

FROM: Head of Accounting Policy EXTN: 5364
DATE: 15 December 2004 REF: Y3457
SUBJECT: **Annual accounting**
SUBJECT AREA(S): Syndicate financial reporting
ATTACHMENTS: **The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004**

ACTION POINTS: **Managing agents to note**

DEADLINE(S): **For immediate attention**

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (SI 2004/3219) have been laid before Parliament and are due to come into force on 31 December 2004.

A copy of these Regulations is available at www.hmso.gov.uk/si/si2004/20043219.htm.

These Regulations implement the Modernisation of Accounts Directive (2003/51/EC), which amends the Insurance Accounts Directive (Directive 91/674/EEC) in relation to Lloyd's, and apply to syndicate accounts prepared in respect of financial years commencing on or after 1 January 2005. As a result of these Regulations managing agents will be required to prepare annual accounts for each syndicate that they manage which comply with the provisions of the Companies Act 1985, subject to certain modifications as specified in the Regulations.

The Regulations require managing agents to prepare **syndicate annual accounts** in accordance with UK GAAP (UK GAAP accounts) and, subject to certain exceptions, **syndicate underwriting year accounts** (three year fund basis) within three months of the year end.

Summary of the main provisions of the Regulations

Syndicate annual accounts

Regulation 3 requires managing agents to prepare audited syndicate annual accounts and reports that comply with the Companies Act 1985, within three months of the year end. Some of the provisions of the Companies Act with which syndicate annual accounts and reports must comply have been modified in their application to syndicates by the Schedule to the Regulations.

Syndicate underwriting year accounts

Regulation 4 requires managing agents to prepare a separate set of accounts which is required to be separately audited. These are syndicate underwriting year accounts in respect of any year of account which is being closed by reinsurance to close. These accounts must also be prepared within three months of the year end. The syndicate

underwriting year accounts are similar to the current syndicate accounts prepared on a three year underwriting basis and must give a true and fair view of the result of an underwriting year of account at closure

There are two exceptions to the requirement to prepare syndicate underwriting year accounts. First, such accounts are not required to be prepared if the members of the syndicate for each year included in the underwriting year accounts agree unanimously, in writing, that no underwriting year accounts should be prepared in respect of that syndicate. Second, such accounts are not required if no underwriting year is being closed by reinsurance to close at the end of the financial year.

Filing of syndicate annual reports and accounts

Regulation 5 requires managing agents to send copies of the accounts prepared under regulations 3 and 4 to members of the syndicate and to Lloyd's within three months of the year end and to the Financial Services Authority within six months. These accounts may be sent electronically.

Publication of syndicate accounts

Regulation 6 requires the Council to make copies of the accounts that it receives from managing agents under regulation 5 available to the public on reasonable notice.

Penalties for non-compliance

Regulation 7 makes it a summary offence for managing agents to fail to comply with regulations 3, 4 or 5.

Aggregate accounts

Regulations 8 to 15 require accounts for the market as a whole (aggregate accounts) and an annual report to be prepared by the Council and filed with the FSA within six months of the year end.

The aggregate accounts are not required to be consolidated accounts but are to be a cumulation of all syndicate annual accounts.

Financial Services Authority

Regulation 16 imposes certain statutory functions on the FSA in relation to overseeing the preparation and delivery of accounts by managing agents and the Council.

Syndicate Accounting Byelaw

The main provisions in the Lloyd's current Syndicate Accounting Byelaw (SAB) will be retained in relation to syndicate underwriting year accounts. In particular, the following will continue to apply.

1. Every underwriting year of account to be kept open for not less than three years from the beginning of that year of account.
2. Accounting records for each syndicate to be maintained by managing agents.

3. Form and content of syndicate underwriting year accounts (and run-off accounts) and members' personal accounts.
4. Fundamental principles and statement of accounting policies in respect of syndicate underwriting year accounts.

The SAB will be amended in due course to take account of the changes made to syndicate accounting by the Regulations and to avoid duplication where appropriate.

This bulletin is being sent to underwriting agents, recognised auditors and market associations. If you have any queries on this bulletin please contact me on Lloyd's extension 5364 or by email at patricia.l.hakong@lloyds.com.

Patricia Hakong
Head of Accounting Policy