

Michelle Sansom
Accounting Standards Board
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WC2B 4HN

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Dear Michelle

**EXPOSURE DRAFT – THE FUTURE OF FINANCIAL REPORTING IN THE UK AND
REPUBLIC OF IRELAND**

Lloyd's welcomes the opportunity to comment on the proposals contained in the above document.

Background regarding Lloyd's

We consider that it might be helpful to provide some background regarding Lloyd's. Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance through Lloyd's. Total gross written premium income for Lloyd's in 2011 was £23.5bn and the total net resources of the Society and its members exceeded £19bn at the end of that year.

Lloyd's syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account. There were 88 syndicates registered to underwrite insurance at Lloyd's in 2011. Each syndicate is managed by a managing agent. Managing agents manage the underwriting of insurance business on behalf of the member(s) of the syndicate, which receive profit or bear losses in proportion to their share in the syndicate for each underwriting year of account. There were 57 agents managing active syndicates in 2011. In addition, there are a number of inactive or 'run-off' syndicates, in respect of which financial statements must be prepared, until closure of the syndicate.

The Corporation of Lloyd's oversees the market, setting standards, approving business plans, providing services to support its activity and managing the Lloyd's Central Fund.

Lloyd's syndicates prepare their accounts in accordance with UK GAAP. The annual accounts of each Lloyd's syndicate are aggregated into Lloyd's Aggregate Accounts in

accordance with the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The accounts of the Corporation of Lloyd's and its subsidiaries, including Lloyd's Central Fund, are prepared using IFRS. Finally, Lloyd's prepares the Pro Forma Financial Statements so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

Definition of financial institutions

We propose that the definition of financial institutions should be amended to only cover insurance entities that have permission under Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance. Lloyd's syndicates should also be specifically mentioned in the definition of financial institutions. Hence, for reporting purposes, only those insurance companies that have been authorised by FSA under Part 4 of the Financial Services and Market Act 2000 as well as Lloyd's syndicates should be required to meet the reporting requirements for financial institutions.

As per section 1165(2) of the Companies Act 2006 (c.46), an 'authorised insurance company' means a person (whether incorporated or not) who has permission under Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance. Even though syndicates are not directly authorised by FSA, they should be considered to meet this definition and hence prepare their accounts under the proposed FRS102, with no exemption for IFRS7 and IFRS13 disclosures.

Thus all entities that fall under the Companies Act definition of insurance companies, but are not regulated by the FSA under the Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance, would not be defined as a financial institution for this purpose. This would include corporate members of Lloyd's, which are required to prepare their accounts under Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 3'). Such entities would thus be allowed to apply the various exemptions available to non-financial institutions.

ASB's consultation

Our responses to the questions in the exposure draft are set out in the appendix to this letter.

Should you wish to contact us about any comments please feel free to do so.

Yours sincerely



Paul Appleton
Senior Manager, Accounting Policy
Lloyd's Market Finance

- Q1 Do the ASB's proposals meet its project objective 'To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs'?

Lloyd's comments

Overall, the proposals look sensible and having one standard for most preparers not using EU adopted IFRS will enhance comparability.

We welcome the proposal to exempt non-financial institutions applying FRS102 from making IFRS7 and IFRS13 disclosures. As set out in the main letter and in response to Q4 below, we propose a modification to the definition of financial institutions.

- Q2 The ASB has decided to seek views on whether:

As proposed in FRED 47:

A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or

Alternatively:

A qualifying entity that is a financial institution should be exempt in its individual accounts from all IFRS7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of the IFRS 13 (all disclosure requirement except the disclosure objectives).

Which alternative do you prefer and why?

Lloyd's comments

We prefer the second alternative as this targets the main disclosures required on financial instruments. However, as stated in response to Q1, insurance entities not meeting the proposed revised definition of financial institutions should be exempt from providing these disclosures.

- Q3 Do you agree with the proposed scope for the areas cross-referenced to EU-adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

Lloyd's comments

For insurers, the most significant reference is at paragraph 1.6 on page 62 of the draft, which specifies the application of IFRS4, insurance contracts, as adopted by the EU. As set out in our response to ASB's insurance specific

consultation 'Mind the UK GAAP', we share ASB's view that in the longer term, IFRS Phase II should be adopted into UK GAAP, once the final version has been issued by IASB and adopted for use in the EU. However, this standard should not be incorporated uncritically into FRS102 (ie UK GAAP) without a proper assessment of the position of UK insurers. Any such assessment should be undertaken with the objective of ensuring proportionate financial reporting.

In the meantime, we favour the retention of the ABI SORP requirements within UK GAAP as this would mean that insurance undertakings will not currently incur any additional costs in relation to insurance accounting until such time as IFRS4 Phase II is implemented.

- Q4 Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

Lloyd's comments

We do not agree with the definition of financial institutions with regard to the definition of insurance companies.

We propose that the definition of financial institutions should be amended to only cover those insurance entities that have permission under Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance. Lloyd's syndicates should also be specifically mentioned in the definition of financial institutions. Hence, for reporting purposes, only those insurance entities that have been authorised by FSA under Part 4 of the Financial Services and Market Act 2000 as well as Lloyd's syndicates should be required to meet the reporting requirements for financial institutions.

As per section 1165(2) of the Companies Act 2006 (c.46), an 'authorised insurance company' means a person (whether incorporated or not) who has permission under Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance. Even though syndicates are not directly authorised by FSA, they should be considered to meet this definition and hence prepare their accounts under the proposed FRS102, with no exemption for IFRS7 and IFRS13 disclosures.

Thus all entities that fall under the Companies Act definition of insurance companies, but are not regulated by the FSA under the Part 4 of the Financial Services and Markets Act 2000 (c.8) to effect or carry out contracts of insurance, would not be defined as a financial institution for this purpose. This would include corporate members of Lloyd's, which are required to prepare their accounts under Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule

3'). Such entities should be allowed to apply the various exemptions available to non-financial institutions.

Q5 In relation to the proposals for specialist activities, the ASB would welcome views on:

- (a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives, should be proposed?
- (b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

Lloyd's comments

No comment.

Q6 The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

- (a) Do you consider that the proposals provide sufficient guidance?
- (b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

Lloyd's comments

No comment.

Q7 Do you consider that the related party disclosure requirements in section 33 of FRED48 are sufficient to meet the needs of preparers and users?

Lloyd's comments

Yes.

Q8 Do you agree with the effective date? If not, what alternative date would you prefer and why?

Lloyd's comments

We agree with the proposed effective date.

Q9 Do you support the alternative view, or any individual aspect of it?

Lloyd's comments

No comment.

