

MARKET BULLETIN

From	Head, Market Finance (ext 5129)
Date	22 December 2006
Reference	Y3933
Subject	2006 SYNDICATE REPORT AND ACCOUNTS
Subject areas	
Attachments	
Action points	Managing agents and auditors to note the requirements and deadlines relating to the 2006 syndicate report and accounts
Deadlines	Monday 19 March 2007 – filing of agent's confirmation that figures in annual return agree to the annual accounts Thursday 22 March 2007 - filing of syndicate annual accounts with Lloyd's and auditor's report on confirmation Thursday 29 March 2007 - filing of underwriting year accounts with Lloyd's Saturday 31 March 2007 – dispatch of syndicate annual accounts and syndicate underwriting year accounts to member's agents / capital providers

Summary

This bulletin covers the:

- (a) requirements for the agreement of the information in the annual return to the syndicate annual accounts;
- (b) requirements for the dispatch of syndicate annual and underwriting accounts; and
- (c) information on disclosures in the syndicate annual and underwriting accounts

Consistency of syndicate annual accounts with annual return

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (the Regulations 2004) require that the Lloyd's aggregate accounts must be an aggregation of syndicate annual accounts. In practice, the Lloyd's aggregate results will be prepared from the annual returns submitted by Thursday 1 March 2007. Lloyd's expects to announce the market results on Thursday 29 March and therefore we do need to have received the syndicate annual returns before this date together with confirmation that the annual return data is consistent with that in the syndicate annual accounts.

Managing agents are therefore required to submit, by 19 March 2007, a confirmation, to be signed by the finance director and another director, that the 2006 year-end disclosures in the syndicate annual accounts agree with those in the 2006 annual return (as originally submitted or as resubmitted). If the 2005 comparative figures in the 31 December 2006 accounts have been restated from those reported in the 31 December 2005 accounts then the confirmation must also state that the 2005 comparative disclosures in the syndicate annual accounts agree with those in the comparative forms of the 2006 annual return. Appendix 1 considers the types of confirmation that may be required and Appendix 2 provides the wording of the managing agent's report.

The confirmation must also be reported on by the auditor of the syndicate annual accounts (the content of the confirmation is attached at Appendix 3). When this matter has been notified previously we had indicated that the auditor's confirmation should be provided with that from the managing agent. Having discussed this further with representatives of the audit firms we have revised the submission date for the auditor's confirmation to be March 22, ie the date that the accounts are submitted.

The confirmation relates to agreement of the disclosures in the:

- (a) profit and loss account with those in column C of form AR1 in the annual return; and
- (b) balance sheet with column C of the AR2.

While there is other information in the annual return that relates to disclosures in the accounts it is not a requirement that these are an exact match. It is recognised, for instance, that the classes of business reported in the segmental analysis vary from syndicate to syndicate.

Life syndicates

The format of the profit and loss account of a life syndicate is different to that of a non-life syndicate. No distinction is made for life business in the market level technical account or balance sheet, instead the segmental note provides the split between life and non-life business. For the purposes of the confirmation therefore, it will be sufficient for life syndicates to agree any change in the long term business provision in their accounts to the figures in AR1, lines 15 to 17. The investment return that is analysed into various sub categories in the life technical account can be agreed, in aggregate, to line 11, investment return, in AR1. Where the balance sheet of a life syndicate has long term business provisions, it will be sufficient to agree those figures to AR2 line 34.

Dispatch date for syndicate annual accounts and syndicate underwriting year accounts

Managing agents must prepare syndicate annual accounts for all syndicates that they manage at 31 December 2006 (regulation 3 of the Regulations 2004). Furthermore, they must also prepare syndicate underwriting year accounts for all syndicates that they manage at 31 December 2006 and which either had an underwriting year closing at that date (regulation 4 of the Regulations 2004) or remaining open despite being at the 36 month stage of development or older (para 4(1) of the Syndicate Accounting Byelaw). Syndicate underwriting year accounts are not required for syndicates that only have years of account at the 12 or 24 month stage or where the members of the relevant year(s) of account of the syndicate agree unanimously in writing that no syndicate underwriting year accounts shall be prepared (regulation 4(1) of the Regulations 2004).

Saturday 31 March 2007 is the date by which managing agents must dispatch their syndicate annual accounts and, where applicable, syndicate underwriting year accounts to each underwriting member and members' agent. However, earlier deadlines have been set for dispatch to Lloyd's.

Thursday 22 March 2007 has been prescribed as the date by which managing agents must dispatch their syndicate annual accounts to Lloyd's and Thursday 29 March is the date by which the syndicate underwriting year accounts must be dispatched to Lloyd's. Two copies of the syndicate annual accounts and syndicate underwriting year accounts must be sent to:

Paul Tucknott
Market Reporting
Gallery 5
Lloyd's 1986 Building

Managing agents must ensure that both copies of each set of accounts submitted to Lloyd's contains original signatures of those signing the report and accounts. In order to facilitate the earlier dissemination of reporting data to interested parties, including the FSA, managing agents are also asked to submit their accounts in a PDF electronic file format via the MSU Market Returns website. These files should be submitted with the file convention format 'xxxxa.pdf' for the syndicate annual accounts and 'xxxXu.pdf' for the syndicate underwriting year accounts, where xxxx is the syndicate number. Where the annual accounts and underwriting year accounts are included in one document a single file should be submitted with the file convention format 'xxxXc.pdf' for combined accounts. All these files must be submitted by 29 March 2007.

Managing agents are reminded that they must send a copy of the syndicate annual accounts and syndicate underwriting year accounts prepared in respect of a closed year of account to the FSA by no later than 30 June 2007 (regulation 5(2) of the Regulations 2004). Lloyd's will send a copy of the accounts to the FSA on behalf of managing agents to meet this requirement. Run-off accounts do not need to be sent to the FSA.

Managing agents are also required to complete and submit, by 29 March 2007, the form attached at Appendix 4 which verifies that the electronic PDF file version of the 31 December 2006 syndicate annual report and accounts submitted via the MSU Market Returns website is identical to the signed hardcopy submitted to Market Reporting. The verification must be completed in respect of every syndicate for which the managing agent prepares accounts and must be signed by either the Compliance Officer or a Director of the managing agent. The form must be submitted in hard copy to the address indicated at the bottom of the form.

Disclosures in the syndicate annual and underwriting year accounts

Enhanced business review

Managing agents should be aware that requirements for an enhanced business review (Section 234ZZB of the Companies Act 1985) within the Directors' report are considered to apply to the accounts of Lloyd's syndicates. Below is a summary relating to the enhanced business review but the disclosures to be made may vary from syndicate to syndicate. In summary, the business review must:

- (a) provide a balanced and comprehensive analysis of the development and performance of the syndicate during the financial year and of its position at the end of the year;
- (b) be consistent with the size and complexity of the business;
- (c) include a description of the principal risks and uncertainties facing the business
- (d) include analysis using financial and other key performance indicators, to the extent necessary for an understanding of the development, performance or position of the syndicate; and
- (e) where appropriate, include references to, and additional explanations of, amounts included in the annual accounts.

The disclosure of information to auditors

Section 234ZA of the Companies Act (1985) requires the directors' report to include a statement by each director that there is no relevant audit information of which the auditors are unaware and that the director has taken all the steps that should be taken to ensure the director is aware of any relevant audit information and to establish that the auditors are aware of that information.

This requirement is considered to apply to the directors' report in syndicate report and accounts. Managing agents will need to ensure they have adequate systems and procedures to enable the directors to make the statements required of them. These systems and procedures will vary from agent to agent in relation to size and other factors. Managing agents should discuss these requirements with their auditors and seek legal opinion if there are any areas of doubt.

Disclosures for syndicates backed by third party capital

A number of comments have been received from members and members' agents regarding the levels of disclosure that were provided in the new style accounts as at December 2005 compared to those that were made under the old Syndicate Accounting Byelaw, particularly in relation to the summary of the business. While some syndicate accounts provided disclosures that were equivalent to those that were required in the underwriter's report under the old Syndicate Accounting Byelaw, others provided minimal disclosures, just sufficient to meet the new requirements.

To some extent these matters may be covered by the enhanced business review. However, attached as Appendix 5 is a note of the main areas of concern specifically advised to us by members. We consider that inclusion of this additional information represents best practice and is generally consistent with the enhanced business review. Agents of third party syndicates should consider these particular areas in drafting their 2006 reports. A decision as to whether more prescriptive requirements are required for the 2007 reports will then be made in 2007 based on members' comments on the 2006 reports.

Queries on accounting disclosure should be e-mailed to (lloyds-MRD-ReturnQueries@lloyds.com). All other queries should be addressed to Paul Tucknott (ext 6169) of Market Reporting (paul.tucknott@lloyds.com). This bulletin has been sent to all underwriting agents, direct corporate members, recognised accountants and market associations.

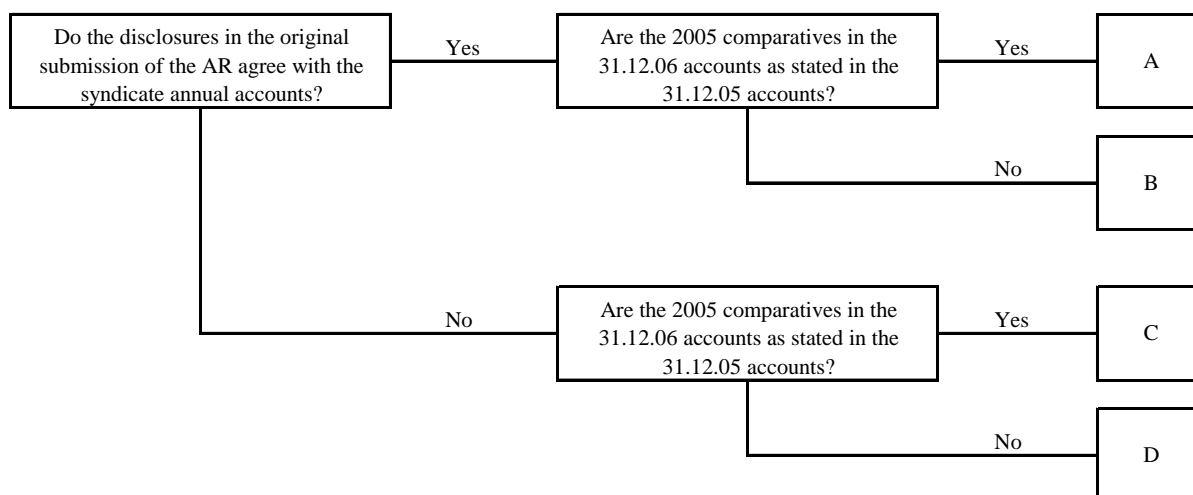
John Parry

Confirmation of consistency between syndicate annual accounts and annual return

The following decision chart identifies the form of confirmation that needs to be provided for a syndicate based on whether or not:

- i) the disclosures in the original annual return are consistent with the syndicate annual return; and
- ii) the 2005 comparative figures are being restated in the 31 December 2006 syndicate annual accounts from the figures disclosed in the syndicate annual accounts as at 31 December 2005.

There are four potential scenarios (A to D) and the specific confirmations required in each case are set out at the foot of the chart.



Confirmation required

- A Hard copy of managing agent report (Appendix 2) and auditor report (Appendix 3) confirming that the disclosures for the 2006 calendar year information in the original submission of the annual return are consistent with those in the syndicate annual accounts.
- B Hard copy of managing agent report (Appendix 2) and auditor report (Appendix 3) confirming that the disclosures for the 2006 and 2005 calendar year information in the original submission of the annual return are consistent with those in the syndicate annual accounts.
- C Hard copy of managing agent report (Appendix 2) and auditor report (Appendix 3) confirming that the disclosures for the 2006 calendar year information in the resubmitted electronic annual return are consistent with those in the syndicate annual accounts and, if not already submitted, hard copy of the resubmitted AR's AR1, AR2, AR5 and managing agent report and auditor report.

- D Hard copy of managing agent report (Appendix 2) and auditor report (Appendix 3) confirming that the disclosures for the 2006 and 2005 calendar year information in the resubmitted annual return are consistent with those in the syndicate annual accounts and, if not already submitted, hard copy of the resubmitted AR's AR1, AR2, AR5, AR190, AR290, managing agent report and auditor report.

SYNDICATE ANNUAL ACCOUNTS AND LLOYD'S ANNUAL RETURN

31 DECEMBER 2006

Syndicate No: _____
 Managing Agent: _____

Statement by the managing agent to the Council of Lloyd's

In accordance with Market bulletin Y.... dated 22 December "2006 syndicate report and accounts", we confirm that the disclosures in column C of AR1 and AR2 of the Annual Return as submitted to Lloyd's on ?? March 2007 agree with those for the 2006 profit and loss account and balance sheet of the syndicate annual accounts as at 31 December 2006.

[If applicable] Following a restatement of the 2005 comparative figures, the disclosures in column C of AR190 and AR290 of the Annual Return as submitted to Lloyd's on ?? March 2007 agree with those for the restated 2005 profit and loss account and balance sheet in the syndicate annual accounts as at 31 December 2006.

Signed _____ Finance Director*
 Name _____ (BLOCK CAPITALS)
 Signed _____ Director*
 Name _____ (BLOCK CAPITALS)
 On behalf of _____ Managing Agent
 Date _____

* The signatories must be different
 Date

Report of the independent auditors to the Council of Lloyd’s

We have reviewed the statement dated March 2007 by the managing agent.

This report is made solely to the addressees in accordance with Market Bulletin ref: Y... dated 22 December 2006 entitled “2006 syndicate report and accounts”. Our work has been undertaken so that we might state to the addressees of this report those matters which we are required to state in this report by the Instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressees of this report, for our work, for this report, or for the opinions we have formed.

Our opinion dated..... on the syndicate annual accounts was/was not qualified.

[Either] There are no additional matters referred to in that opinion which have not been referred to in our opinion dated on the 2006 [and 2005] Calendar year information in the Annual Return.

[or] There are additional matters referred to in that opinion which have not been referred to in our opinion dated on the 2006 [and 2005] Calendar year information in the Annual Return.

OPINION

In our opinion:

- a) the statement dated xx March 2007 has been properly prepared by the managing agent; and
- b) it was not unreasonable for the managing agent giving the statement to have made the statements therein.

Registered Auditor
 London
 Date

**SYNDICATE ANNUAL ACCOUNTS AND SYNDICATE UNDERWRITING YEAR
ACCOUNTS
31 DECEMBER 2006**

Syndicate No.

Managing Agent:

In respect of the above syndicate:

I confirm that the version of the 31 December 2006 syndicate annual accounts [and syndicate underwriting year accounts] submitted to Lloyd's in electronic PDF file format, via the Lloyd's Market Returns Website on or before 29 March 2007, is/are identical to the hardcopy signed version of the syndicate annual accounts [and syndicate underwriting year accounts] submitted to Lloyd's Market Reporting Department on or before 22 March 2007 for the annual accounts and 29 March 2007 for the underwriting accounts.

Signed.....

Director / Compliance Officer

Name

(Block capitals)

Date

This form is to be signed and dated by a Director or compliance officer and returned to Paul Tucknott, Market Reporting, 1986 Building/G5, 1 Lime Street, London, EC3M 7HA, by Thursday 29 March 2007.

**Disclosure points for consideration in the syndicate annual/underwriting year
accounts of
third party syndicates**

A number of comments have been received from members expressing concern that the levels of disclosure in the directors' reports, particularly in the syndicate underwriting year accounts, were varied across the market. While some provided levels of detail that were equivalent to those required under the old Syndicate Accounting Byelaw, others provided minimal information, making it difficult for members to assess the syndicate's performance. The following summarises the areas of concern and agents of third party syndicates are encouraged to consider each of these areas of disclosure and how to address them in their 2006 syndicate accounts.

Seven Year Summary

A key change for members is that not all syndicates included a Seven Year Summary. Although the final result as a percentage of capacity may be included in the text, other information relating to capacity utilisation, investment return etc are not easily comparable. Agents should therefore include a seven year summary, in similar format to that which was required under the old Syndicate Accounting Byelaw.

RITC

The data included in the RITC notes of some syndicates did not include outstanding claims and IBNR information, both on a gross and net basis as the Report & Accounts used to. Hence it is difficult for members to assess reserves. Agents should include such information, in similar format to that which was required under the old Syndicate Accounting Byelaw.

Members' Agents' Fees/ personal expenses

The treatment of members' agents' fees and personal expenses in the accounts differed across syndicates making it particularly difficult to analyse the final result. Personal expenses should be shown separately from syndicate expenses in the technical account and members' agents' fees should not be included therein, but rather should be disclosed as one of the items in the "amounts due to/from members" note.

Commentary on the Year

The standard of commentary on the closed year and open years was mixed. Managing agents should include the levels of disclosure that were included in the underwriter's report under the old Syndicate Accounting Byelaw and in particular:

- (a) a description of the business underwritten;

- (b) a review of the open years of account, including forecast result as well as the one just closed; and
- (c) an outline of current trading and likely future developments.

Brokerage

The new accounting format for the annual accounts includes brokerage within net operating expenses and this should be disclosed separately in the note on net operating expenses. This also applies to the syndicate underwriting year accounts where not all syndicates reported acquisition costs separately in that note. This makes it more difficult to compare the current closed year with previous closed years.

Analysis of underwriting result: Pure and Prior years

Now that premiums are normally stated gross of brokerage the comparison of pure and prior year data can be distorted if the underwriting result does not take account of the brokerage expenses. Any analysis of the underwriting result should take account of the brokerage expense.

Investment return

Investment return should be analysed by currency and the average fund and size disclosed for each currency, as under the old Syndicate Accounting Byelaw. This should be accompanied by an appropriate commentary.