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Board for Actuarial Standards
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Reference: IP/KC/TAS-R Consult

Dear Sirs

Technical Actuarial Standard - Reporting Actuarial Information (TAS R)

The Profession welcomes the opportunity to respond to your invitation to comment on this second exposure draft of TAS-R.

We are most supportive of the revised style and note that much care has been taken to explain the new approach. It seems to us that many of the requirements of TAS-R will enhance the quality of actuarial reporting, whilst simultaneously creating an environment to challenge all parties to identify and use relevant and reliable information to best advantage, when taking decisions.

However we believe that BAS should give further consideration to three key issues identified below. We also provide further detail and specific practical examples in relation to these issues when commenting on the 8 questions posed in the consultation.

Three key issues - Trial period, Scope and Users

- Our first and most important issue is that, given the nature and importance of the Standard, we believe there is much to be gained by road testing TAS-R before it becomes mandatory. For example the Standard could be classified as Best Practice for a limited period and/or volunteers could be identified to give feedback on the practical application of the Standard over a trial period.

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- We believe there is much to be gained by transitioning to the new Standard over a trial period. This would not only allow Practitioners and Users to share their understanding and experience of applying TAS-R, but there would also be a more planned approach to the adoption of the Standard. This in turn would provide BAS with valuable feedback on its practical operation enabling any necessary adjustments/clarifications to be made for the benefit of all parties before the Standard becomes mandatory.
- Our second key issue relates to the new definition of Scope. This includes 'Required Work' which becomes 'Reserved Work' as a result of a legal obligation. We believe this needs further consideration for a number of reasons. For example the range of work created by a legal obligation cannot be easily identified, and so may be widened too far with unpredictable consequences. There is also the potential for different interpretation of what constitutes a legal obligation, leading to inconsistent application of the Standard and similar work may be in or out of Scope, depending, as it must do, on the construction of legal documents over time to meet varying house styles, client and regulatory needs.
- Our third key issue relates to the definition of Users. We believe this should be constructed to recognise the different needs of three distinct and important groups viz. Clients (both internal and external), Regulators plus certain Institutions such as Lloyd's and Key Interested Parties, such as Policyholders and Members of Pension funds.
- We believe the Standard will be more robust if it is primarily focused on Clients, but with due regard given to other interested parties. Hence we suggest that Users should either be defined as Clients or the different types of Users should be identified in TAS-R with explicit requirements applying to each group as appropriate.

We now comment on the 8 questions posed in the consultation, starting with Question 2 (Commencement Date), as this links to our point on the need to consider a trial period to gain experience and feedback of the Standard.

Question 2 - Commencement Date (and related issue of trial period to achieve proportionate Regulation).

Two points which we believe should be taken into account when determining the Commencement Date are:-

- a) For projects with a long timescale, we believe it is disproportionate to revisit parts of a project which have commenced before the Standard becomes mandatory. Rather, the need to revisit should be optional, as it will depend on circumstances. Hence we believe that TAS-R should apply to new projects starting after a specific date, but that earlier adoption would apply as judged proportionate by Clients.
- b) We believe that it would be beneficial in general if the commencement date for TAS-R avoids the period around the end of a tax year, given the high volume of activity which straddles this date. There is also a specific challenge for General Insurance actuaries who provide Statements of Actuarial Opinion for Lloyd's syndicates, where historically the final reports have been delivered during April. We suggest that it would be helpful to avoid the month of April as a commencement date for TAS-R.

However as stated earlier, we believe there is a strong case for a trial period, which would then dictate when the standard would become mandatory.

Thinking about the case for a trial period, we note that many of the requirements of the Standard only apply if the information is material to the decisions in hand. However time will still be required to assess the extent to which the information is material and remains material as circumstances change. The exercise of judgement to determine materiality will also be affected by factors, known and unknown by the Actuary, at the point of making the judgement. Further in some cases Users will hold relevant information which appears irrelevant or is of a confidential nature which they judge cannot be divulged.

It seems to us that there will be many practical issues to be considered as Practitioners and Users embrace the Standard. Consequently we believe that although the Standard has been constructed to encourage a proportionate approach, in practice this may be difficult to achieve even for well tried projects without the benefit of a road test, which would, for example, enable BAS to consider the need for additional signposts.

Question1, Scope -Is the Definition desirable and does it support the purpose of TAS-R?

We support the need to change Scope to enable TAS-R to be embraced as soon as practicable and agree with the extension in Scope to include reports presented as or having the appearance of complying with TAS-R. We also agree with the requirement (in C3.9) to state whether the work complies with TAS-R and any other BAS Standards (identifying any material departures), as this clarifies the status of the work in relation to these Standards.

However we have concerns with that part of the definition which brings 'Required Work' into Scope because of a 'legal obligation created by the Entity'.

While the definition of Scope (in the Scope and Authority Document) appears neat and reasonable, in practice we feel there is potential for misinterpretation and misapplication of the Standard, when considering whether a legal obligation has been created. It also seems to us that there may be inconsistent interpretation by firms and actuaries within firms when considering legal obligations, which could then undermine confidence in the Standard.

We also believe it is inappropriate to widen Scope in this way, when it cannot be known at this stage what range of work will be captured by the legal obligation created by the Entity. We believe this may result in unintentional consequences.

Some examples to illustrate some of the difficulties of including work arising from a 'legal obligation created by the Entity' within Scope are:-

- a) We note that if Pension Scheme Trust Deed and Rules, Insurance Policies or a Sale and Purchase agreements assign certain work to a qualified Actuary, then under the new definition of Scope that is 'Reserved Work'.

However it is not immediately obvious if advice on financial and mortality assumptions to disclose pension obligations in UK Company Accounts is within Scope. Although Directors are bound to take (but not necessarily follow) the advice of an Actuary when setting their assumptions, we think the status of this work is 'Required' but can see different arguments being advanced as to whether or not it is 'Reserved'.

Given the importance of the disclosures when assessing the value of the Entity, we believe an explicit statement should be made in TAS-R to clarify whether or not this work is within or out of Scope.

- b) Pension Plan Trust Deed and Rules, Insurance Policies and similar documents, vary in their construction depending, for example, on variations in client requirements, thinking in the past and drafting style.

For example, in the area of Life assurance policies, it may be stated that the charges are to be reviewed annually by the company's actuary. However, another otherwise identical policy, possibly even issued by the same company, might be silent on who is responsible.

Some documents will refer to the 'Company's Actuary' or the 'Appointed Actuary' and it is unclear if this translates through to the Actuarial Function Holder (and/or the With-Profits Actuary).

There is also some doubt if reference to 'an Actuary' would result in the work being classed as 'Reserved' as it would rarely be prescribed that the person possessed a particular qualification from an actuarial body. Rather it would merely state that he or she was 'an Actuary', a term over which the Profession has no control.

- c) In some cases a legal obligation will have been created in a life assurance policy where it is not proportionate to report to the Board due to the trivial nature of the obligation. However it is not clear if the Standard would permit no report to be made and if so whether or not a file note was required to justify this.
- d) the intended Scope will be diluted if Practitioners and Clients construct new documents to ensure the work is out of Scope. This may depend on how proportionate TAS -R is perceived to be. Without further analysis, it is difficult to determine the extent to which the market would validly seek to avoid TAS-R with a possible knock on effect of not commissioning actuaries to carry out certain work.
- e) some legal obligations may be subject to requirements set by other Regulators, including European and International Standards which affect UK actuaries. If there is a conflict is it intended that TAS-R would apply in this event? (We note below the position for Standards issued by the Profession).

We conclude that BAS should give some consideration to redefining the initial Scope for TAS-R, by excluding reference to work arising from ' a legal obligation created by the Entity'. Initially Scope could be that 'reserved for Actuaries by Legislation'. However once experience of operating TAS-R is gained, it may then be appropriate to widen scope possibly by referring to the type of advice e.g. work involving advice on financial and/or mortality assumptions.

Definition and Needs of Users

The definition of Users is 'Those people whose decisions a 'report' is intended at time of writing to assist.' Examples given are those to whom the report is addressed, Regulators and '3rd parties for whose benefit a report is written'.

We understand that 3rd parties does not mean insured parties or pension scheme members who are entitled to receive certain reports under disclosure legislation. Rather it means other parties such as Lloyd's who receive certain reports. We believe it should be clearer that the definition of Users is Clients (both internal and external), Regulators and certain Institutions.

We also believe that the Standard will be more robust if it is primarily focused on Clients, but with due regard given to other interested parties. Our view is reinforced when considering the seven requirements within TAS-R which relate to Users.

For example, as currently written the Standard (C.2.9) requires 'judgement to be made on who the Users are.' We believe that Clients must decide this. Although Regulators and others will use the information in the report, we believe their requirements will be taken into account by Clients when setting the objective, scope and budget for the project. Further the Actuary must advise on compliance with Regulatory requirements if material and relevant to the project, giving due regard to Key Interested Parties (such as policy holders and pension scheme members) if they are affected by the work.

We also believe the requirement in TAS-R for 'sufficient information to be included to enable Users to judge its relevance' (C.3.10) and that 'style, structure and content of the report shall be suited to the skills, understanding and levels of relevant technical knowledge of their Users (C.4.1)' should be focused on Clients. If Users are defined too widely for the purpose of these requirements, we believe they will be difficult to achieve or will be diluted in their effect.

Hence we conclude that Users should either be defined as Clients or the different types of Users should be identified in TAS-R with explicit requirements applying to each group.

Further, irrespective of the need to differentiate between different types of Users, we believe that the requirement to take a proportionate approach needs more emphasis. For example statements 'to **ensure** each User is aware of which information is relevant to their decisions' (C3.2) and 'reports will need to address the needs of and be **understandable** by all their Users' (C4.2) could be expressed as 'reasonable steps should be taken to ensure/address' such requirements.

Question 3 - Compliance with TAS via Component and Aggregate Reports

The concept of Compliance via a number of 'Component Reports' which in aggregate comprises the 'Aggregate Report' is well explained and may be appropriate for certain types of work. However given the range of work which could fall within Scope as currently defined, it can't easily be established if the benefits of this approach outweigh the potential additional costs.

Some practical issues which have occurred to us are

- i) C3.1 requires that 'Aggregate Reports 'shall' include sufficient information to enable its Users to judge its relevance to their decisions'. This may result in excessive checking to establish if all points have been covered, with little added value especially for longer projects.
- ii) in practice there may be more than one Actuary responsible for different parts of the project. Who then takes responsibility for the Aggregate Report? For example the With Profits Actuary will take account of earlier reports from the Actuarial Function Holder when reporting on bonus rates and the Board will review reports from each Actuary. Is this sufficient?
- iii) there seems to be no ability for the client to restrict Scope on a change of Actuary, unless it is acceptable for the new Actuary to refer to such earlier work in the Aggregate report and state that he has relied upon it.
- iv) there may be a need to clarify whether or not work carried out by an Actuary which is supplemental to Reserved work is within Scope.
- v) we note that the definition of 'reports' includes draft reports and believe the status of such reports requires further consideration. In particular some terms of engagement specify that 'only the final report is to be considered a definitive document and that draft versions cannot be relied upon.'
- vi) we feel further consideration is needed in the area of General Insurance to determine the extent to which TAS-R might apply to Statements of Actuarial Opinion and the extent to which they might be considered component reports.
- vii) some consideration will need to be given to the fact that work prepared for one purpose (e.g. supporting the provision of Statements of Actuarial Opinion) may be used for another related purpose (i.e. setting reserves). If Users perceive that their ability to have a single, commonly understood and comprehensive report is undermined by a desire to focus on key

issues, they may be averse to the proposed changes. Some consideration will also have to be given to the fact that in General Insurance, the reporting discipline is used to good effect to produce reports which include high-quality reference material for future actuarial work.

vii) it might be helpful to amplify C3.9 to the effect that such statements will often be made in the final component report where it is not felt necessary to prepare a separate Aggregate report.

Question 4 - Impact of TAS-R on content, form and timing of work delivered to the Client

As there is helpful guidance in the subparagraphs to the Principles in TAS-R we believe there is encouragement to depart from a possible tick box approach. However the exercise of judgement will vary depending in part on the level of experience of the Actuary, on User needs and other factors so it may take some time before the benefits of TAS-R are fully realised

Some specific comments are

- a) C.5 requires that if calculations are provided at regular intervals, an indication of projected results should be provided if material. There is a tension between additional information to inform the decision and Users deciding it can wait until the next review. Further whilst a description of the anticipated evolution of the results would satisfy the standard, would this result in bland statements being made without much value, just to ensure compliance with TAS-R?
- b) It may be appropriate as part of an insurance cycle to provide projections of the future course of solvency and capital positions, typically in a Financial Condition Report. Such reports are not a mandatory requirement of the Actuarial Function Holder of a Life Insurer but TAS-R may be read as mandating
 - i. A formal projection of solvency and capital positions at least 1 year forward
or
 - ii. an informal statement by a report's author of the likely outcome of such a projection.

If (i), we suggest this additional technical work is included in a Specific TAS. If (ii), we suggest BAS may be inappropriately requiring an Actuary to offer an opinion on the future position of a particular entity without having carried out the projection.

- c) C5.11 Probabilities and the requirement (where material) to 'explain the intended meaning and the nature of any statistics on which the probability is based' may just apply to numerical probabilities, but would BAS wish to encourage words rather than numbers to give a feel for the probability of an event? It is suggested that this is clarified and that C6.7 (Rationales and the need to distinguish between fact and judgement etc) should be referred to in some way under C5.11.

Question 5 - Long term cost compared with Benefit

We consider that unless the definition of Scope and Users is clarified, unnecessary costs will be incurred. We also recommend for the reasons given earlier, that TAS-R is applied for a trial period to iron out any practical difficulties given the mandatory nature of the Standard, otherwise early perceptions will be difficult to shift, thus postponing the point at which the benefits may outweigh the additional costs which are ultimately borne by Clients and Beneficiaries of the various arrangements.

If there is to be no trial period then we feel that the BAS Board needs to consider if it is reasonable to widen Scope at this initial stage without a greater attempt to examine the type of work which may be covered. We feel to do so would be in line with the Principles of Good Regulation, promoted by the Department for Business Enterprise and Regulatory Reform. Our thoughts are reinforced by the fact that decisions taken now on Scope and Users will apply to other TASs.

Question 6 - TAS-R prevails in the event of adopted Guidance notes.

We agree this should be a long term objective but in the short term we recommend that BAS would offer guidance on a case by case basis, if the practitioner felt the issue was difficult to resolve, given the mandatory nature of the Standards and the difficulty of anticipating the nature of any conflict at this stage.

We believe that material conflicts with other Regulators' requirements which are difficult to resolve should also be identified and referred to BAS on a case by case basis for guidance. For example, practical difficulties may arise with reports written simultaneously to address issues within and out of Scope e.g. a report prepared on an Entity prepared for a UK and non UK Regulator.

A point which occurs to us is that given the requirement (in C3.9) to state whether the work complies with TAS-R and any other BAS Standards (identifying any material departures), there

should perhaps also be a requirement to state how any material conflicts with existing guidance notes and/or other regulatory requirements has been resolved if appropriate.

Question 7 - New requirements

Some of the new requirements are non controversial, such as the fact that any material information that is conveyed orally must be confirmed in writing.

All new material (in line with all of the requirements of the TAS) applies if the matter is judged to be material. Nevertheless some of this new material could set too high a bar and/or be impractical and/or be beyond the gift of the Actuary. Examples are:-

- i) Under Relevant information, C3.10 requires “any person “responsible for the Aggregate Report ‘shall’ include an indication of the impact of events since the last Component Report. Although this information need only be provided if it is material to the decision, it would be helpful to explicitly state this.
- ii) Under Comprehensibility, C.4.8 requires the meaning of any calculation presented as values to be explained. It would be helpful to state ‘in a proportionate way’
- iii) Under completeness C.5.9 requires an indication of the nature of any cash flows and their timing to be quantified in some way in the Aggregate Report. We believe it should be explicitly stated that the level of detail will depend on circumstances.

Question 8 - Text as a means of implementing Policy

Whilst the intent of TAS-R is understood, which implies the approach does provide a means of implementing BAS Policy, is it is necessary to get under its skin to understand its requirements. Hence some elements may need to be supported by further explanation and signposts, not necessarily in TAS-R.

As stated earlier it is essential to clarify the definition of Users and Scope. We also recommend that principle C2.11 on proportionality is given more prominence and is presented as an overriding requirement.

We conclude with a summary of our key points

Summary of our key points

- We support the introduction of TAS-R, which will enhance the quality of actuarial reporting and enable all parties to use information to best advantage when making decisions.
- In line with the Principles of Good Regulation, some consideration should be given to analysing whether the TAS-R will raise the quality of actuarial reporting in a proportionate way. Recognising that this is difficult to carry out in advance, it is suggested that the Standard is introduced for a trial period, to enable any relevant issues to be addressed and to gather support for effective application of the Standard.
- The definition of the Scope of TAS-R at this initial stage should be reconsidered to exclude 'Required Work' which becomes 'Reserved' as a result of a legal obligation created by the Entity. We also believe there should be an explicit statement within TAS-R on whether or not advice on accounting disclosures is in or out of Scope.
- The definitions of Users should be constructed in a different way to recognise the different need of Clients, Regulators and Key Interested Parties.
- Given some projects have a long timescale, we believe it would be proportionate for TAS-R to apply on a mandatory basis to projects starting after a specific date. Clients on the advice of the Actuary would then determine on a voluntary basis if it was cost effective to revisit earlier work.
- Given the activity at the end of the Tax year it would be proportionate to avoid setting the Commencement date at or around the end of the tax year and to avoid the month of April given reports for Lloyds's Syndicates are delivered then.
- Notwithstanding our comments on Commencement date, we believe there is a strong case to road test TAS-R before it becomes mandatory.

We hope you find our response helpful

Yours sincerely

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