

FROM: Head, Accounting Policy
LOCATION: 86/G5
EXTENSION: 5364
DATE: 18 December 2003
REFERENCE: Y3218
SUBJECT: LLOYD'S MOVE TO ANNUAL ACCOUNTING
SUBJECT AREA(S):
ATTACHMENTS:
ACTION POINTS: For information only
DEADLINE:

Further to the market bulletin of 19 November (reference Y3187), set out below is a summary of the main areas which are impacted by the move to annual accounting on 1 January 2005. Lloyd's will continue to work with and consult, as appropriate, the LMA Finance Committee and other interested parties to identify all practical issues which may arise and to ensure a smooth transition and minimise the potential costs to and complexity for the market. Additional information, as set out in the attached appendix, will be provided as the work on the implementation phase of the annual accounting project progresses throughout 2004.

Syndicate financial reporting

As advised in bulletin Y3187, from 2005 Lloyd's main market reporting regime will be on an annual accounting basis and syndicate accounts will be prepared on this basis under UK Generally Accepted Accounting Principles (GAAP). Examples of syndicate GAAP accounts are currently being prepared and will be made available to the market in the early part of next year.

The move to annual accounting may also potentially have a significant impact on overseas regulatory reporting. All Lloyd's regulatory and other reporting requirements in overseas jurisdictions are currently being reviewed to consider what, if any, amendments may be required. This review includes an assessment of the impact of the move to annual accounting on the content and form in which Lloyd's produces its overseas regulatory returns and other reporting requirements.

Profit distribution

Currently profits from syndicate premium trust funds (PTFs) are only distributed to members' personal reserve funds (PRFs) in the fourth year (at the earliest) after the relevant year of account is closed. Whilst there will be no change to the current reinsurance to close regime, managing agents will be permitted to make interim profit distributions at the end of each calendar year from syndicate level PTFs to the members' PRFs based on the syndicate's annual accounting result provided that they are satisfied that sufficient assets are retained in the syndicates' PTFs to cover the syndicates' liabilities and working capital requirements and subject to any Lloyd's requirements. Interim profit distributions will be subject to an audit review.

Solvency

Solvency rules will be amended for 2005 onwards to follow annual accounting principles (e.g. provisions for future reinsurance costs will be considered in conjunction with the assessment of unexpired risk provisions). The new rules will be subject to discussion with the FSA.

Coming-into-line

Consistent with continuous solvency, it is proposed that coming-into-line should become a six-monthly exercise from 2005 with members having to demonstrate that they are in line (i.e. adequately capitalised) at both 31 May and 30 November.

Members' taxation

The matters referred to above may impact on the taxation of Lloyd's members. Lloyd's is keeping the UK tax authorities informed of developments in these areas and will also review overseas tax arrangements as appropriate.

Any queries on this bulletin should be addressed to me on extension 5364 or by email to patricia.l.hakong@lloyds.com

This bulletin is being sent to all managing agents, members' agents, direct corporate members, recognised accountants and market associations.

Patricia Hakong

ANNUAL ACCOUNTING**2004 KEY DATES FOR PROVISION OF INFORMATION TO MARKET**

March 2004	Examples of syndicate GAAP accounts
March 2004	HM Treasury to issue consultative document on implementation of changes to Insurance Accounts Directive into UK law
June 2004	Amendments to byelaws and requirements
July to September 2004	Workshops on syndicate GAAP accounts
July 2004	Consultation on any proposed changes to overseas regulatory reporting requirements
July 2004	Publication of rules and guidance notes in relation to: <ul style="list-style-type: none"> • interim profit distributions • amended release test • solvency requirements and coming into line rules for 2005
During 2004	Update market on any changes to the tax regime for Lloyd's members as appropriate