rating with Fitch IBCA, Standard & Poor's or Moody's of 'A' or better<sup>1</sup>; or
  - b) Credit institutions with net tangible assets in excess of £500m in the categories in i) above that have a long term debt rating with Fitch IBCA, Standard & Poor's or Moody's of less than 'A', where an authorised person<sup>2</sup> is satisfied that:
    - i) the said rating is restricted by the status of the government of the institution's domicile; and
    - ii) there is no specific risk that the institution will default on paymentsubject to the condition that the value of any such Letters of Credit or Bank Guarantees shall not exceed £10 million in aggregate.
- iii) For the issue or confirmation of Letters of Credit and Bank Guarantees (in Sterling,

<sup>1</sup> "+" and "-" suffix are ignored as they merely depict relative standing within major rating categories.

<sup>2</sup> 'authorised person' means the Director, Members' Services Unit

US Dollars and Canadian Dollars) of over £5m in respect of the Lloyd's funds of any one corporate member group:-

Credit institutions in the categories in i) above that satisfy the criteria in (ii)(a) above and have net tangible assets in excess of £500m, or that satisfy the criteria in (ii)(b) above.

*Letters of credit and bank guarantees must be issued or confirmed in the UK and be encashable in London.*

*\* Net tangible assets are defined as the aggregate of paid up share capital, consolidated reserves and subordinated loans (with a maturity greater than five years) less the amount of any intangible assets, all as shown by the latest audited accounts if available or the consolidated audited accounts of the group to which the institution belongs. Accounts prepared in foreign currencies are to be translated into sterling at the exchange rate prevailing at the balance sheet date.*

### **Aggregate Restriction**

*The aggregate quantum of guarantees and letters of credit that any one institution may issue will be restricted to the lower of:*

- i) *the percentage, set out below, of the total net resources of the Society of Lloyd's as reported in the most recent edition of Lloyd's global results, varying according to the long term credit rating of the institution with Fitch IBCA, Standard & Poor's or Moody's:*

*for credit rating of 'A', a restriction of 12.5% of net resources of Society;  
and  
for credit rating of 'AA' or above, a restriction of 17.5% of net resources of Society;*

*and*

- ii) *20% of the institution's year end net tangible assets*

*When the aggregate limit has been reached the credit institution will not be permitted to issue any further guarantees or letters of credit.*

### **Additional Provisions**

- a) The **Council of Lloyd's** will need to satisfy itself that there are no restrictions which might inhibit an institution from meeting its obligations.

- b) The addition and deletion of credit institutions within the agreed criteria will be made on the authority of the Director, Members' Services Unit. In addition the ***Council of Lloyd's*** may exercise its discretion to add or delete credit institutions from the approved list.

#### Withdrawal of Approval

Where the ***Council of Lloyd's*** (acting by any duly authorised person or body) considers, in its absolute discretion, that any approved credit institution has, without lawful excuse, wrongfully failed to honour any letter of credit or guarantee which it has issued, confirmed or provided to Lloyd's ***within 30 days of being duly requested to do so or at all, the council may determine that such credit institution cease to be an approved credit institution for the purpose of issuing, confirming or providing any letter of credit or guarantee as the case may be pursuant to and within the meaning of the Membership and Underwriting Conditions and Requirements (Means and Funds at Lloyd's) (Individual Members) 1997 and / or the Membership and Underwriting Requirements (Corporate Members) 1993 as amended*** – PROVIDED THAT:

**the Council** shall first inform any such credit institution that it is minded to remove its name from the list of approved credit institutions and shall take into account any representations received by or on behalf of that credit institution within 35 days of notification, before deciding whether or not to remove it from the said list.

**THE COMING INTO LINE TIMETABLE**

Members to sign and return syndicate lists to their members' agent.	29/11/2006
The coming into line date by which all members intending to underwrite in 2007 must have complied with the Membership and Underwriting Conditions and Requirements (Funds at Lloyd's) (Corporate/Individual members).	29/11/2006
Members' agents (compliance officer) must confirm that all members were 'in line' and had signed syndicate lists as at 29/11/2006	30/11/2006
Direct corporate participants must confirm that they were in line by 29/11/2006	30/11/2006

**IMPORTANT NOTICE**

These documents and electronic data submissions are important and must be returned by these prescribed dates. Any queries should be made, in the first instance to Malcolm Colesworthy, Members' Services Unit.