



**Shared Ownership Regulation:
Findings & Measures**

March 2021



Introduction

Introduction

As the importance of shared ownership continues to grow, the regulation of Syndicates and Racing Clubs is a key priority for the BHA and forms a central part of the industry's Recovery Plan for British Racing.

With threats to the growth of ownership changing, and new opportunities emerging, it is important that we work proactively to ensure regulation of this area meets the needs of participants and the sport and increases the appeal to potential owners.

In September 2020, a consultation was launched with a view to exploring the current risks and opportunities that are present and how they might be addressed through, for example, better regulation and/or improved administration and education.

Following the conclusion of the consultation in late October, and follow up sessions with key stakeholders, responses were considered along with the risks, threats and opportunities for shared ownership. A list of key measures is now presented alongside a summary of the phased implementation plan.

Consultation

Background and Responses

Background and Overall Opinion

In total 420 responses were collected from stakeholders across the industry with most responses received from people who had at some point been Syndicate/Racing Club members (348) or Syndicate/Racing Club managers (148) with some cross over. Questions were arranged around six areas of focus and each is detailed in turn.

While this summary concentrates on the responses relating to the primary focus of the consultation (the regulation of shared ownership), it is noted that other ideas were raised. These included the cost and returns of ownership, the administration required to maintain a Syndicate/Racing Club, the on-course experience for owners and external pressure on the industry e.g. Brexit and Covid-19. Although specific comments on these ideas are not detailed here, all responses and suggestions were considered when devising the measures to be implemented.

1. Overall Option

To provide a baseline and gauge the current opinion of respondents towards shared ownership, questions were asked relating to their overall impression and the likelihood of recommending shared ownership.

- There is currently a positive opinion of Syndicates/Racing Clubs from everyone who has been involved (either as a member or manager) with a median score of 8 out of 10 recorded (where 1 was very negative and 10 was very positive);
- Most people who have been involved in Syndicates or Racing Clubs (in any capacity) are likely to recommend them with a median score of 8 out of 10 recorded (where 1 was very unlikely and 10 was very likely).

Definitions and Code of Conduct

2. Ownership Definitions

Questions were asked to investigate if the BHA's shared ownership options were fit for purpose and met the needs of Syndicators/Racing Club Managers and their members.

- Over 80% of members and managers understand the current definitions of Syndicate and Racing Club. People not involved in ownership less aware;
- 15% believe the current definitions do not provide enough variety when registering shared ownerships;
- Suggestions that registration could be further tailored based on the size of the entity or if a management fee is charged. Irrespective, further clarity and promotion of definitions is required.

3. Syndicate Code of Conduct (CoC)

Questions were asked investigating how prospective owners can make well informed decisions about shared ownership and the effect of the Syndicate CoC since its launch in 2017.

- Only 50% of shared owners receive a contract every time they enter a shared ownership and have all the information they need to make fully informed decisions half of the time;
- 75% of respondents find the CoC useful, but 15% of those involved in Syndicates are completely unaware of the Code;
- Suggestions that CoC could be improved if it included terms relating to a horse's life after racing, complaints procedures and purchase price of horses.

Expectation Vs Reality & Collecting Data

4. Expectation Vs Reality

Questions were asked to explore the extent to which shared ownership meets expectations.

- Members' expectations are met with regards communication and costs but expected greater financial transparency;
- Almost a third of members, and over 40% of managers, have been involved with a Syndicate where someone had defaulted. This either leads to Syndicators covering the costs (35% of the time), other members picking up costs (35%) or the Syndicate folding (20%).

5. Data Collection

This section investigated how to improve the information held about those involved in Syndicates and Racing Clubs.

- 50% of respondents agreed that the regulator should know who was involved in Syndicates and the regulator should know everyone's % involvement too;
- 40% of members and managers agreed that the regulator should know who was involved in Racing Clubs.

Mitigating Risks

6. Mitigating risks and promoting growth

Questions were asked to explore different options for how the regulation of shared ownership could be strengthened to mitigate risks and promote growth.

- Many proposed mitigating factors broadly well received, except for asking all Syndicate members to fully register as owners with the BHA;
- In particular, stronger penalties for anyone in breach of the CoC, extending the CoC to cover Racing Clubs and asking shared ownerships to submit a copy of their contract to the BHA were the well supported ideas;
- Syndicate/Club Managers were less positive about submitting annual accounts to BHA and introduction of a license for those running Syndicates/Clubs;
- Most managers and members agreed there should be different regulations for 'commercial' Syndicates/Racing Clubs;
- Other suggestions to mitigate risks of shared ownership included increasing transparency on costs and returns, providing a point of contact in case of disputes and allowing members to see who the other members in their Syndicate are.

Key Measures

The Ten Measures to be Introduced

Measures for introduction

To address the highlighted risks and based on feedback received through the consultation and follow-up sessions, ten measures are to be introduced as part of a phased implementation plan over the next 12 months.

They aim to help ensure the regulation of shared ownership meets the BHA's wider licensing objectives and the promotion of participant and public confidence by ensuring proper standards of conduct and competence. It is anticipated that in achieving these aims it will help facilitate the continued growth of Syndicates and Racing Clubs by providing a firm foundation where the risk of bad practice is reduced, minimum standards are required and, in time, best practice can be rewarded.

Simultaneously, however, it is important that any changes to the regulation of shared ownership do not detract from the appeal of Syndicates or Racing Clubs – either for those managing or joining them. As such, regulation in this area cannot become too administratively burdensome or disproportionate to the risks.

In deciding on the action to take, consideration have been given to finding a balance between these two contrasting issues and, in some instances, changes are restricted to only Syndicates/Racing Clubs which are managed by someone who receives payment in relation to their role and/or advertises publicly.

Key Measure 1

Extend the Syndicate Code of Conduct to cover new terms.

***This will apply to:** All Syndicates that charge a management fee or advertise publicly.*

***Implementation:** 1st May 2021 (new entities will be required to comply immediately with existing entities receiving a twelve-month grace period).*

As noted in the consultation, since its introduction in 2017 the Syndicate Code of Conduct has been well received and has helped establish minimum standards that can be expected by all prospective Syndicate members.

While the Code currently mandates that a contract must be provided covering a range of key terms, the Code is to be updated to ensure that four new areas are included in any Syndicate contract:

- i. Disclosure of the purchase/acquisition price, and all associated costs, of the horse(s);
- ii. The name(s) in which the Syndicate bank account is held and all signatories;
- iii. Plans for the horse(s) if retired while in the ownership of the Syndicate; and,
- iv. What a Syndicate member should do in the case of a dispute or disagreement.

By including these new terms, prospective Syndicate members can make more informed decisions ahead of joining any Syndicate, better helping the management of expectations and the promotion of financial transparency.

Key Measure 2

Introduce a new Code of Conduct for Racing Clubs.

***This will apply to:** All Racing Clubs that charge a management fee or advertise publicly.*

***Implementation:** 1st May 2021 (new entities will be required to comply immediately with existing entities receiving a twelve-month grace period).*

As Racing Clubs continue to grow in popularity it is important to ensure they are properly regulated as they often involve a significant number of people and offer a gateway into ownership.

As such, a new Racing Club Code of Conduct is to be produced to ensure that all Club members receive a contract upon joining and have access to all the relevant information required to make an informed decision about their prospective membership.

The Code will be based on the Syndicate Code of Conduct, but will include terms specific for Racing Clubs to help manage expectations and promote financial transparency.

Key Measure 3

Require Syndicators to confirm how and when prize money received following a significant win shall be paid to members.

This will apply to: All Syndicates and Racing Clubs.

Implementation: 1st May 2021.

Focussing on where risk is potentially at its greatest, whenever a shared ownership wins a significant amount of prize money (over £50k) the BHA will contact the Manager and ask them to confirm how and when the monies will be paid to members.

There will not be any change or delay in the payment of prize-money to shared ownerships, but this will help ensure the BHA is aware of the plans for the funds and can follow up where required.

Key Measure 4

Facilitate the addition of Syndicate members who accumulate bad debt to the forfeit list.

This will apply to: All syndicate members.

Implementation: 1st May 2021.

As noted in the consultation, Syndicates often end up with members defaulting leaving the remaining members with an increased bill and a negative experience. This can be compounded if the individual who defaults moves on to join another Syndicate and accumulates a new debt.

To help reduce the risk of this happening, and better protect Syndicate members from increased and unforeseen costs, an option is to be given to allow individuals who default to be added to the forfeit list. This process will mirror the existing one for when owners accumulate a debt with a trainer and would, therefore, require clear terms in any Syndicate contract explaining what may happen should the member default.

Key Measure 5

Ask additional questions in the Syndicate registration to better understand financial arrangements.

***This will apply to:** All Syndicates that charge a management fee or advertise publicly.*

***Implementation:** 1st May 2021.*

To help ensure consideration has been given to the financial implications of running a Syndicate, three new questions are to be added to the registration forms.

The questions will investigate:

- i. How the Syndicator proposes to fund any upfront costs;
- ii. How many shares the Syndicator intends to advertise; and,
- iii. How the Syndicator will fund the Syndicate if they do not sell all the shares.

Again, while it is not for the BHA to comment on commercial terms or decisions, it will better help ensure the BHA understands the way Syndicates will be financed.

Key Measure 6

Begin a sustained campaign to more widely publicise the Codes of Conduct.

This will apply to: All Syndicates and Racing Clubs that charge a management fee or advertise publicly.

Proposed implementation: Summer 2021.

For the Syndicate and Racing Club Codes of Conduct to act effectively as part of the BHA's regulation of shared ownership, it is vital that there is an increase in awareness. Namely, it should aim that every Syndicator/Club Manager and all new and existing members are aware of its existence and members have the confidence to challenge any managers that are not in adherence.

To achieve this, all Syndicate members with access to the online systems (Key Measure 8), will be reminded about the Code upon logging in and should be made aware of the Code as part of signing any new Syndicate/Racing Club contract. In addition, the Code will become a more central part of the registration process with clear reminders for Syndicators/Club Managers in relation to their responsibility to provide a contract.

Key Measure 7

The % shares of Syndicate members are to be recorded with the BHA.

This will apply to: All Syndicates.

Proposed implementation: From Q1 2022.

Building on existing rules, the % shares of all Syndicate members are to be recorded with the BHA.

Upon initial registration, and then throughout the life of the Syndicate, the Syndicator would be responsible for uploading and maintaining the list of their members and shares. To aid compliance, work will be undertaken to make sure existing, and future systems, simplify this process for Syndicators and meet the needs of different Syndicates.

This will help the BHA understand who is involved in ownership reducing any integrity concerns around individual members and preventing the risk of overselling shares in horses.

Key Measure 8

All Syndicate members with $\geq 2\%$ share granted access to view their own ownerships online.

This will apply to: All Syndicates.

Proposed implementation: From Q1 2022.

To complement the addition of extra information provided by Syndicators afforded by Key Measure 7, all Syndicate members with a share $\geq 2\%$ are to be given access to the Racing Admin system where they can review their ownerships.

By giving this online access to Syndicate members, not only does it help the BHA engage with members on regulatory matters, including the promotion of the Syndicate Code of Conduct (Key Measure 6), but it also allows increased transparency with members being able to see the horses they own and their % shares.

Key Measure 9

Begin auditing a proportion of Syndicates/Racing Clubs contracts to ensure compliance with the Codes of Conduct.

***This will apply to:** All Syndicates and Racing Clubs that charge a management fee or advertise publicly.*

***Proposed implementation:** From Q1 2022.*

To better ensure compliance with the Codes of Conduct the BHA is to begin auditing Syndicate/Racing Clubs contracts to confirm all the mandated terms are included.

The BHA will both review a proportion of Syndicate/Racing Club contracts as part of the registration process and spot-check contracts throughout the life of any Syndicate/Racing Club, in order to monitor compliance with the Codes.

The recommendation is to promote awareness of the Codes and ensure the contracts provided by Syndicators and Club Managers include the mandated terms. At no point will the BHA comment on, or review, the commercial terms of any contract, or provide legal or other advice in relation to any contract.

Key Measure 10

Prioritise the improvement of Syndicate/Racing Club administration systems to allow for easier compliance with new regulations and a better ownership experience.

This will apply to: All Syndicates and Racing Clubs.

Proposed implementation: From Q1 2022.

To properly facilitate the regulatory changes recommended it will be necessary to review the systems currently used to administer Syndicates and Racing Clubs. Although it will be possible to make changes to the existing admin system, this should only be a short-term solution. Instead, more wholesale improvements need to be considered to ensure the systems meet the needs of Syndicators and Racing Club managers, are better equipped to manage micro-ownership and allow for easier administration of Syndicates and Racing Clubs.



Implementation

Three Phases of Implementation

Implementation

A Phased Approach to Implementation

To minimise delays a three-phase approach to implementation is outlined. Each phase would be clearly communicated in advance to all stakeholders with clear lead in times, in addition to help and support for Syndicators/Club Managers, to ensure compliance.

Phase 1 – From 1st May 2021

Four measures are to be implemented immediately, namely:

- Extending the Syndicate Code of Conduct to cover new terms;
- Introducing a new Code of Conduct for Racing Clubs;
- Requiring Syndicators to confirm how and when prize money received following a significant win shall be paid to members; and,
- Facilitating the addition of Syndicate members who accumulate bad debt to the forfeit list.

While all measures will apply immediately for new Syndicates/Racing Clubs, existing entities will receive a twelve-month grace period to ensure their contracts meet the new rules.

Implementation

Phase 2 – Summer 2021

Throughout spring, focus will be on areas that require limited development work, and which can be implemented using existing systems. There will, therefore, be a launch date of late summer for:

- Questions to be added to the Syndicate registration to better understand financial arrangements; and,
- More widely publicising the Syndicate and Racing Club Codes of Conduct;

Phase 3 – From Q1 2022

Planning will also start immediately for the changes that require more system development, with a launch date in early 2022. These measures will be facilitated by improvements in existing systems and built into the plans for Racing Digital. These include:

- Requiring all Syndicate members, and their % shares, to be recorded with the BHA;
- Allowing all Syndicate members with $\geq 2\%$ share access to view their ownerships online;
- Auditing a proportion of Syndicates/Racing Clubs contracts to ensure compliance with the Codes of Conduct;
- Improving the Syndicate/Racing Club administration systems to allow for easier compliance with new regulations and a better ownership experience.

To ensure the processes and systems which support these measures are fit for purpose and facilitate BHA regulation while simultaneously simplifying ownership administration, plans will be developed and tested with Syndicators and Racing Club managers.

