

MARKET BULLETIN

REF: Y4219

Title	2008 year end returns
Purpose	To inform managing agents and auditors that the instructions for the year end returns are available for download and provide additional information
Type	Scheduled
From	John Parry, Head, Market Finance Contact details: 020 7327 5129
Date	16 December 2008
Deadline	Q4 QMA, incorporating the Annual Return – 26 February 2009 Q4 QMB – 5 March 2009

Related links

The main purpose of this bulletin is to advise managing agents and syndicate auditors that the forms and instructions for the Quarterly Monitoring Return (Parts A and B) are available for download from either the Core Market Returns website or from the Market Services market returns website. The instructions take account of FAQs issued last year and of comments from managing agents.

In market bulletin Y4189 we provided the timetable for the 2008 year end returns. This included a requirement that QMB800 should be submitted at the same time as the QMA, ie 26 February 2009. Following feedback from agents we have agreed to rescind this additional requirement. Therefore the audited QMA must be submitted by 26 February but the unaudited QMB, including QMB800, need only be submitted by 5 March.

Some changes have been made to the instructions since the drafts were issued to managing agents. A summary of the changes is attached as the Appendix.

Additional information on the year-end returns is given below.

Software

The software for the QMA and the QMB is in the production environment. This version does not have the final wording of the managing agent's report in QMA910. The updated wording will be added to QMA910 later: there will be no impact on any returns that agents have already set up, ie you will not have to set up a new return just to pick up the revised wording.

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 Data Management help desk to 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 phone number for the Data Management team is 020 7327 5252 (e-mail: ITGDataManagement@Lloyds.com).

Schedule 9A data

To assist corporate members to prepare their accounts in accordance with Schedule 9A of the Companies Act 1985 Lloyds' will again be operating a central facility for the provision of the corporate members' share of each syndicate. A separate managing agent's report and audit report is required in respect of the Schedule 9A data, as defined in the instructions. A separate bulletin will be issued before the end of the month to corporate members and their advisers, inviting subscriptions to Lloyd's central Schedule 9A facility as at 31 December 2008.

Audit

The audited section of the QMA (including the Schedule 9A data) must be audited by a registered accountant. The standard wording for the audit reports is attached as Appendix 6 to the instructions. If a firm of auditors intends to use an alternative wording for its audit reports, it would be helpful if a draft of the alternative wording could be e-mailed to lloyds-MRD-ReturnQueries@lloyds.com in advance of the submission deadline.

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 all assets and liabilities are required to be converted at closing rates. The impact of translating non-monetary items to closing rates for solvency should be reported on line 16 of QMA223 using the description "retranslation of non-monetary items". Any other solvency adjustments relating to exchange movements should be reported as a separate entry in line 16. In addition, please provide a form related comment to confirm where the retranslation of non-monetary items has been reported on QMA001, ie in the technical account, non-technical account or STRGL.

Concentration limits for solvency

Lloyd's has kept under review the advice given on concentration limits that apply with respect to Fannie Mae (FNMA) and Freddie Mac (FHLMC). Following the actions of the Federal Housing Finance Agency, placing these entities in conservatorship, the classification of these securities for solvency purposes remains unclear. The two areas of uncertainty are whether securities issued by them now constitute 'approved securities' and / or whether they can be considered as securities issued / guaranteed by government of Zone A countries. The level of exposure to these entities which is admissible for solvency purposes is dependent on their status in this respect. For information, Lloyd's is managing its exposures centrally within the 5% limit applied to non-approved counterparties. This is the most conservative approach that could be adopted and we consider that is

appropriate in view of the uncertainty surrounding the classification of securities issued by FNMA and FHLMC. Ultimately, however, it is for managing agents, and their auditors, to determine how such securities should be treated. Whatever their conclusion, Lloyd's would expect managing agents to be prudent in their use of these, or any other securities. This paragraph is for guidance only.

A similar treatment should apply for government guaranteed issues of corporate bonds etc, eg the recent issues by UK and foreign banks.

For the purposes of monitoring Lloyd's overall exposure to these securities, we require disclosure in the QMA where any syndicate has in excess of 5% exposure to any of these institutions. Further, in completing QMA219u (which excludes Government securities from the reporting on this form) these assets should be considered as corporate securities in order that they are considered within the disclosures of the largest exposures.

Restatement of December 2007 comparatives

The Q4 QMA includes a number of forms that only require completion if there has been a change of accounting policies for the 31 December 2008 annual accounts compared to those used at 31 December 2007. 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.

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 sheet events not capable of prediction at the balance sheet date. The deadlines for submission of the QMA and the syndicate annual report and accounts are 26 February and 18 March respectively. The syndicate annual accounts may be submitted earlier. Where adjusting balance sheet events do occur and require restatement, a full resubmission of the QMA will be required.

We confirm that where the audited syndicate annual accounts are submitted prior to 18 March, no resubmission is required for information received after the submission of the accounts and the QMA.

The SRD return

The forms and instructions for the SRD return will be made available for download in the next few weeks.

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 or robert.smith@lloyds.com) if a response remains outstanding at that time.

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

John Parry

Appendix

Summary of changes to the instructions since the draft issued in August

Section in instructions	Summary of change
1.2.1 Reporting timetable	Additional information on Qs1,2 and 3 but no new requirements
2.1 QMR010 control page	Additional paragraph highlighting to whom we will send queries on the return
2.4 QMA102 Cumulative P&L	Note on impact to this form of the change to QMA110u lines 27 and 28. Also new paragraph on agreement between column E and the underwriting year accounts and table on agreement with DD files.
2.7 QMB109 Result forecast	Note on impact to this form of the change to QMA110u lines 27 and 28.
2.8 QMA110u Pure year P&L	Line 28 to now report service company acquisition costs, business arrangement fees to be reported on line 27. Paragraphs on lines 27 to 29 have been expanded to provide more information.
2.10 QMB120 Forecast result to ultimate	Note on impact to this form of the change to QMA110u lines 27 and 28.
2.12 QMA002 Summary balance sheet	Additional requirement for those syndicates that do not complete the currency columns of QMA360, to report as a comment, the US\$ share of the balance due to members.
2.18 QMB212 Concentration of investment holdings	Form has been moved to the all quarters section but no change to reporting requirements on the form itself
2.14 QMA201 Balance sheet assets	If there is an adjustment to the amount charged in the year for members' subscriptions and Central Fund contributions, it is suggested that the balance be reported at line 58, other prepayments and accrued income.
2.20 QMA219u Investment analysis	Form has been moved to the all quarters section (form will change at Q1). At Q4 need to include form related note if syndicate has exposure to Fannie Mae, Freddie Mac or government guaranteed issues of corporate bonds in excess of 5% to any of these institutions.
2.22 QMA360 Analysis of results and cash calls	Additional note on line 4c, sale/purchase of currency
2.35 QMR990 Comments	Additional paragraph on comments being

	subject to audit
4.14 QMA655u Acquisition costs	Form moved from annual to required at Q2 and Q4. Form and instructions amended to reflect the change to lines 27 and 28 in QMA110u.
5.9 QMA203 & QMA206 Schedule 9A balance sheet	Notes highlighting need for all life syndicates to complete these forms and that the cells for balance due from members are data entry cells.
5.11 QMA223 Summary of technical provisions	Retranslation of non-monetary items to be reported separately in line 16: comment to be provided in QMA990 on where this is reported in QMA001.
5.12 QMA250 LATF business	Debtor LCA to be reported gross of creditor LCA balances.
5.24 to 26 QMA541 to QMA543 Major reinsurers/cedants	Second paragraph notes that column B to be based on written, not earned premium. Paragraphs on technical provisions amended to refer to claims provisions only, ie excluding unearned premium. These points remain subject to verification by the FSA.
5.28 QMA630 Analysis of RITC premium	Note on how syndicate/year should be completed if the syndicate is being closed into Centrewrite Limited.
6.1 QMA910 managing agent report	Amended to incorporate a definition of "annual return" for use in QMA910 and QMA930. Also life syndicates need to ensure their actuary statement is prepared in advance of the submission of the QMA.
6.3 QMA921 LATF report	Additional paragraph confirming that a QMA921 is not required for a year that has no LATF dollar business.
6.5 QMA930 Auditor report	Amended for the definition of "annual return" in QMA910.
7.2 Hard copy submission	Hard copies to be submitted to the "tenants and couriers" office, not gallery 6.
7.6 Schedule 9A data	Additional paragraph highlighting the need to check the 9A boxes on QMA101.
Appendices	Managing agent checklist and standard report wordings added as appendices 5 and 6