

MARKET BULLETIN

From Head, Market Reporting (extn 5129)

Date 10 November 2005

Reference Y3669

Subject 2005 Annual Returns

Subject areas 2005 Annual Return, Solvency and Reserving Data and FSA Return –
Final forms and instructions

Attachments

Action points Final forms and instructions available for download

Deadlines Annual Return – Thursday 2 March 2006
Solvency and Reserving Data – Thursday 13 April 2006
FSA Return – Thursday 13 April 2006

The purpose of this bulletin is to advise you of the form of the 2005 year end annual return, solvency and reserving data (SRD) and FSA returns. The completion and deadlines for submission of these returns are prescribed under the Solvency and Reporting Byelaw (No. 13 of 1990) as amended and the Syndicate Accounting Byelaw (No. 18 of 1994) as amended as appropriate.

The reporting requirements are essentially those as set out in the Market Bulletins 'Core Market Returns 2005/2006', reference Y3494, dated 7 February 2005 and '2005 Year End Returns', reference Y3607, dated 29 July 2005.

2005 year end returns

The year end returns are collected in order that Lloyd's may fulfil its various requirements with regard to, among other things, the preparation of the market results, conduct of the members' solvency test, statutory reporting to the Financial Services Authority (FSA) and to enable corporate members to prepare their accounts in accordance with Schedule 9a of the Companies Act 1995. The purpose of each return is summarised below:

Annual return (due by 2 March 2006)

The annual return is collected in order to obtain the necessary information to be able to prepare the Lloyd's market results on an annual accounting basis in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 and the Lloyd's Sourcebook (LLD), conduct the members' solvency test as at 31 December 2005 and provide the Schedule 9a facility for corporate members. The annual return replaces the syndicate return, annual accounting return and supplementary syndicate return. The annual return includes an audited and unaudited section.

Syndicate Annual Reports

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (SI 2004 No. 3219) require that the Lloyd's market results must be an aggregation of syndicate annual reports. In practice, the Lloyd's market results will be prepared from an aggregation of the annual returns provided by managing agents. Managing agents will be asked to submit a confirmation with their syndicate annual report, to be signed by the compliance officer and another director, that the disclosures in the syndicate annual report are the same as those in the annual return. This confirmation will be provided in a separate bulletin to be issued shortly regarding syndicate annual report requirements.

Schedule 9a data

The data previously collected in the supplementary syndicate return, to assist corporate members to prepare their accounts in accordance with Schedule 9A of the Companies Act 1985 by enabling Lloyd's to operate a central facility for the provision of the corporate members' share of each syndicate, is now collected as part of the annual return (the 'Schedule 9a data'). A separate managing agent's report and audit report is required in respect of the Schedule 9a data, as defined in the annual return instructions. The Schedule 9a data is required on an annual accounting basis. A separate bulletin has been sent to corporate members and their advisers, inviting subscriptions to Lloyd's central Schedule 9a facility as at 31 December 2005.

Comparative information

In order to provide comparative information in an annual accounting format for use in the Lloyd's market results and central Schedule 9a facility, certain underwriting account, balance sheet, segmental and cash flow information in respect of the year ended 31 December 2004 is required, to be provided as a separate return. This comparative data must be based on the status of the syndicate as at 31 December 2004. A return is required for any syndicate fully reinsured to close during the year ended 31 December 2004; this return is the responsibility of the managing agent of the reinsuring syndicate. Lloyd's will contact each managing agent which manages a syndicate which accepted the reinsurance to close of any such syndicate later this year, to determine the specific reporting responsibilities. The audit arrangements for the comparative return are the same as for the return for the year ended 31 December 2005.

Solvency and reserving data (due by 13 April 2006)

The solvency and reserving data (SRD) is one of the key data sources used in the Individual Capital Assessment (ICA) review exercise and development of the ICA process. The SRD is a vital source of information for the Franchise and is a key input to the line of business and whole account benchmarking process. Furthermore, Lloyd's uses the SRD to produce market settlement statistics and in the monitoring of the market's reserves and results. The SRD does not need to be audited.

FSA return (due by 13 April 2006)

The FSA return provides the information needed to enable Lloyd's to produce the Lloyd's Return, which is the statutory filing made on behalf of the Lloyd's market to the FSA. The Lloyd's Return, which has to be filed with FSA six months after the year end, ie by 30 June 2006 for the 31 December 2005 return, is required under the terms of the LLD. The FSA return must be audited.

Forms and instructions

The forms and instructions for the various returns are available for download from the MSU market returns website.

Method of submission to Lloyd's

Each return must be submitted to Lloyd's electronically - via the Lloyd's Core Market Returns website - and in hard copy. The final 'live' systems for each return will be available in accordance with the following timetable:

Annual return	Monday 19 December 2005
SRD	Monday 19 December 2005
FSA return	Monday 23 January 2006

A 'near final' version of the submission technology, for market wide final testing and training, will be made available on the website around one month in advance of the 'live' release, in each case.

Agents should note that, in common with the QMR, preparation of the returns is at whole unit level not '000s. Generally, all income/asset items are to be entered as positives and expenditures/liabilities as negatives.

Audit

The audited section of the annual return (including the Schedule 9a data), and the whole of the FSA return, must all be audited by a registered accountant. The format of the audit reports for each return is currently being reviewed, and the final standard form of each audit report will be made available for download later this year, although drafts are now available for download.

Submission and deadlines

The deadlines for the submission of the returns are set out below:

Annual return	Thursday 2 March 2006
Solvency and reserving data	Thursday 13 April 2006
FSA return	Thursday 13 April 2006

The return must be submitted by 12.00 noon of the deadline dates.

The electronic return in respect of each managed syndicate must be submitted by the managing agent via the Lloyd's Core Market Returns website and the hard copy must be submitted to:

Manager
Market Reporting
Gallery 5
Lloyd's 1986 Building

A return will only be regarded as submitted when both the electronic and hard copy submissions have been made.

Late submissions

The deadlines have been prescribed under the Solvency and Reporting Byelaw (No 13 of 1990) as amended and the Syndicate Accounting Byelaw (No. 18 of 1994) as amended as appropriate. Failure to submit the return by the due deadline will be considered a breach of the appropriate byelaw. A resubmission of the return after the deadline will be considered a late submission.

Managing agents will be subject to disciplinary action and fines will be imposed if the return is submitted after the due deadline, in accordance with the following schedule:

Per return per syndicate – flat fine	£5,000
Per return per syndicate – additional fine per working day late	£1,000

Persistent delays will lead to further disciplinary action.

Workshops

In order to provide managing agents and auditors with further guidance regarding the year end returns, a series of workshops shall be held in December 2005 to go through the returns in detail and a review of the major issues. The details of these workshops were issued in the Market Bulletin 'Annual Return Workshops' reference Y3649 dated 24 October 2005.

Issues to note

Eligible asset and valuation of liabilities rules

The syndicate return must be prepared in accordance with the eligible asset and valuation of liabilities rules as at 31 December 2005. These rules are being published to the market separately.

Actuarial certification

The 2005 valuation of liabilities rules require managing agents to obtain an unqualified actuarial opinion on the reserves for solvency purposes for each syndicate year, or inform the Lloyd's Actuary as soon as is practicable if this is not possible, whereupon the reserves for solvency will be set by the Lloyd's Actuary. Failure to obtain an unqualified actuarial opinion in respect of a syndicate is viewed as being an extremely serious matter. Details of the procedures to be followed in this situation are set out in market bulletin Y2160 dated 8 November 1999. A copy of the opinion for non-life syndicates must be enclosed with the annual return on 2 March 2006, although the opinion does not form part of the return itself.

The requirements in respect of life actuarial reports are as stated in the 2005 valuation of liabilities rules. The life actuarial reports must be enclosed with the FSA return on 13 April 2006, although the report does not form part of the return itself.

Queries

Any queries concerning any aspect of the returns should be submitted via e-mail to Market Reporting (lloyds-MRD-ReturnQueries@lloyds.com). Queries will be responded to by the end of the following working day. Please contact me by e-mail (john.parry@lloyds.com) if a response remains outstanding at that time. Any queries regarding this bulletin should be addressed to Paul Tucknott on extension 6169, Robert Smith on extension 5459 or Paul Appleton on extension 6433.

A schedule of frequently asked questions will be made available to agents, as the market works through the various returns. This schedule will be issued through the market returns website. Should any fundamental restatement of preparation instruction be necessary, this will be notified by market bulletin.

This bulletin is being sent to the compliance officers of all managing agents and to recognised accountants.

John Parry