Technical Actuarial Standards for Pensions

Aon's response to FRC consultation

Aon is pleased to submit its response to the FRC's consultation on Technical Actuarial Standards for Pensions.

In summary

In relation to the proposed changes to TAS 300 we are concerned that some of the proposals go beyond current best practice and would create extra work and costs that would not be balanced by improved advice to clients.

Of most concern is the increase in scope of TAS 300 in relation to scheme funding and financing advice, and the additional requirements in relation to factor advice. Although the FRC's proposals are not inconsistent with the findings of the IFoA's thematic review on commutation factors we believe that the more directive approach set out in TAS 300 is unnecessary.

Additionally, the new Section 5 of TAS 300 is muddled and may cause some confusion. The section, as currently drafted, covers too many different scenarios with annuity purchases, scheme bulk transfers and consolidation vehicles (noting there can be different variants within all three of these transaction types), and would be better subdivided to address each type of bulk transfer separately.

We have several significant concerns in relation to TAS 310. Aon has worked closely with the DWP and TPR though the development of the CDC legislation and the code of practice on authorisation of CDC schemes. Our employees have also worked closely with IFoA working parties on CDC and interested clients so that we now have significant knowledge and expertise in this new area. However, we have not had an opportunity to meet with the FRC prior to your public consultation. Our most significant concerns are:

- The requirements, for modelling and assumptions, to consider and report on 'credible alternatives', and the accompanying additional

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Aon is a leading global professional services firm providing a broad range of risk, retirement and health solutions, with more than 50,000 colleagues in 120 countries. We work with the trustees and sponsors of around 1,000 UK pension schemes. Globally, we work with more than 2,300 clients with assets totalling $3.8 trillion.

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QAS Institute and Faculty of Actuaries Quality Assurance Scheme

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costs along with possible unintended consequences – such as pressure on the actuary to change their preferred approach and potentially facilitate the deferral of difficult decisions (see our comments on P3.5 for Q12, and both P6.1b and P6.2a for Q17).

- A lack of clarity on whether the "credible alternative" requirements would introduce an obligation to consider a full range of credible alternatives or simply two or three possible alternatives.
- The introduction of a definition of "central estimate" which differs from the definition set out in legislation (Q11).
- The proposed requirements for post valuation experience (see P6.1c and P6.2b comments on Q17).
- A focus on downside over upside scenarios which could introduce bias into the decision-making process (see P3.2 on Q12 and P5.4f on Q14).
- The introduction of a particularly onerous new requirement, to model the probability that the live running tests might be failed at some future date using stochastic modelling (see P3.2 comments on Q12).

These issues are likely to push up costs (and perhaps even discourage the introduction of CDC arrangements) unless they are addressed. Therefore, as TAS 310 is currently drafted, we do not agree with your suggestion that any costs arise solely from the legislation and regulation of CDC. TAS 310 would add material costs if it is implemented in its current form.

Given these issues are likely to require significant redrafting to address, we would be happy to work with the FRC to develop a new version of TAS 310.

Given the extent of our concerns over the initial draft of TAS 310, we think a second consultation should be carried out, on a revised draft, before TAS 310 is finalised.

1. What are your views on the proposed changes to the scope of TAS 300? Are there any other areas of pensions work that you consider to be inadequately covered by TAS 300 and should be included?

We agree that it is appropriate to update the scope of technical actuarial work in relation to bulk transfers.

We also agree that it is appropriate to exclude technical actuarial work in relation to CDC schemes and to introduce a new TAS (310) to cover these arrangements.

We do not agree to the change in scope for technical actuarial work in relation to scheme funding and financing. The change will lead to a very significant increase in scope (and therefore costs) as it will now apply beyond technical actuarial work required by legislation and will now also apply to any technical actuarial work carried out for an employer for a Scheme Funding assessment, even where there is no requirement for the governing body to reach agreement or consult with the employer .Most, if

not all, pensions actuarial work has implications for scheme funding and financing and we do not believe that the FRC intended for the scope to be widened to this extent. We believe that the existing scope in this respect could be retained or amended so that it is limited only to the scheme funding exercise.

We have previously noted to the FRC that there are some areas of work that do not currently appear to be in scope (eg in the DC environment): advice on and analysis of contributions, Lifetime Allowance analysis and advice, member outcomes analysis and scheme design. Although as a firm we expect to apply the TAS principles to everything we do, we have previously noted that consideration of what work is in or out of scope (and, as a result, whether the compliance statement is needed), continues to cause difficulties and detracts from the main consideration of what needs to be covered in the advice. If – as seems likely under the Government's proposals for ARGA – the TASs are to become legally binding for work in scope, it is critical that there is clarity on the work to which TAS 300 applies.

2. Do you agree our intention to defer any changes to requirements under scheme funding and financing until there is greater legislative certainty? Do you have any other specific concerns in relation to provisions on scheme funding and financing that you believe require addressing over a shorter period?

We agree that it would not be appropriate at this stage to pre-empt the requirements of the new scheme funding regime and reflect them in TAS 300.

There will be some practical issues to consider as a result of the deferral. First, before the regulations take effect there will be schemes adopting what they believe will be an approach that will be compliant with the new regulations, and they will be seeking advice from actuaries on this. It is therefore possible that once the regulations are in place and TAS 300 is further amended, the approach that actuaries have taken in good faith would differ from the new requirements. Secondly, if the required amendment to TAS 300 takes time to agree and implement, there may well be actuaries obliged to advise their clients in light of the new regulations, but without the requirements having been incorporated into the TAS. This latter concern can be resolved by ensuring that appropriate lead in time is given and that the effective date of the TAS changes ties in with the legislation. Depending on how the legislation is introduced there may also be schemes still preparing valuations under the current regime. Our concern over timing can also be addressed by applying the revised TAS to scheme funding advice in relation to valuations with effective dates after the legislation takes effect (this would echo the approach expected to be taken by the Pensions Regulator).

3. What are your views on the proposed changes to TAS 300 in relation to the frequency of review of the actuarial factors? What are your views on the proposed changes to TAS 300 in relation to the timing of review of actuarial factors?

We agree with the proposed change to TAS 300 in relation to the frequency of review (ie a review more than three years apart should be justified).

Many schemes would review factors in this timescale or more frequently than this but should not be constrained to do so. We strongly agree that three-yearly reviews are sensible (and this is considered best practice within Aon), however, requiring schemes to do this is the remit of the Pensions Regulator not the FRC. The actuary can recommend no more than three years between reviews, but trustees can disagree (and there may be some small schemes that only need to review factors when those factors are actually used which may be infrequently).

We agree that the TAS should require practitioners to set out the circumstances under which a review of factors should be triggered. However, compared with the detail set out in P3.3 we would note that the wording of P3.1 is not clear regarding how detailed this advice needs to be. The recent LDI crisis and the current high levels of inflation are, in our experience, examples of circumstances which have led to more frequent reviews (than three-yearly). We would note that many of our clients have moved to an annual review of some actuarial factors while funding valuations remain on a three-yearly cycle.

We note the arguments for and against reviewing factors habitually as part of the valuation process, and the proposal (as set out in P2.9) to require practitioners to make clear in their advice on the funding valuation how factors (and future changes to these) have been allowed for, if factors are not being reviewed as part of the valuation. However, we feel that a requirement for a comprehensive discussion of all the factors and their impact on the scheme would add disproportionately to the volume of valuation advice (and therefore cost) and not necessarily improve the decision-making of the trustees particularly if there have been further reviews since the last valuation.

In addition, in relation to P3.2 it is not clear what would happen if agreement on the actuarial factors cannot be reached as part of the valuation process– it would be inappropriate for lack of agreement to mean that the valuation cannot be signed off.

We believe that the term “appropriate range” in P3.3c could be seen as going too far in requiring the actuary possibly to look at lots of members. This would add significantly to the volume of advice and associated costs without necessarily aiding decision-making.

4. Do you consider the proposed changes to Section 3 would enable decision-makers to reach a fully informed view in setting actuarial factors?

It is appropriate for the communications to include the relevant comparisons in order to allow decision-makers to reach a fully informed view. However, as noted below we are not comfortable with the comparison that the FRC is requiring actuaries to show all relevant bases. This is potentially requiring actuaries to compare many different factors on many different bases, and the actuary's view of what are "relevant bases" may not agree with the FRC's view.

5. Do you consider that the remit of TAS 300 includes specifying how actuarial factors are set, either in relation to the value for money members should get from cash commutation or in making allowance for future changes to investment strategy in CETV factors? Please explain your rationale.

In P3.4 we are not comfortable with the proposed new requirement that practitioners reviewing commutation factors should consider a comparison of the proposed commutation factors with **all relevant bases**.

Where the review is carried out for trustees, for example, the FRC proposes that this would always include an estimate of the cost of purchasing an insured annuity, the cash equivalent transfer value (CETV) basis and any long-term funding objectives of the pension scheme set by the governing body. We do already consider what bases are helpful to discuss and consider that many of the examples cited in the exposure draft are not appropriate in all circumstances.

For example,

- the cost of insuring benefits might not be relevant. Furthermore it is not clear how the actuary is expected to create the insurance basis and whether this should be on an individual or bulk basis.
- the text appears to be assuming that insurer factors are based on annuity cost, whereas they use the surrender value basis so a much higher discount rate reflecting best estimate returns on an annuity fund.
- the CETV basis is not always a relative comparison point, eg for an early retirement factor

On those grounds it may be preferable to remove the examples and leave consideration of the relevant bases to the judgement of the actuary.

The actuary might be happy to regard relevant bases as funding or best estimate, but would not see the need to consider other bases. By specifying a list as the FRC has done it is likely that the actuary will feel compelled to consider all bases on the list. We believe that the FRC has gone further than indicated as appropriate in the IFoA's Thematic Review.

We would prefer the TAS to suggest that actuaries should consider which bases are relevant and should discuss with trustees which of those bases to compare.

Alternatively, could this provision be changed from a ‘must’ to a ‘should’? In any event, we believe that this requirement would probably be better covered within the communication provision.

In P3.5 it is not clear what is meant by ‘de-risking transactions’. In many cases plans will be uncertain - we assume that if changes to the investment strategy are not ‘expected’, no allowance need be made.

We also think that P3.9 could be worded more clearly around the alternative to best estimate (given that the CETV factors must be at least best estimate).

6. Are there other provisions relating to actuarial factors which you believe should be introduced?

We note that (in relation to CETVs) the funding level of the scheme is not referenced. The production of an insufficiency report would (if applicable) be an integral part of the actuary’s work on setting the CETVs or on completing a valuation. The trustees may decide not to reduce CETVs fully or at all in line with the insufficiency report but communication of the issues involved might have been one element that the TAS could have incorporated.

7. What are your views on the proposed provisions in section 5 in relation to bulk transfers? Do you think that the proposed provisions would ensure the actuarial advice given to decision-makers would allow them to be fully informed when considering potential bulk transfers?

As regards the structure of this provision, much is written in relation to transfers to superfunds and buyouts rather than bulk transfers to other schemes, which are still just as likely (and often bulk transfers are between schemes of the same group). These are three fundamentally different arrangements and the considerations are very different.

It may be more helpful to subdivide Section 5 into those three areas and consider the material aspects of each.

In particular as there are limited superfunds to consider, there is not a clear path to advising on one or having a consistent accepted superfund structure.

As drafted, the term “bulk transfer” is redefined to mean a bulk transfer to another pension scheme, a buyout or a move to a superfund, so is potentially confusing to the reader, who might tend to assume the first of these is intended. For example, P5.1a may be difficult to interpret when considered in relation to a buyout (how is a superfund then a credible alternative if a buyout is affordable and available, and why should time be spent actively considering it at the time of entering a buyout?). The wording about credible alternatives may not be appropriate in a range of other scenarios, so we would prefer to see the second sentence of P5.1a deleted.

We do not think it is helpful to require consideration of alternative transfers (and it is not the actuaries’ role to do this). We also believe that the FRC’s

required considerations in P5.1 extend to legal points that are outside the remit of the FRC (eg P5.1d).

We do not think that the requirement in P5.2 is clear. We accept that an actuary's ability to give good advice on a bulk transfer will depend on the reliability and quality of the actuarial information which they received from any third party. However, we believe that the FRC is going too far in requiring practitioners to take steps to satisfy themselves that the third party input is reasonable. We accept that this is a 'should' point rather than a 'must' but it is associated with a 'must' requirement to take support from a third party.

In P5.3 it is not clear how practitioners are meant to anticipate future market conditions and insurer practices –we suggest removing that reference. It is also not clear what action P5.4 requires.

In relation to P5.7, we would prefer to remove reference to covenant – covenant and transaction advice are often from two different people, and it may not be clear what measurement of "covenant" is intended for reporting under TAS 300 on a superfund. We would have thought the work here would be stochastic modelling of outcomes from investment scenarios etc, reflecting what the superfund rules say about backing capital being available in downside scenarios. So that probably meets the TAS requirements without having to work out what is intended by the word "covenant".

8. Do you consider that the proposed changes to TAS 300 on modelling work relevant to superfunds would help mitigate the risks associated with pensions practitioners' lack of familiarity with features of the modelling required?

We agree that at present there is little experience of superfund work. Some requirements for the modelling work involved (whether in assessing capital adequacy or when advising on a bulk transfer) may help to reduce the risks involved here. However, requiring the practitioner to just point out the "uncertainty in the actuarial information" does not appear to be very helpful – practitioners will want to communicate the impact of that uncertainty.

It is not clear whether Section 6 is referring to advice given by an actuary to a superfund or to trustees – if the latter it is essentially a repetition of the requirements of Section 5. This should be made clearer.

It is not clear what action P6.1 requires.

9. Are there other provisions relating to bulk transfers which you believe should be introduced into TAS 300?

As an example scenario probably not considered in the drafting, some bulk transfers may be of an already largely annuitized group or advice to support a Winding Up Lump Sum exercise, and so the considerations then may be much narrower.

10. Do you have any comments on our intention to have an effective date for TAS 310 of within one year of the first CMP scheme being in operation? Is there an alternative timing that would be more appropriate? Please provide any supporting evidence for alternative timings.

Ideally, this TAS would have been in place before advice was given on the first CDC designs to be put forward for authorisation. Given the nature of CDC schemes, the design of the scheme is key and many aspects are 'set in stone' once the design is formalised in the scheme rules. Subsequent valuations must follow the design set out in the scheme rules.

However, it is also important for the TAS to be well drafted and, as noted in the executive summary above, we have several significant concerns relating to the draft put forward for consultation which will need careful consideration before TAS 310 can be finalised.

11. Do the proposed provisions provide sufficient clarity of requirements for practitioners to set central estimate assumptions? Please set out any areas of setting CE assumptions you believe require further provisions, including reasons for these.

The provisions seem reasonable and consistent with the approach we would expect to be adopted, except for the introduction of a new definition of 'central estimate'. This term is already defined in legislation – Regulation 2 of the OPS (Collective Money Purchase Schemes) Regulations 2022 defines it as "an estimate not deliberately either optimistic or pessimistic, does not include any margin for prudence and does not incorporate adjustment to reflect the desired outcome". We propose that the glossary references this existing legislative definition.

12. What are your views on the proposed provisions in relation to CMP modelling? Do you expect the proposed requirements on communication to support intended users in making relevant decisions based on modelling? Do you believe there are further items where additional requirements would be appropriate?

P3.1 requires models to "reflect the complexity of scheme benefits". We are not sure what the words "the complexity of" are intended to add. In practice, the benefit structure of a CDC scheme is likely to be significantly simpler than (for example) a legacy DB arrangement. We suggest this wording should be replaced with "reflect the scheme benefits".

We have several concerns over P3.2:

- P3.2 proposes a stochastic assessment of the probability of the live running tests being failed at some point in the future. Given the complexity of these tests, projecting them forward on a stochastic basis seems extremely disproportionate and is likely to be very expensive. In addition, it is not clear what actions the trustees might take as a result of knowing that there is an x% rather than a y% probability of failure. It

seems that this information would be unlikely to influence trustee decisions (or could influence them inappropriately by biasing their decisions towards more prudent assumptions) and so imposing significant additional costs would be disproportionate.

- P3.2 suggests models should be able to "identify scenarios (including probabilities)" relating to certain events happening. This appears to confuse scenario planning with stochastic modelling. We would suggest this wording be replaced by "estimate the probability that:"
- P3.2 focuses on downside scenarios in isolation – in practice upside scenarios might be equally likely and also present challenges for the management of CDC schemes. A focus on downside outcomes might bias decision-making towards making central estimates which err towards prudence.
- We note that P3.2 does not suggest a period over which the probabilities should be assessed. We do not think a specific period should be set by the TAS but it would be helpful to state that the actuary should select an appropriate period.

Paragraph 3.18 of the consultation document indicates that stochastic modelling might not be required to form a view on soundness, despite the expectation set out in P3.3, that stochastic modelling should be used. In principle we are supportive of the use of stochastic modelling for CDC schemes. However, the comments in paragraph 3.18 (that an alternative approach can be used provided this satisfied P3.1 and P3.2 and the reliability objective) would need to be included within the TAS, if that is the FRC's intention.

We are not sure what P3.4 is intended to achieve. Clearly changing the underlying model could result in significantly different modelling results but simply confirming that this is the case (which would appear to satisfy this requirement) would not be of particular benefit. We are concerned that any change to the wording of this requirement could easily introduce a very onerous requirement, without adding any particular benefit.

On P3.5, it is not clear whether this is a requirement to comment on one or two credible alternatives, or the possible range of credible alternatives. The latter seems virtually impossible to satisfy as there would be a huge range of "credible alternative modelling". Even considering one or two alternative models seems disproportionate, given the complex nature of the exercise. This is therefore a potentially an extremely onerous requirement, particularly if a quantitative evaluation is required. Our preference is to remove the requirement completely – or to simply require communication of the fact that different models could produce very different outcomes.

More fundamentally, we are concerned that requiring consideration of alternative modelling could lead to pressure on the actuary to adopt more optimistic approaches, and in turn this could lead to contentious benefit reductions being deferred and unsustainable expectations being set.

P3.6 might usefully be extended to include which variables have not been modelled in a stochastic manner and why this approach was taken.

P3.10 partially mirrors the wording in P3.2 and our concerns over that paragraph, as set out above, are similarly mirrored. We note that the

"identify scenarios (including probabilities) where" wording has morphed into "explain scenarios where". We suggest, given the analysis is likely to be built on stochastic modelling rather than scenario testing, that this wording is replaced by "estimate the probability that" (provided the requirement to comment on the live running tests being failed in future is removed, as we suggest above).

13. What are your views on the proposed provisions in relation to Scheme design? Do you envisage any difficulties in meeting the requirements of these provisions. Please provide details to accompany your response.

The P4.1 requirement to use data which is "as comprehensive as possible" seems an unnecessarily high benchmark, suggesting all data conceivably possible to collect would need to be collected. The requirements is particularly onerous given it could be applied to very early preliminary and therefore approximate assessments of a possible CDC arrangements. We would suggest use of data that is "appropriate to the advice being given, to the extent that this is available".

In addition, we are not sure why these requirements should not also apply to schemes which are in the process of applying for authorisation.

14. What are your views on the proposed provisions on completing assessments of scheme viability and certifying soundness? Do you consider it is appropriate to require practitioners to consider areas beyond those outlined in legislation when certifying soundness? Please give reasons for your response.

We agree that it would not be appropriate to define soundness within the TASs, given there is no definition provided in legislation. We would be concerned if the TASs added specific additional requirements to the legislative provisions relating to soundness.

P5.1 should refer to "all relevant *actuarial* matters" rather than "all relevant matters" (see Q15). Otherwise, we are satisfied with P5.1 as drafted which simply emphasises that the actuary could go beyond the legislative provisions where they consider there to be additional 'relevant matters', and then lists some matters which might (or might not) be considered relevant by the actuary.

We do not think the items listed in a to c of P5.1 would necessarily suggest a scheme is no longer sound, and our preference would be to remove this list. However, we do not have strong objections to the items being included, given the actuary can simply ignore the factors listed where they are not considered to be relevant. It they are retained, we suggest that the first item requires a reference to the materiality of the risks to intergenerational fairness involved.

On consideration of member communication by the scheme actuary, we are aware from our previous work with DWP that the legislation - at Regulation 11 (2)(b)) of the OPS (Collective Money Purchase Schemes) Regulations 2022 - was drafted to limit the scope of the documentation that

an actuary would be required to review to specific named items of communication – so that the actuary was not obliged to read through many different items of communication to check what had been said. Whilst we agree that it may in some circumstances be appropriate for the actuary to take into account a wider range of member communications in forming a view on soundness, the TAS should not introduce a requirement to review a wider range of documentation than is set out in the legislation. Whilst P5.2a does not necessarily cause a direct problem – as it can be read as simply requiring the actuary to review the communication they consider relevant – we think it would be more helpful if the reference to "all member communications" was amended to "the member communications".

We note that P5.4d refers to "any running or gateway tests". This should presumably say "any live running or gateway tests".

P5.4e requires some qualification as to the probability of such events occurring. The actuary should not be required to consider all possible events that could materially impact soundness (however unlikely).

P5.4f requires amendment to cover both downside and upside scenarios which could lead to a scheme become unsound (e.g. scenarios in which very high future pension increases might be required, making the design inappropriate and hence potentially unsound/unviable).

15. Do you agree that the considerations for a practitioner certifying scheme soundness via a viability certificate are the same as those a practitioner should communicate to trustees in their own consideration as to whether the design of the scheme is sound for their viability report?

Not necessarily. As soundness is not defined and is based on judgement, the actuary might wish to flag wider issues to the trustees – issues which are not considered to prevent certification from an actuarial perspective but which the trustees should consider in forming their own view on soundness, for the purposes of their annual viability report. Paragraph 3.2 of the IFoA's APS P1 requires the actuary to draw the trustees' attention to any matters which the trustees should bear in mind before taking any action associated with the certification.

16. Are there any other areas in relation to soundness (including practitioners' communications of their work on soundness) which require further standards? Please provide as much detail as possible.

No.

17. What are your views on the proposed provisions on actuarial valuations for CMP schemes? Are there other key areas of judgement beyond the central estimate assumptions? Are there further areas you would expect to be included? Please give reasons for your response.

We can see no reason for the requirement in P6.1a, to compare assumptions with those used in the first gateway test. These are likely to

become less and less relevant as time progresses – and this could happen quite quickly if there are significant financial change shortly after the scheme commences. In any case, it is not clear why consistency with a historic test should be required or even what benefit this would provide, to justify the additional costs of this analysis.

The commentary at paragraph 3.39 of the consultation discusses a comparison with the original aspiration for (say) inflationary pension increases. We can see that it might be helpful to comment on this particular point but this seems much narrower than the P6.1a requirement to compare (all?) assumptions with those adopted for the original gateway test. A comparison with the assumptions adopted for the most recent previous valuation might be more reasonable.

On P6.1b, (and as for P3.5 above), it is not clear whether this is a requirement to consider one or two credible alternative sets of assumptions, or the possible range of credible alternatives for each assumption. The latter seems virtually impossible to satisfy as there would be a range of “credible alternative central estimates” for each assumption. The former would not appear to add a great deal of information, to justify the increased costs associated with multiple calculations.

More fundamentally, we are concerned that requiring reporting of alternative bases could encourage trustees to push the actuary towards the more optimistic scenarios, and in turn this could lead to contentious benefit reductions being deferred and unsustainable expectations being set. Conversely, it could worry trustees into pushing the actuary towards the more pessimistic scenarios. Either way, this requirement could lead to bias in decision-making and therefore intergenerational unfairness.

On P6,1c, the allowance for post valuation experience (PVE) was another contentious area which we discussed with both DWP and TPR (at length) in drafting of the legislation and the code of practice. CDC valuations are carried out every 12 months and can take up to 10 months to complete. If the actuary has to consider allowing for PVE (which is inevitably a constantly moving target) in setting the benefit adjustment there would be a risk that the valuation cannot be completed (as CDC valuations must be based on central estimates, which would change from day to day). We accept that there might be circumstance (for example following a significant market crash shortly after the effective date) where ignoring allowance for PVE would be inappropriate. Our understanding is that the legislation - in particular Regulation 19(2) - was drafted with this specific point in mind. Allowance for PVE is a trustee decision – which we might expect to be applied in extreme circumstances - and in normal circumstances PVE should be ignored. This is a further example where TAS 310 introduces requirements beyond those set out in the legislation and regulation of CDC, and where compliance with TAS 310 therefore adds material cost if it is implemented in its current form.

Against this background, the wording of P6.1c is highly problematic. Firstly, we do not think that the correct test should be whether there has been “material” PVE. “Material” in this sense would be taken to mean impacting on the level of the benefit adjustment – but this could easily vary from day to day so this test would very frequently be met. The threshold for having to

calculate revised benefit adjustments based on PVE should be much higher. We would suggest that the requirement should be replaced with something like “whether post valuation experience has been so significant that it would be inappropriate to calculate the benefit adjustment based on financial conditions at the valuation date.”

P6.2a again raises the problems associated with “credible alternatives” – see our comments on P3.5 and P6.1b above. Paragraph 3.38 of the consultation document explains that the FRC “considers it necessary” without confirming exactly what it has in mind (in terms of the potential range or one or two alternative suggestions) or why this might be necessary – or even beneficial, given the additional costs involved and the potential for the actuary to be encouraged to move towards one end of a given range of alternatives, introducing bias, as a result of requiring these additional disclosures.

The P6.2b requirement to consider a “credible alternative” to the approach adopted for PVE should be removed. We set out above in our comments on P6.1c, why PVE should only be allowed for in extreme circumstances and should generally be ignored. Given the choice is to allow for PVE or not allow for it, if the actuary has concluded that there is not a compelling reason to allow for PVE, the TAS should not introduce a requirement to consider the alternative approach of making allowance for PVE and assessing what the benefit adjustment would have been had allowance for PVE been made (and incur the costs associated with the additional calculations etc).

18. Do you agree the required content of the valuation report set out in Appendix A is reasonable for CMP schemes? Is there further content which should be included?

Paragraph h should be restricted to material risks.

19. What are your views on the proposed provisions in relation to factors for CMP schemes? Do you envisage any issues complying with provision P7.4 regarding selection risk? Are there certain groups of members you believe this may disadvantage? Please provide reasons for your response.

On P7.3, we think that “Where cash equivalent transfer values are to be calculated on a share-of-fund basis” should simply say “For cash equivalent transfer values”, given legislation requires a share-of-fund basis.

We suggest that P7.5 and P7.6 should be reworded to reflect the fact that CDC scheme factors would generally be designed on a cost neutral basis and aim to eliminate any bias between different classes of members. We think it would be extremely unusual to adopt a different approach and that your wording should reflect this (rather than, as drafted, possibly suggesting that a non-cost neutral approach might be explained and that an approach leading to some members receiving a disproportionate share of assets might be acceptable).

In addition, the TAS should make it clear that the requirement for factors to be “cost neutral on a central estimate basis” and the communication

requirements in P7.5 and P7.6 do not require consideration of sex-specific factors versus unisex factors, where trustees wish to (or are required to) adopt unisex factors.

20. Do you agree with our impact assessment? Please give reasons for your response.

We appreciate that the amended TAS 300 would introduce costs for actuaries that are not complying with best practice, but that is inevitable and is merely a result of improvement in standards.

The significant increase in scope suggested by the amendment to actuarial work in relation to funding and financing would result in a very material increase in costs.

The proposed changes to TAS 300 in relation to actuarial factors appear to be going beyond what would be regarded currently as best practice among actuaries, and beyond the conclusions of the IFoA's thematic review (which actuaries would seek to reflect in their practices). This means that the changes are bound to create additional costs (perhaps up to 30% in some cases for the advice on factors) which would be passed on to trustee and employer clients without material benefit to the clients. Additionally changing the scope of the funding principles to go beyond the regular funding exercise would create further extra costs.

If the FRC were to accept the suggestions and comments we have made in relation to TAS 300 in this response it is likely that work will accord with current best practices and there will be few additional costs (other than implementation costs).

As noted above, we have significant concerns over the current draft of TAS 310, which would add a large amount of additional cost to the requirements of legislation. Examples include the proposed additional requirements to consider and report on "credible alternatives" in several areas and considerations and reporting in relation to post valuation experience. It is therefore not correct to suggest, as set out in paragraph 4.8 of the consultation document, that any costs arise solely from the legislation and regulation of CDC. We hope that these issues will be addressed as a result of this consultation, so that the final version of TAS 310 does not introduce significant additional costs.

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