

MARKET BULLETIN

From Head, Market Reporting (extn 5129)

Date 13 October 2006

Reference Y3890

Subject 2006 Annual Returns

Subject areas

Attachments Forms and instructions

Action points

Deadlines

- Annual Return - Thursday 1 March 2007**
- Q4 QMR – Thursday 15 March 2007**
- Syndicate annual accounts confirmation – Monday 19 March 2007**
- Syndicate annual accounts – Thursday 22 March 2007**
- Solvency and reserving data – Thursday 26 April 2007**

The purpose of this bulletin is to advise you that the forms and instructions for the 2006 Annual Return, the SRD and the Q4 2006 QMR are available for download and to provide other detail relating to the 2006 year end. The scope and format of the FSA return is currently under discussion with the FSA. The forms and instructions for the FSA return will be issued as soon as these discussions are finalised.

Syndicate annual reports and the annual return

Syndicate annual reports must be completed on a UK GAAP basis. In preparing the syndicate annual reports managing agents may select any accounting policies that are acceptable under UK GAAP. The figures relating to accounts disclosure in the annual return must be completed on the same basis as it is imperative that the data in the annual return does agree with the disclosures in the 2006 syndicate annual accounts.

Forms and instructions for the annual return, SRD and Q4 QMR

There are no additional disclosure requirements for the 2006 year end compared to those for 2005.

The forms and instructions for the annual return, SRD and Q4 QMR are available for download from the Core Market Returns website or from the MSU web site. They represent the final information requirements for December 2006. We do anticipate that questions may be raised as agents test the software and familiarise themselves with the forms and instructions. As previously we will communicate any such questions and answers through weekly Frequently Asked Questions. To reduce the need to read two sets of documents we will reissue the instructions at the beginning of

January, highlighting any changes made to incorporate the questions and answers. Such amendments should be in the nature of clarifications.

Software and testing

The software for the annual return is now available in the User Acceptance Test (UAT) environment. A test group has been established with the LMA to provide formal feedback on testing but all agents are encouraged to take the opportunity to test and familiarise themselves with the software. If as a result of the testing you do have any issues on the forms and instructions please e-mail them to Market Reporting (lloyds-MRD-ReturnQueries@lloyds.com). Any queries specific to the software should be sent to ITGDataManagement@Lloyds.com.

The annual return will be available for testing until it is moved to the production environment on 7 November. The Q4 QMR will then be made available for testing from 9 November together with the SRD and FPP.

In respect of the performance of the production website we continue to encourage all agents to report any issues they have with the performance of the software and accessing the systems as soon as they arise. This will enable the DataManagement help desk to help resolve the issue earlier in the process and enable us to monitor service levels in real time and respond quickly as issues emerge. The contact details for the Data Management team 020 7327 5252 (e-mail: ITGDataManagement@Lloyds.com).

Annual return (due by 1 March 2007)

The annual return is collected in order to obtain the necessary information to be able to prepare the Lloyd's market results 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 2006 and provide the Schedule 9a facility for corporate members. The annual return includes an audited and unaudited section.

Syndicate Annual Reports (confirmation due 19 March 2007, accounts due 22 March 2007)

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 and it is critical that the annual return agrees to the annual accounts.

In 2007 Easter falls early in April and Lloyd's, therefore, expects to publish the 2006 Market Results on Thursday 29 March, a week earlier than the 2005 results were published this year. Lloyd's requires time to complete work agreeing the information before the market level figures can be finalised. To assist this process the timetable includes two deadlines relating to the annual accounts.

On Monday 19 March agents will be required to provide confirmation of the figures in the accounts: this will be a confirmation that the figures in the accounts agree to either:

- (a) the original annual return; or
- (b) a resubmission of the annual return with relevant amendments.

The syndicate annual accounts themselves must then be submitted to Lloyd's by Thursday 22 March. In the preparation of accounts for publishing we understand that the figures tend to be agreed before all disclosures are finalised hence the difference in dates.

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/will be] sent to corporate members and their advisers, inviting subscriptions to Lloyd's central Schedule 9a facility as at 31 December 2006.

Q4 QMR (due by 15 March 2007)

The Q4 QMR is required for additional information that is required by the Franchisor for analysis purposes but which does not need to be covered by an audit report. As noted in the instructions, a number of forms that were previously in the annual return have been moved to the QMR to give agents more time to compile and report the data. The return is also used to provide data for syndicates backed by third party capital to members' agents.

Solvency and reserving data (due by 26 April 2007)

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.

Audit

The audited section of the annual return (including the Schedule 9a data) must 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 later this year. It is anticipated that there should be no significant changes in these reports compared to last year end.

Submission and deadlines

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

Annual return	Thursday 1 March 2007
Q4 QMR	Thursday 15 March 2007
Confirmation of figures in syndicate annual accounts	Monday 19 March
Syndicate annual report and accounts	Thursday 22 March
Solvency and reserving data	Thursday 26 April

These dates are as advised in market bulletin Y3840, 2006 year-end timetable.

Each of the above 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, where appropriate, 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. 8 of 2005) 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.

Items to note

Cut-off for data completion

Lloyd's has no absolute requirement that all information must report entries precisely as at the year end date. Provided that agents agree suitable timings with their auditors, which enable annual accounts to be prepared in accordance with UK GAAP and present a true and fair view of the results and state of affairs of the syndicate, data may be prepared based on an earlier cut-off date than the year end. For example, written premium estimates and paid claims may be cut-off earlier than the balance sheet date provided this is agreed with the auditors and after consultation with the independent actuaries. For quarterly reporting, Lloyd's requires that the information is prepared on a consistent basis. i.e. we would not accept Q2 data based on, say, May management accounts if at year end, agents prepare equivalent figures on December accounts, since this would not provide a true underlying quarterly development through the year.

Exchange rates

For completeness, Lloyd's confirms that the year end returns should be based on transaction, average and closing rates, as applicable, as determined by the managing agency. Lloyd's will issue a Market Bulletin at the beginning of January providing suggested rates of exchange as assistance to agents, but they are not mandatory. With respect to non-monetary items in the balance sheet, Lloyd's confirms that these should be reported in accordance with the managing agents' accounting policies and it is not mandatory to convert these items at closing rates. For solvency information, all assets and liabilities are required to be converted at closing rates.

Post Balance Sheet Events

The annual return should be prepared based on all information available to the agency at the date of signing the return. It should be prepared in accordance with UK GAAP as applied for each syndicate, including the guidance within the ABI SORP regarding post balance events not capable of prediction at the balance sheet date. As noted above the deadlines for submission of the Annual Return and the syndicate annual report and accounts are 1 and 22 March. The syndicate annual accounts may be submitted earlier. Where adjusting balance sheet events do occur and require restatement, a full resubmission of the annual return will be required.

We confirm that where the audited syndicate annual accounts are submitted prior to 22 March, no resubmission is required for information received after the submission of the accounts and the annual return.

Restatement of December 2005 comparatives

The Annual Return includes a number of forms that only require completion if there has been a change of accounting policies for the 31 December 2006 annual accounts compared to those used at 31 December 2005. Where there is such a change and the application of the new accounting policies to the prior period results in a material change to the amounts previously reported then the restatement forms must be completed with the restated figures.

FRSs 23, 24, 25 and 26

Agents are again reminded of the need to consider whether the circumstances of their syndicate(s) are such that they should adopt FRSs 23 to 26.

Under UK GAAP, an unlisted entity using accounting policies that are consistent with the fair value accounting rules set out in the Companies Act 1985 must apply, for accounting periods beginning on or after 1 January 2006, a package of standards consisting of:

- FRS 23, the effects of changes in foreign exchange rates
- FRS 24, Financial Reporting in Hyperinflationary economies
- FRS 25, Financial instruments: disclosure and presentation
- FRS 26, Financial instruments: Measurement.

Whether or not a syndicate adopts this package of standards (they must be adopted as a package and not cherry picked) is a matter for the managing agent to decide in prior consultation with the syndicate auditors. Lloyd's will not provide any instruction on whether this package of standards applies to any syndicate for the interim return. The decision will depend on the circumstances of the syndicate. For instance, in FRS 26, para N10 states:

Similarly, for insurance entities under Schedule 9A, the current value rules permit or require fair value accounting through the profit and loss account for investments and certain other assets. Where an insurance entity applies fair value accounting only to those financial instruments for which it is specifically permitted under these rules, it does not fall within the scope of FRS 26. However, the standard will apply to insurance entities that use fair value accounting through profit and loss account for any derivatives, or for any other financial instruments that are not specifically covered by the current value rules in Schedule 9A

Workshops

There are three dates for the workshops covering the year-end returns as follows:

Date	Venue	Time
Wednesday 29 November	Old Library	0930 to 1230
Tuesday 4 December	Old Library	1400 to 1700
Thursday 7 December	Lloyd's Training Room 7	0930 to 1230

Please complete, by 3 November, the form at Appendix 1 if you wish to attend. Accommodation at each of the workshops is limited and therefore there will be places for two people from each **active** managing agent or audit firm for the workshop. Places on the workshops will be allocated on a "first come, first served" basis. Agents/auditors delaying responding to this bulletin may therefore find that their delegates do not have a choice as to which session they attend.

If delegates need a pass to enter the 1986 Building please tick the appropriate box on the booking form.

If you do not wish to attend the workshops but do want to receive the presentation material, then please complete the final section of the attached booking sheet.

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.

As noted above, 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

FAX

To Janice Sinclair (Market Reporting)

Fax No: 020 7327 6178

From: _____

Managing Agent/Auditor: _____

Telephone: _____

Fax: _____

E-mail: _____

2006 Year-end workshops

Delegate name	Preferred date (please tick one per delegate)			Please tick if Lloyd's pass required
	29 Nov.	4 Dec	7 Dec.	
1.				
2.				

If you do not wish to attend any of these workshops but would like to receive the presentation material please tick this box	
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Please return completed form to Janice Sinclair by **Friday 3 November**.