

# MARKET BULLETIN

REF: Y4227

<b>Title</b>	<b>2008 SYNDICATE REPORT AND ACCOUNTS</b>
<b>Purpose</b>	To set out the annual deadlines and filing requirements relating to the submission of syndicate annual accounts and syndicate underwriting year accounts
<b>Type</b>	Scheduled
<b>From</b>	Robert Smith, Manager, UK Reporting, Market Finance Contact details: 020 7327 5459 <a href="mailto:robert.smith@lloyds.com">robert.smith@lloyds.com</a>
<b>Date</b>	22 December 2008
<b>Deadline</b>	<b>Wednesday 18 March 2009 – filing of syndicate annual accounts with Lloyd's together with agent and auditor confirmation of agreement with Annual Return</b> <b>Thursday 26 March 2009 - filing of underwriting year accounts with Lloyd's and provision of pdf copies</b> <b>Tuesday 31 March 2009 – dispatch of syndicate annual accounts and syndicate underwriting year accounts to members' agents / capital providers</b>

## Related links

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## 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
- (c) requirements for the provision of a PDF copy of the accounts;
- (d) information on disclosures in the syndicate annual and underwriting accounts; and
- (e) the requirement that the members of each syndicate must appoint the auditor of the 31 December 2009 syndicate annual and underwriting accounts.

## Consistency of syndicate annual accounts with the annual returns

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 (the Regulations 2004) Lloyd's must prepare aggregate accounts which are an aggregation of syndicate annual accounts. The aggregate results will be prepared from the syndicate accounts information in the Annual Return, as per the instructions to the

Q4 2008 QMA return, submitted by Thursday 26 February 2009. Lloyd's expects to publish the market results on Tuesday 24 March and therefore we do need to have received the syndicate annual accounts 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 Wednesday 18 March 2009, the syndicate annual accounts together with a confirmation, to be signed by the finance director and another director, that the 2008 year-end disclosures in the syndicate annual accounts agree with those in the Annual Return (as originally submitted or as resubmitted). If the 2007 comparative figures in the 31 December 2008 accounts have been restated from those reported in the 31 December 2007 accounts then the confirmation must also state that the 2007 comparative disclosures in the syndicate annual accounts agree with those in the comparative forms of the 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). The auditor confirmation must also be submitted by 18 March.

The confirmation relates to agreement of the disclosures in the:

- (a) profit and loss account with those in column C of form QMA001;
- (b) balance sheet with column C of the QMA002;
- (c) notes to the accounts where the disclosures are reflected in column C of QMA001 and QMA002 and also in QMA138.

Point (c) is a reminder of the need to review notes such as the split of debtors and creditors between less and greater than one year. 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 QMA001, 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 QMA001. Where the balance sheet of a life syndicate has long term business provisions, it will be sufficient to agree those figures to QMA002 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 2008 (regulation 3 of the Regulations 2004). Furthermore, they must also prepare syndicate underwriting year accounts for all syndicates that they manage at 31 December 2008 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).

Monday 31 March 2009 is the date by which managing agents must dispatch their syndicate annual accounts and, where applicable, syndicate underwriting year accounts to syndicate members or members' agents on their behalf. However, earlier deadlines have been set for dispatch to Lloyd's.

Wednesday 18 March 2009 has been prescribed as the date by which managing agents must dispatch their syndicate annual accounts to Lloyd's and Thursday 26 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:

Abdul Motalib  
Market Finance  
Gallery 5  
Lloyd's 1986 Building  
One Lime Street  
London EC3M 7HA

There is no reception area on Gallery 5 so hard copies that are to be delivered by hand must be taken to the "tenants and couriers" office which is located on the lower ground floor on the left side of the Lloyd's building when viewed from Lime Street, just before Corney & Barrow.

Managing agents must ensure that both copies of each set of accounts submitted to Lloyd's contain 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 Market Services 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 26 March 2009.

Managing agents are reminded that a copy of the syndicate annual accounts and syndicate underwriting year accounts prepared in respect of a closed year of account must be submitted to the FSA by no later than 30 June 2009 (regulation 5(2) of the Regulations 2004). Lloyd's will submit 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 26 March 2009, the form attached at Appendix 4 which verifies that the electronic PDF file version of the 31 December 2008 syndicate annual report and accounts submitted via the MSU Market Returns website is identical to the signed hardcopy submitted to Market Finance. 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**

As noted in the equivalent market bulletin for the 2006 and 2007 year ends, the requirement for the enhanced business review (Section 234ZZB of the Companies Act 1985) and disclosure of information to auditors (Section 234ZA of the Companies Act 1985) are to be applied to the accounts of Lloyd's syndicates.

We have previously also referred to concerns that capital providers have had with the level of disclosures in the underwriting year accounts and asked agents of syndicates backed by third party capital to address those concerns by providing certain specified additional information.

Attached as Appendix 5 is a note on the additional areas of disclosure. 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 2008 reports.

### **Appointment of the syndicate auditors for 2009 and post**

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") replace the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and apply to financial years beginning on or after 1 January 2009.

The 2008 Regulations require that the auditor of the syndicate annual accounts and underwriting year accounts be appointed by the members of the syndicate (the 2008 Regulations, Schedule 1, Part 3, paragraph 13). This requirement has been introduced to comply with the Audit Directive requirement for independence of the auditor (Article 37). Accordingly, the auditors of the syndicate annual accounts for the 2009 year end will need to be appointed by members of the syndicate at a 2009 AGM, the meeting to be held by 28 April 2009. If an auditor for the 2009 year end accounts is not appointed in accordance with paragraph 13(1) of the 2008 Regulations then the managing agent must notify the FSA and they will appoint an auditor (please see paragraph 13 of Schedule 1 to the 2008 Regulations).

After this first appointment and going forward, there are provisions for the deemed reappointment of the auditors. This means that where no auditor is appointed within the "period for appointing auditors", ie by 28 April, an auditor in office immediately before that date will be deemed to be reappointed unless Lloyd's byelaws require actual reappointment, the deemed reappointment is prevented by members or the members have resolved that the auditor should not be reappointed (the 2008 Regulations, Schedule 1, Part 3, paragraph 14(2)).

Queries on this bulletin should be e-mailed to ([lloyds-MRD-ReturnQueries@lloyds.com](mailto:lloyds-MRD-ReturnQueries@lloyds.com)).

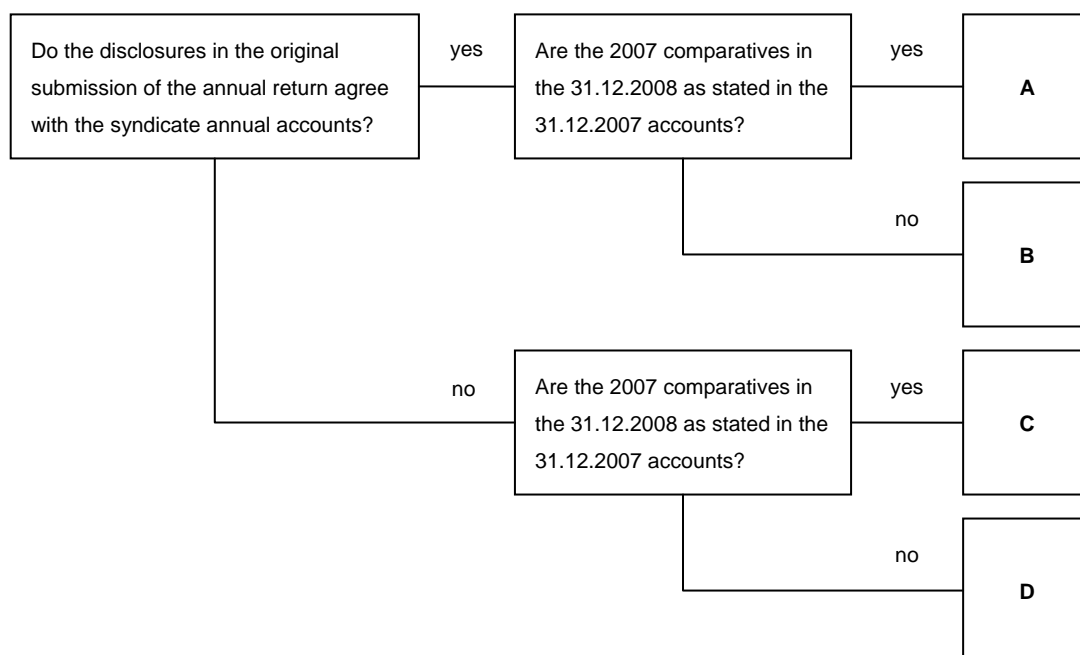
Robert Smith

**Confirmation of consistency between syndicate annual accounts and the 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 accounts; and
- ii) the 2007 comparative figures are being restated in the 31 December 2008 syndicate annual accounts from the figures disclosed in the syndicate annual accounts as at 31 December 2007.

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 2008 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 2008 and 2007 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 2008 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 QMA 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 2008 and 2007 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 QMA managing agent report and auditor report.

**SYNDICATE ANNUAL ACCOUNTS AND LLOYD’S ANNUAL RETURN**

**31 DECEMBER 2008**

Syndicate No: \_\_\_\_\_  
 Managing Agent: \_\_\_\_\_

**Statement by the managing agent to the Council of Lloyd’s**

In accordance with Market bulletin Yxxxx dated 19 December 2008, “2008 Syndicate Report and Accounts”, we confirm that the disclosures in column C of QMA001 and QMA002 of the Annual Return as submitted to Lloyd’s on ... [February/March] 2009 agree with those for the 2008 profit and loss account, balance sheet, and related notes of the syndicate annual accounts as at 31 December 2008.

[If applicable] Following a restatement of the 2007 comparative figures, the disclosures in column C of QMA190 and QMA290 of the Annual Return as submitted to Lloyd’s on ... [February/March] 2009 agree with those for the restated 2007 profit and loss account and balance sheet in the syndicate annual accounts as at 31 December 2008.

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

\* The signatories must be different  
 Date

**Appendix 3**

**Report of the independent auditors to the Council of Lloyd's**

We have reviewed the statement dated ..... March 2009 by the managing agent.

This report is made solely to the addressees in accordance with Market Bulletin ref: Yxxxx dated 19 December 2008 entitled "2008 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 2008 [and 2007] 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 2008 [and 2007] Calendar year information in the Annual Return.

**OPINION**

In our opinion:

- a) the statement dated ... March 2009 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 2008**

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Syndicate No. ....

Managing Agent: .....

In respect of the above syndicate:

I confirm that the version of the 31 December 2008 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 26 March 2009, is/are identical to the hardcopy signed version of the syndicate annual accounts [and syndicate underwriting year accounts] submitted to Lloyd's Market Finance Department on or before 18 March 2009 for the annual accounts and 26 March 2009 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 Abdul Motalib, Market Finance, 1986 Building/G5, 1 Lime Street, London, EC3M 7HA, by Thursday 26 March 2009.**

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

We have continued to receive comments from members expressing concern that the levels of disclosure in the syndicate underwriting year accounts were varied across the market. Many agents provided detailed disclosures but others provided minimal information, making it difficult for members to compare their syndicates' performance. The following summarises the areas of concern and agents of syndicates with third party capital are encouraged to consider each of these areas of disclosure and how to address them in their 2008 syndicate accounts.

**RITC**

The data included in the RITC notes of some syndicates did not include an analysis of 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.

Last year, the majority of syndicates provided information on the 'net notified outstanding claims' however minimal disclosure was provided with regards to the IBNR information.

Below is a standard example of best practice disclosure:

	Reported:	IBNR:	Total:
	£000	£000	£000
Gross reinsurance to close premium payable	xxx,xxx	xxx,xxx	xxx,xxx
Reinsurance Recoveries Anticipated	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Reinsurance to close premium payable, net of reinsurance	xxx,xxx	xxx,xxx	xxx,xxx

**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

Where this commentary is covered in the annual accounts, the underwriting accounts should have a note cross referring.

**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. See note below for example of best practice disclosure.

**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.

Below is a standard example of best practice disclosure:

	2005 & prior years of account £'000	2006 pure years of account £'000	<b>Total 2006 £'000 £'000</b>
Technical account balance before allocated investment return & net operating expenses	x,xxx	x,xxx	<b>x,xxx</b>
Brokerage and commission on gross premium	(xxx)	(xxx)	<b>(xxx)</b>
	x,xxx	x,xxx	<b>x,xxx</b>

**Exchange rate movement**

Given the significant exchange rate movement seen this year, it would be helpful to provide separate disclosure of the exchange rate impact upon the bottom line profit.

**Investment return**

It may be helpful for investment return to be analysed by currency and the average fund and size disclosed for each currency, as under the old Syndicate Accounting Byelaw.

Below is an example of a best practice disclosure in relation to the figures, based on calendar year performance. This should be accompanied by an appropriate commentary sufficient to enable capital providers to come to an informed judgment on how the managing agent has performed in this area. This should include how the fund has performed in relation to relevant benchmarks that are used and a general commentary from the fund manager(s) together with details of who has acted as managers and custodians of the funds in the year.

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Income from investments	<b>xx,xxx</b>	xx,xxx
gains on the realisation of investments	<b>xx,xxx</b>	xx,xxx
	<b>xx,xxx</b>	xx,xxx
<b>Average amount of syndicate funds available for investment during year:</b>	<b>000's</b>	000's
Sterling	<b>xx,xxx</b>	xx,xxx
Euro	<b>xx,xxx</b>	xx,xxx
US dollar	<b>xx,xxx</b>	xx,xxx
Canadian dollar	<b>xx,xxx</b>	xx,xxx
Combined in sterling	<b>xx,xxx</b>	xx,xxx
Gross aggregate investment return for the calendar year In sterling	<b>xx,xxx</b>	xx,xxx
<b>Gross calendar year investment yield:</b>		
Sterling	<b>x.x%</b>	x.x%
Euro	<b>x.x%</b>	x.x%
US dollar	<b>x.x%</b>	x.x%
Canadian dollar	<b>x.x%</b>	x.x%
Combined	<b>x.x%</b>	x.x%

In the light of the recent financial turmoil and the impact this has had on closing compared to 1 January investment values it would also be appropriate to analyse the size and composition of the fund at the year end, by currency and by major assets class (eg the proportion in equities, corporate bonds etc.)

Where this commentary is covered in the annual accounts, the underwriting accounts should have a note cross referring.

**Seven Year Summary**

Not all syndicates included a Seven Year Summary. Although the final result as a percentage of capacity may have been included in the text, other information relating to capacity utilisation, investment return etc were not easily comparable. Agents should therefore include a seven (or fewer where the syndicate only commenced underwriting in 2001 or post) year summary, in similar format to that which was required under the old Syndicate Accounting Byelaw.