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HM Treasury
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Dear Sir

Consultation on new Lloyd's Accounting Regulations

We are responding to your invitation to comment on the above consultation paper.

We welcome the opportunity to comment on the Treasury's proposals for implementing the Audit Directive (2006/43/EC) and the Reporting Directive (2006/46/EC) and on the provisions relating to other developments in company law since 2004.

Overall we support the approach of replacing the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 with a complete, updated set of Regulations rather than the alternative approach of piecemeal amendments of the existing regulations.

We have the following comments.

Auditor Liability Limitation Reform

During the consideration of the 8th Company Law Directive by the European Parliament, in 2005 and 2006, an Article was added (Article 31) that required the European Commission to carry out a research project into the impact of national liability rules for carrying out statutory audits.

In September 2006 the independent research company, London Economics, published its report having assessed liability rules in each Member State¹. After considering the findings of that report the Commission published a consultation document on 18 January 2007² asking for responses on issues relating to the limitation of auditors liability for statutory audit engagements. The Commission reported on consultation responses on 18 June 2007³. The majority of respondents agreed that there was an evidential basis for providing auditors with the ability to limit their liability, although there was no clear consensus on the form that liability limitation should take.

On 19 December 2007, European Internal Markets Commissioner McCreevy announced⁴ that the Commission would be publishing a recommendation to *'Member States asking them to limit auditor liability'* in the first quarter of this year.

In the UK, a debate on replacing the existing liability rules of 'joint and several liability' with a form of liability limitation for auditors had taken place before and during the passage of the Companies Act through Parliament.

The debate resulted in a provision, at Section 534 of the 2006 Act, for auditors to be permitted to enter in contractual agreements with a company to limit their liability.

Taking all these factors into account, as well as the Government's apparent desire to ensure a high level of consistency between company and Lloyd's legislation, we strongly urge the Treasury to implement provisions that are consistent with those in the Companies Act providing for statutory auditors of building and friendly societies to limit their liability.

Comments on draft impact assessment

We do question whether there will be a £20 million benefit for UK business in implementing the Directives provisions for Lloyd's.

In the most recent version of the Department for Business, Enterprise and Regulatory Reform (BERR) cost/benefit analysis for directive 2006/43 (with effect to companies) published in July 2007, no monetary benefit was identified with a net impact cost of £1.3 million to business.

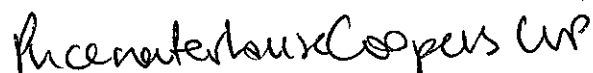
In the most recent version of the BERR cost/benefit analysis for directive 2006/46 (with effect to companies) published in July 2007, a monetary benefit of £305 million was identified. However, the majority of this benefit is due to increases in reporting thresholds and the removal of a number of companies from reporting requirements.

We are unclear how the benefits arising from increased transparency with the Lloyd's market have been quantified at £2.2 million per annum and we suggest that the Treasury adopts a similar approach to BERR of not attempting to assess a financial value for benefit where not can be evidentially found.

Our response to the specific questions in the Consultation Paper are attached in Appendix A to this letter.

If you have any questions on the content of this letter, please do not hesitate to contact Philip Calnan (0207 212 4419) or Nigel Terry (020 213 3804).

Yours faithfully



PricewaterhouseCoopers LLP

¹ Link: http://ec.europa.eu/internal_market/auditing/docs/liability/auditors-final-report-en.pdf

² Link: http://ec.europa.eu/internal_market/auditing/docs/liability/consultation-paper_en.pdf

³ Link: http://ec.europa.eu/internal_market/auditing/docs/liability/summary_report_en.pdf

⁴ Link:

<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/835&format=HTML&aged=0&language=FR&guiLanguage=fr>

Appendix A – Detailed responses

Chapter 2

Question 1 *Do you have any comments on the proposals for appointment of the auditor?*

Response We agree with the proposals, which implement the provisions of the Audit Directive, although we recognise that there may be some practical issues with the appointment of syndicate auditors, particularly with mixed capital syndicates. This is particularly likely to be the case with a mid-year proposed change of auditor.

Question 2 *Do you agree that the right to apply to the High Court should be given to the persons proposed?*

Response We agree that the right to apply to the High Court should be given to the persons proposed.

Question 3 *Do you agree that the FSA should be designated as the appropriate audit authority in relation to Lloyd's?*

Response We do not consider that this is unreasonable as this is consistent to the position of insurance companies through the requirements of section 344 of FSMA.

Question 4 *Do you have any comments on the criminal offences proposed in relation to non-compliance with the new provisions?*

Response We have no comments on these proposals which mirror the approach adopted for other entities.

Chapter 3

Question 5 *Do you have any comments on the provisions for disclosure in relation to valuation of financial instruments and reporting off-balance sheet transactions?*

Response We are in agreement with the proposed provisions.

Question 6 *Do you have any comments on the proposals for reporting on related party transactions?*

Response We agree with these proposals.

Chapter 4

Question 7 *Do you have any comments on the proposals to incorporate amendments in the new regulations to update the provisions in line with changes to disclosure and reporting required in the Companies Act?*

Part 3, paragraph 21 refers to the auditor's "review" of the aggregate accounts. Sub-paragraph (2) (b) requires "a description of the scope of the review carried out by the auditor and identifying the standards in accordance with which the review was conducted". The only review standard that has been issued by the Auditing Practices Board is ISRE (UK&I) 2410 which covers interim reviews and thus there is no standard to be referred to. In addition, a review leads to a negative assurance opinion (rather than the required opinion referring to proper preparation in accordance with the Regulations).

Currently the auditors carry out an “examination” of the aggregate accounts and state that they have been properly prepared in accordance with the basis of preparation set out in the notes to the aggregate accounts. We consider that Paragraph 21(2)(b) should be amended to reflect the current approach and standards and thus refer to an “examination” rather than a “review”.

Question 8 *Do you have any other comments about the overall approach being proposed, the new regulations, or the impact assessment?*

Response We do not have any further comments.