MARKET BULLETIN

REF: Y4856

Title	Changes to UK GAAP – guidance for managing agents
Purpose	To provide managing agents with guidance on the forthcoming changes to UK GAAP, for particular reference when preparing syndicate annual reports and QMA
Type	Scheduled
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Deadline	None – Changes to UK GAAP apply from 2015, with comparatives required for 2014
Related links	

You may be aware that there are changes to UK GAAP being implemented by the UK Financial Reporting Council (FRC) with effect from 2015. These changes will apply to the preparation of syndicate annual reports by managing agents, and will also impact the requirements of the Quarterly Monitoring Return Part A (QMA). This includes the provision of comparative data for 2014.

The purpose of this bulletin is to provide you with guidance with respect to the impact of these changes, attached at Annex 1. The guidance contains a summary of the main changes, and recommended actions for managing agents.

You should, if you have not already done so, discuss with your syndicate auditors the impact that the 'new' UK GAAP shall have on syndicate reporting, as soon as possible, and build this into your planning process.

Queries
Any queries or comments on this bulletin should be submitted via e-mail to George Maina (george.maina@lloyds.com) or Paul Appleton (paul.appleton@lloyds.com).

Paul Appleton

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Annex 1

CHANGES TO UK GAAP

GUIDANCE TO MANAGING AGENTS

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Section 1 - Background

1.1 Changes to UK GAAP

1.1.1 Since 2002, the UK Accounting Standards Board (ASB), and subsequently the Financial Reporting Council (FRC) have been conducting a review of UK GAAP, with a view to updating and rationalising it. This work has culminated in the publication of three new Financial Reporting Standards (FRS): FRS 100 'Application of Financial Reporting Requirements', FRS 101 'Reduced Disclosure Framework', and FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland'.

1.1.2 FRS 101 provides a reduced disclosure framework for qualifying subsidiaries of entities otherwise reporting under full EU endorsed IFRS. It is accordingly not relevant to the circumstances of Lloyd's syndicates.

1.1.3 Given the specialist nature of the industry, the FRC has developed a separate standard for insurance contracts, FRS 103.

1.1.4 These requirements replace the existing UK GAAP for accounting periods beginning on or after 1 January 2015.

1.1.5 A link to the FRC's 'The Future of UK GAAP' project page is available here.

1.2 FRS 102 - 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland'

1.2.1 The purpose of FRS 102 is to replace virtually all of the existing set of UK GAAP (although not for accounting for insurance contracts) and provide the revised accounting requirements in a single volume of around 300 pages, in a consistent and updated text.

1.2.2 FRS 102 is based on International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) issued in 2009 and is designed for all UK entities which are not applying EU-adopted IFRS, FRS 101 or the Financial Reporting Standard for Smaller Entities (FRSSE).

1.2.3 Given that FRS 102 is based on IFRS for SMEs, the basis of accounting is generally similar to current UK GAAP (which has adopted much of IFRS over time), although there are changes to accounting options regarding foreign currency and certain additional disclosure requirements regarding capital and investments. These are considered further in Section 3 of this guidance.

1.3 FRS 103 – 'Insurance Contracts'

1.3.1 The FRC has set a separate standard for accounting for insurance contracts (FRS 103), which is based on the current IFRS 4 'Insurance Contracts'. However, given the particular reporting requirements for life insurers, elements of FRS 27 are also included. Furthermore, some sections from the current ABI SORP on Insurance Contracts have been reflected in the standard.

1.3.2 The FRC's approach to FRS 103 is that it should enable insurers using UK GAAP to broadly continue to account as they do currently. **However there is a significant change in that all assets and liabilities arising from an insurance contract - including unearned premium reserve (UPR) and deferred acquisition costs (DAC) - are now treated as monetary items.** This is discussed further in section 4 below.

1.3.3 In addition there are some additional disclosure requirements relating to recognised amounts relating to insurance contracts and the requirement to show claims development. The detail of this is also considered in section 4.

Section 2 – Requirements for managing agents – general

2.1 Basis of preparation of syndicate annual reports

2.1.1 Currently, managing agents must prepare an annual report for each Lloyd's syndicate using UK GAAP in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations'). This position will continue for the foreseeable future and there are no plans for Lloyd's to adopt full IFRS for the syndicate accounts. Therefore, and in order to ensure that a consistent approach is applied by managing agents for the purpose of Lloyd's Aggregate Accounts (see 2.2.1 below):

- For the 2014 year end, syndicate accounts must be prepared in accordance with current UK GAAP; and

- For the 2015 year end, syndicate accounts must be prepared in accordance with the revised UK GAAP ie in particular FRS 102 and FRS 103. This will require the restatement of 2014 comparatives due to the impact of the reclassification of UPR and DAC as monetary items as well as potentially due to changes in the treatment of foreign currency, and will require the additional disclosures arising from the introduction of FRS 102 and FRS 103. The detail of these areas is considered further in Sections 3 and 4.

2.2 Impact on Lloyd's Society accounts and additional data collection from managing agents

2.2.1 The Lloyd's Aggregate Accounts, prepared by the Corporation, are required in accordance with the Regulations to be an aggregation of the relevant financial information reported in the syndicate annual reports. In practice the Aggregate Accounts are prepared from returns submitted via the Core Market Returns (CMR) system in respect of each syndicate, which are certified by the managing agent as being the same numbers as reported in the syndicate annual report.

2.2.2 Accordingly, it will be necessary to collect this additional data from syndicates via the CMR system to enable the Aggregate Accounts to comply with the revised requirements:

- Additional analysis on the fair value hierarchy of financial investments held as required by FRS 102

- Additional reconciliations of the movement on key items as required by FRS 103

- Claims development triangles by underwriting year as required by FRS 103

- Revised comparatives for 2014 to collect changes arising from the treatment of foreign currency in accordance with FRS 102, reclassification of UPR and DAC as monetary items in accordance with FRS 103 and movement on key items.

Revised comparatives as described above shall also be needed for the purpose of the 2015 interim and annual Lloyd's Market Results, which are also prepared under UK GAAP.

Amendments to the CMR system to enable the collection of this data will be made by Lloyd's and made available for agent user acceptance testing in Spring 2015. Lloyd's shall collect the 2014 interim comparative information with the 30 June 2015 QMAs, and the 2014 full year comparative information with the 31 December 2015 QMAs.

2.3 Result for the 2012 year of account

2.3.1 The result for the 2012 year of account as at 36 months, prepared for the purpose of syndicate 'three year' underwriting accounts and for the purpose of distribution to members, will be prepared in accordance with current UK GAAP.

2.3.2 The 2012 year of account result will not be 'restated' in the comparative column of 2015 year end 'three year' underwriting accounts and there will be no subsequent change to distribution in respect of the 2012 year of account (except in the case of a run-off year, see below). Any revaluation of insurance contract items reflected in the RITC paid for the 2012 year of account shall be accounted for in the reinsuring syndicate year.

2.3.3 Where the 2012 year of account goes into run-off at 31 December 2014, the revaluation of insurance contracts reflected in the provision to meet all known and unknown future liabilities shall be reflected in the 'Year 4' movement on the 2012 run-off year.

2.4 Accounts for corporate members

2.4.1 Most classes of Lloyd's corporate members are required to prepare their accounts in accordance with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. In the case of corporate members that are aligned or dedicated capital providers, they may, as now, determine their accounting policies in accordance with those of the holding company or group, and shall prepare their accounts accordingly. Lloyd's shall continue to provide the 'central Schedule 3 facility', primarily intended to help corporate members participating as spread members – typically private limited members, Namecos etc. The outputs provided to subscribers to this facility will, from the 2015 year end, include the additional quantitative information required under FRS 102 and FRS 103 as collected from syndicates in the QMAs, as described above. This will also include revised comparative data for the 2014 year end, to be provided with the 2015 year end outputs.

Section 3 – FRS102 - The Financial Reporting Standard Applicable in the UK and Republic of Ireland

3.1 Overview

3.1.1 FRS 102 replaces virtually all current UK GAAP (although not in respect of accounting for insurance contracts). It is based on IFRS for SMEs with certain modifications. A link to FRS 102 is provided here.

3.1.2 Generally, FRS 102 allows the continuation of current UK GAAP reporting and disclosure. The format of the accounts will stay the same, including a balance sheet, income statement and cashflow. However there are three changes which are of particular relevance to syndicates: the options for accounting for foreign currency, additional disclosures on capital and additional disclosures on financial instruments. These are considered further below.

3.2 Accounting for foreign currency

3.2.1 FRS 102's requirements in respect of foreign currency are set out in Section 30, pages 183 to 187.

3.2.2 FRS 102 applies the concept of a functional currency to UK GAAP as a mandatory requirement. The functional currency is: 'the currency of the primary economic environment in which the entity operates' (FRS 102 30.2). 'The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash' (30.3). Although for many Lloyd's syndicates, this will be GBP, there will be a significant number of Lloyd's syndicates where this will be USD or possibly another currency. This means that for some syndicates, the functional currency may be different to the reporting currency, which will continue to be GBP for virtually all syndicates (a few syndicates prepare their annual reports in US dollars).

3.2.3 FRS 102 will require all foreign currency transactions to be translated into the functional currency at the transactional rate of exchange. At the period end, the monetary foreign currency items must be translated at the closing rate with any difference being allocated to the profit and loss account (see 30.6 to 30.11). **The practice used currently by some syndicates of booking such differences through the STRGL (or other comprehensive income) based on 'branch accounting' will no longer be permitted.**

3.2.4 When translating items from the functional to the reporting (or presentation) currency, FRS 102 requires that (30.18):

'An entity…shall translate its results and financial position into a different presentation currency using the following procedures:

(a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement of comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions. However, an average rate for the period may be used where this is reasonable i.e. not material changes in the rates during the period; and

(c) all resulting exchange differences shall be recognised in other comprehensive income (ie the STRGL).

3.2.5 An illustrative disclosure in relation to change in accounting policy for foreign currency potentially required by FRS 102 section 30 is provided at Appendix A. However, it is the managing agent's responsibility to determine the most suitable form of disclosure to provide in the syndicate annual report; the agent should consult with the syndicate auditors regarding this.

3.3 Capital disclosures

3.3.1 FRS 102 mandates that certain disclosures be made in respect of capital for financial institutions, in accordance with the provisions of FRS 102 section 34.31. These disclosures apply to Lloyd's syndicates.

3.3.2 Specifically, FRS 102 34.31 requires that:

'A financial institution shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. A financial institution shall disclose the following:

(a) Qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

A financial institution bases these disclosures on the information provided internally to key management personnel.'

3.3.3 Further guidance is provided at section 34.32 which states:

'A financial institution may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the financial institution's capital resources, the financial institution shall disclose separate information for each capital requirement to which the entity is subject.'

3.3.4 Accordingly, the requirements are principles based and are to be complied with taking into account the structure of the entity and the supervisory capital requirements to which it is subject.

3.3.5 At Lloyd's, the capital requirements imposed by both the PRA and by Lloyd's itself are focused on meeting member level and Lloyd's overall capital requirements. Syndicate level capital requirements are thus only relevant in helping to determine these. Accordingly, we consider that the nature of the disclosures provided in the syndicate annual report should be generic in nature, describing Lloyd's capital setting process and how the syndicate capital number (SCR) fits into this. It is not expected that the syndicate will have to disclose its SCR.

3.3.6 It is the responsibility of each managing agent to determine the disclosures necessary to comply with FRS 102 34.31 and 34.32 and the agent should consult with the syndicate auditor in this respect. However, for guidance, an illustrative text of such disclosures which would be the minimum appropriate for a Lloyd's syndicate is attached at Appendix B. The illustrative text reflects the anticipated introduction of Solvency II from 1 January 2016 and thus reflects Solvency II 'language' in the text.

3.4 Financial instruments disclosures

3.4.1 FRS 102 requires financial institutions to make additional disclosures in respect of financial instruments held and these disclosures are based on IFRS 7, 'Financial Instruments: Disclosures'.

3.4.2 These additional disclosures would mainly impact those syndicates that have not already adopted the current FRS 29.

3.4.3 The standard requires disclosure of information that enables users of the syndicate's financial statements to evaluate the nature and extent of relevant risks arising from financial instruments to which the entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk. The disclosure should include both the syndicate's exposure to each type of risk and how it manages those risks.

3.4.4 There is also a requirement for syndicates to disclose the fair value hierarchy levels. The hierarchy to be used in determining the fair value of an asset set out in paragraph 11.27 is different from the fair value hierarchy set out in IAS 39.

3.4.5 The fair value hierarchy levels are as below:

Level 1	This should be based on quoted price for an identical asset in an active market. The quoted price should be readily and regularly available and it is usually the bid price
Level 2	When the quoted prices are not available, the price of the recent transaction for an identical asset may be used as the fair value. However, this should only be where there has not been a significant change in economic circumstances or a significant lapse of time since the last transaction took place. This price may be adjusted if the syndicate can demonstrate that the last transaction price is not a good estimate of fair value (for example, it reflects the amount that the syndicate would receive or pay in a forced transaction or distress sale)
Level 3	Where the above two approaches are not possible, a valuation technique may be applied and the objective would be to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

3.4.6 There are a number of potential ways that the fair value hierarchy information could be disclosed. However, it is important for this information to be disclosed on a consistent basis in syndicate annual reports, for comparability between syndicates as well as ensuring that the aggregation of this data may be shown on a meaningful basis within Lloyd's Aggregate Accounts. Accordingly Lloyd's shall discuss this matter further with accounting firms operating in the Lloyd's market to be able to determine a consistent basis for use by managing agents. Further guidance shall be issued to the market by 31 March 2015.

3.4.7 It is also possible that some syndicates which had not previously adopted FRS26 may have financial instruments that require measurement changes on transition. If necessary, the agent should consult with the syndicate auditors regarding this.

3.5 Cash and cash equivalents

3.5.1 Cash and cash equivalents is defined in FRS102 as, follows:

- Cash comprises cash on hand and demand deposits
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

3.5.2 The previous UK GAAP requires cash and cash at bank to presented in the balance sheet while under FRS102, syndicates will be required to present cash and cash equivalents in the balance sheet.

3.6 Statement of cash flows

3.6.1 FRS 102, section 7 sets out the information that is to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an entity for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

3.6.2 The format and some of the information required to be presented under FRS 102 is different from that required by the current UK GAAP, FRS 1. For example, FRS 1 is focussed on movements in cash, whereas FRS 102 requires movements in cash and cash equivalents. In addition, the headings required under FRS 1 are different from those required under FRS 102.

3.6.3 Cash and cash equivalents are to be treated in the statement of cash flows as per the definition above. However, bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of the syndicate’s cash management, bank overdrafts are a component of cash and cash equivalents.

Section 4 – FRS 103 – Insurance Contracts

4.1 Overview

4.1.1 FRS 103 is the new UK GAAP to deal with accounting for insurance contracts. FRS 103 is complementary to, and sits alongside, FRS 102.

4.1.2 As noted above, FRS 103 is based on IFRS 4, but incorporates elements of FRS 27 for life insurance and the ABI SORP on Insurance Contracts.

4.1.3 A link to FRS 103 may be found here.

4.1.4 Generally, FRS 103 allows insurers to continue with their existing accounting policies although it makes a significant change to the treatment of UPR and DAC (see 4.2 below). Furthermore, given that it is based on IFRS 4, it introduces some new disclosure requirements into UK GAAP. These are:

- disclosures relating to recognised amounts from insurance contracts (see 4.3 below) and
- claims development triangulations at whole account level (see 4.4 below).

4.2 Treatment of UPR and DAC

4.2.1 Paragraph 2.26 of FRS 103 states:

"Paragraph 30.9 of FRS 102 requires an entity, at the end of each reporting period, to translate foreign currency monetary items using the closing rate and non-monetary items using the exchange rate at the date of the transaction or the date when fair value was determined (for non-monetary items measured at fair value). For the purposes of applying the requirements of Section 30 Foreign Currency Translation of FRS 102 an entity shall treat all assets and liabilities arising from an insurance contract as monetary items."

4.2.2 **This means that UPR and DAC are now treated as monetary items. This affects their treatment for foreign exchange accounting purposes for all syndicates which currently account for UPR and DAC as non-monetary items.**

4.2.3 This will require a note in the accounts to explain the accounting policy change. It shall also require the 2014 comparatives in the syndicate annual report to be changed. Managing agents should discuss this with the syndicate auditor.

4.2.4 This change does not apply to financial statements prepared under IFRS where UPR and DAC are still treated as non-monetary items. Accordingly, if a group which has a Lloyd's syndicate prepares its group accounts using IFRS, then UPR and DAC will be treated differently in the group accounts compared with the syndicate accounts.

4.3 Explanation of recognised amounts relating to insurance contracts

4.3.1 FRS 103 requires at sections 4.4 and 4.5:

"(4.4) An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.

"(4.5) To comply with paragraph 4.4 an insurer shall disclose:

(a) the recognised assets, liabilities, income and expense (and, if it presents its statement of cash flows using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a cedant, it shall disclose:
   (i) gains and losses recognised in profit or loss on buying reinsurance; and
   (ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period.

(b) The process used to determine the assumptions that have the greatest effect on the recognised amounts described in (a). When practicable, an insurer shall also give quantified disclosure of those assumptions

(c) The effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.

(d) reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

4.3.2 In particular agents' attention is drawn to the requirements of sub paragraph (c) and (d) above. If necessary, the agent should consult with the syndicate auditors regarding this.

4.4 Risk disclosures: Claims development triangles

4.4.1 Sections 4.7 to 4.9 of FRS 103 set out disclosure requirements with respect to 'the nature and extent of risks arising from insurance contracts'. These are consistent with current UK GAAP requirements but there is an additional requirement to show information on claims development, as set out in FRS 103 4.8 (b) (iii):

"actual claims compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year."

However, there is a transitional arrangement on adoption of FRS 103. Paragraph 6.3 states that 'In applying paragraph 4.8(b) (iii), an entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies this FRS'. Given adoption in

2015, this means that 2011 would be the earliest year reported separately where a syndicate utilises this provision.

This information is required at whole pure underwriting year level in the reporting currency (generally converted sterling), reporting net claims incurred including IBNR.

4.4.2 There are a number of potential ways that this information could be disclosed. It is important for this information to be disclosed on a consistent basis in syndicate annual reports, for comparability between syndicates as well as ensuring that the aggregation of this data may be shown on a meaningful basis within Lloyd's Aggregate Accounts. Accordingly Lloyd's shall discuss this matter further with accounting firms operating in the Lloyd's market to be able to determine a consistent basis for use by managing agents. Further guidance shall be issued to the market by 31 March 2015.

Section 5 – next steps for managing agents

5.1 Actions for managing agents

5.1.1 Managing agents shall need to prepare syndicate annual reports in accordance with the 'new' UK GAAP ie FRS 102 and FRS 103 with effect from 31 December 2015. In addition, they will be required to provide some additional data in the QMA to enable Lloyd's to incorporate the necessary additional information within the Lloyd's Aggregate Accounts, Lloyd's Market Results and provide to corporate members subscribing to Lloyd's central Schedule 3 facility. Comparative data shall be required for 2014, both as at 30 June 2014 (for the 2015 interim Lloyd's Market Results) and 31 December 2014.

5.1.2 Although managing agents should have ready access to the additional information required, they need to consider the procedures which will need to be put in place to capture and present this information, to fit into the timescales, approval process and audit of the QMA and the syndicate annual report.

5.1.3 Accordingly, during early 2015, managing agents should:

- Review FRS 102 and FRS 103 and determine any additional data requirements
- Review internal systems and plan to upgrade these to extract the necessary data
- Prepare 'dry run' revised disclosure notes for internal review
- Participate in the user acceptance testing (UAT) of the additional forms provided in the QMA in 2015.

5.1.4 Managing agents should, if they have not already done so, discuss with their syndicate auditors the impact that the 'new' UK GAAP shall have on syndicate reporting, as soon as possible, and build this into their planning process.

5.2 Timescales for new reporting requirements

5.2.1 2014 Comparatives: Lloyd's will in due course need to collect the 2014 comparative data in the QMA for use in the 2015 Aggregate Accounts, Lloyd's Market Results and Lloyd's central Schedule 3 facility. The revised comparatives at 30 June 2014 and 31 December 2014 shall be collected via the 30 June 2015 QMA, due for submission on 6 August 2015 (unaudited) and 20 August 2015 (audited). The revised comparatives as at 31 December 2014 will also be collected with the 31 December 2015 QMA around 18 February 2016.

5.2.2 2015 Reporting: managing agents will be required to prepare the QMA in accordance with the 'new' UK GAAP from Q1 2015, and likewise the 31 December 2015 syndicate annual reports, thus including the additional information and disclosures required, to timescales similar to those currently in place. No changes are to be made to the software for quarters 1 to 3.

Appendix A

Illustrative disclosure in relation to change in accounting policy for foreign currency potentially required by FRS 102 Section 30

Basis of accounting note

Foreign currencies

Under previous UK GAAP, the definition of a foreign branch included assets and liabilities accounted for in a foreign currency. FRS 102 requires that a foreign operation must be an entity. Hence, assets and liabilities denominated in a foreign currency no longer constitute a foreign operation and are not retranslated at the closing rate with exchange differences reported through the statement of recognised gains and losses (STRGL). Instead, monetary items are retranslated at the closing rate with exchange differences reported through the non-technical account and non-monetary items (for example, tangible assets) are not retranslated.

Non-monetary items are translated into the functional currency using transactional rates/monthly average rate of exchange prevailing at the time of the transaction as a proxy for transactional rates.

However, FRS103 states that insurance assets and liabilities (UPR and DAC), that were previously considered non-monetary items, are now required to be treated as monetary items. This is a change in accounting policy from [2014]. These assets and liabilities have been retranslated at period end to functional currency at the closing rate and the resulting exchange differences have been reported through the profit and loss account. The impact of this change in accounting policy is shown in note [x].

The results and financial position of the syndicate are translated into the presentation currency as follows:

a) assets and liabilities are translated at the closing rate at the balance sheet date;

b) income and expenses are translated at the average rate of exchange during the year; and

c) all resulting exchange differences are recognised in the STRGL.

Prior year adjustment note

During the year, the Syndicate has made an amendment to its foreign exchange accounting policy to ensure compliance with FRS 102 Section 30 ‘Foreign Currency Translation’ and amendment to the treatment of insurance assets and liabilities included in FRS 103, section 2.26 with respect to:

- the allocation of foreign exchange gains / losses between the profit & loss account and the STRGL;
- the use of monthly average rates as a proxy for transaction rates when determining the prevailing foreign exchange rate for non-monetary assets and liabilities where these items are held at transactional rates of exchange; and

- treating all insurance assets and liabilities (including DAC and UPR) as monetary items.

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above.

The financial effect of restating the prior year amounts for the changes in accounting policy is as follows:

	£m
Opening members' balances at 1 January 2014 effect	-
Result for the year ended 31 December 2014 increased	5.0
Statement of total recognised gains and losses 31 December 2014 decreased	(5.0)
Closing members' balances at 31 December 2014 effect	-

Appendix B

Illustrative capital disclosure note for Syndicate XXXX

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with [Solvency II legislative references].

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate XXXX is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was [35%] of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly [adjust where appropriate if the syndicate has FIS] all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page x, represent resources available to meet members' and Lloyd's capital requirements.