

# Consultation on Lloyd's accounting regulations: summary of responses

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October 2008



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ISBN 978-1-84532-509-1  
PU621

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# 1

# New Lloyd's Accounting Regulations

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## Introduction

**1.1** The Treasury consulted on its proposals for implementing the Audit Directive (2006/43/EC) and the Reporting Directive (2006/46/EC) with respect to Lloyd's between 29 April 2008 and 24 June 2008. Other amendments reflecting EU-related provisions concerning companies' reporting arrangements relevant to Lloyd's and market participants at Lloyd's were included in the proposals.

**1.2** The proposals were discussed in detail with Lloyd's and the Financial Services Authority (FSA). Direct notification of the consultation document was sent to key stakeholders, including all firms of accountants recognised as auditors of Lloyd's syndicates, and a copy was published on the Treasury's website.

**1.3** In making the amendments, the existing regulations which contain the accounting provisions for Lloyd's – the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 – are revoked and replaced with a new, complete, set for ease of use. To further increase clarity, the majority of the Companies Act provisions which were applied to Lloyd's syndicates and aggregate accounts by reference in the 2004 Regulations have been written out.

**1.4** Many provisions from the 2004 Regulations have been carried forward unamended. The main changes incorporated in the new Regulations (the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008) are being made to implement the 2006 Directives. They include new provisions in relation to disclosure of off-balance-sheet arrangements, disclosure of auditor remuneration, signature of the auditor's report, and notification of auditor ceasing to hold office. These closely follow the equivalent provisions for companies. Provisions on disclosure of related party transactions and extension of fair value accounting also follow the equivalent provisions for companies, with minor modifications to take account of the nature of the Lloyd's market.

**1.5** In implementation of Audit Directive requirements relating to removal of auditors, a new right has been created for certain persons to apply to the High Court for a remedy where an auditor has been dismissed on improper grounds. The new Regulations also ensure that the requirements for Lloyd's syndicates are aligned to the requirements for other insurance undertakings which are subject to the companies Act 2006.



# 2

## Summary of responses to the consultation

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**2.1** The consultation document invited general comments on the proposals, as well as views on several specific issues. The latter concerned:

- Proposals for appointment of auditors, which, to provide the necessary independence required by the Audit Directive, becomes the function of syndicate members rather than managing agents;
- The right to apply to the High Court for remedy where an auditor is removed on improper grounds being given to the persons proposed (ie syndicate members, the Society of Lloyd's, and the FSA);
- Designation of the FSA as the appropriate audit authority in relation to Lloyd's;
- The introduction of new criminal offences for non-compliance with certain of the new provisions;
- Proposed provisions for disclosure in relation to valuation of financial instruments and reporting off-balance sheet transactions;
- Proposals for reporting on related party transaction;
- Proposed amendments in the new Regulations to update the provisions in line with changes to disclosure and reporting requirements in the Companies Act.

### Responses from consultees

**2.2** Replies were received from four accountancy firms, a representative body, a member's agent at Lloyd, and some further comments from Lloyd's (see Annex). Not all respondents commented on all questions.

**2.3** The approach taken in the Regulations was generally welcomed, both in terms of the amendments and in revoking the 2004 Regulations and replacing them in full. One respondent commented that "the proposed changes to the Lloyd's Accounting Regulations have a clear benefit of formalising many of the current best practices already in operation in the market".

**2.4** A number of technical drafting points were made. Other significant issues raised, and the general level of support for key proposals, are summarised in paragraphs 2.5 to 2.9 below. The Treasury's response to these points follows in the next section (paragraphs 2.10 to 2.12).

**2.5** Two respondents referred to auditor liability limitation in their responses. Inclusion of provisions in the new Regulations equivalent to those in the Companies Act 2006 which allow for auditors to enter into contractual agreements to limit their liability in certain respects were suggested, or, alternatively, that this issue should be addressed in revisions to the Audit Arrangements Byelaw.

**2.6** Most respondents agreed with the proposed list of persons to whom the right to apply to the High Court would be given in the event of removal of an auditor on improper grounds. Designation of the FSA as the appropriate audit authority in relation to Lloyd's was also supported – all those who commented agreed with the proposal.

**2.7** New disclosure requirements applying to managing agents apply the relevant Companies Act 2006 provisions of providing that particulars may be given of related party transactions, but must be given only if the transactions are entered into other than under normal market conditions. Additionally, they require identification of any related parties who are brokers.

**2.8** The proposals were supported by most respondents, though one suggested applying a 90% interest exemption from disclosure, while another suggested going further to embrace mandatory disclosure of all related party transactions, regardless of the nature of the related party and the circumstances under which they are conducted.

**2.9** Access to information by successor auditors was identified by one respondent as an issue that the new Regulations should cover.

## **Treasury response**

**2.10** In many cases the Regulations have been amended to reflect the technical points and other issues raised. Changes made include the clarification of the provisions on the appointment of auditors to new syndicates and for the aggregate accounts, and disclosure of managing agents' employee numbers and costs.

**2.11** The provisions on the disclosure of related party transactions reflect, subject to one exception, the provision made in relation to companies and other insurance undertakings. To go further would subject Lloyd's to a far more stringent disclosure regime than other insurance entities and there is no obvious justification for this. As was stated in the consultation document, the broad aim of these regulations is to give Lloyd's equivalence of treatment (with companies and other insurance entities) within the terms of the directives. The approach used in the draft regulations has therefore been maintained.

**2.12** The regulations have not been amended to provide for agreements limiting auditor liability. Lloyd's syndicates are not subject to the restrictions in the Companies Act 2006 on such agreements, so it is not necessary to make legislative provision permitting them. Such agreements are subject to regulation by Lloyd's.

## **Impact Assessment**

**2.13** Two respondents questioned the level of savings estimated in the draft Impact Assessment. It was suggested that some of the new provisions formalise what is already best reporting practice, and do not therefore necessarily represent new benefits in real terms. In response to these comments, the assumptions about savings used have been reduced and the savings set out in the final Impact Assessment scaled back accordingly.

# A Summary of respondents

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KPMG

Ernst & Young

PricewaterhouseCoopers

Deloitte & Touche

Association of International Accountants

Hampden Agencies Limited

Lloyd's

ISBN 978-1-84532-509-1



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