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Exposure Draft: Reporting Actuarial Information - March 2009

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the Exposure Draft issued March 2009.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes.

Members of the Association are all qualified actuaries, subject to the code of professional conduct of the Faculty and Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

In summary we support and welcome the exposure draft as now presented. We continue to support a principles based approach and believe that to be appropriate to members of a profession giving advice to users in order for them to make informed decisions. We are nevertheless aware of some unease felt by some actuaries who are perhaps fearful of their advice being put to test by lawyers or indeed the profession without the benefit of an explicit "list of checks" which are currently provided by Guidance Notes. We do not support that latter view point, however we do encourage the BAS to provide an interpretation role to cover apparent conflicts in complying with the various TASs.

Our comments on the specific questions are contained in the Appendix to this letter along with some specific comments and suggestions.

We hope you find our comments of assistance and would be happy to discuss any aspects of our submission.

Yours faithfully

Phil Wadsworth MA FFA
Chairman
Consulting Practice Committee
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Appendix

1. *Whether the proposed additions to the Schedule of our Scope & Authority are desirable, and if so whether the suggested text achieves our aims (see paragraphs 2.5 to 2.17);*

We are not entirely comfortable with the extension of the scope to include work which is not Reserved Work. There are many areas of work which actuaries get involved in which could and frequently is performed by professionals other than actuaries. An example would be in the area of investment where financial economists occupy the same space as actuaries. The suggestion in 2.15, as amplified under 2.16 and 2.17 appears to require the actuary stating, for the avoidance of doubt, whether he has or has not complied with the various TASs. As a user I could view a "statement of non compliance" as indicating that the advice is inferior or not up to scratch, whereas the truth may be completely different and the reason for non compliance is the competitive disadvantage in having to expressly comply with all the various TASs and the costs thereof. Work which is not Reserved Work needs to be relevant, transparent, complete and comprehensible and the actuary must as a professional seek to achieve this. However the route of compliance with TASs for non Reserved Work is not the route. We have a perfectly adequate means of dealing with behaviour which would lead to bringing the name of the profession into disrepute and that is the mechanism for dealing with the quality of work generally undertaken by actuaries.

2. *The proposed commencement date for TAS R (see paragraphs 3.1 to 3.6).*

This is undoubtedly a tricky area and whilst there is a natural inclination to push the date further into the future, the BAS we suspect cannot allow actuaries to continue not to comply fully with principles it believes as necessary minimum standards of conduct for very long. Clearly as a pension's actuary one would like the effective date no earlier than 15 months from the release of this document, but allowing sufficient time for "changes in procedures". That would take the date probably to Q3 2010 or even 31 December 2010

That however would probably be untenable from the BAS perspective.

We would therefore state that we believe it cannot be earlier than April 2010 and indeed would prefer some additional time if possible.

3. *The definitions of "aggregate report" and "component report" in Part B of the exposure draft (discussed in paragraphs 3.18 to 3.24);*

We do have comments on the definitions which we have included under question 8. We would further comment that the entire process involved in a pension scheme reassessment can be a protracted process involving many many component reports, some formal, some less formal involving not only written communication but also presentational slides. Therefore in response to a request to provide details of the latest valuation to a third party, who was never intended at the time of undertaking the work to be a user, may involve not only supplying an aggregate report but also several component reports. This may be cumbersome as a first observation but furthermore could be inappropriate. For instance providing information to a potential acquirer of a business, which has been authorised by the Trustees and Sponsor, may be less than helpful if it contains a "blow by blow" account of how the final position was arrived at. To that extent we remain to be convinced that in certain

instances a report of record should no longer continue to be required. A further example is in response to a request to disclose "the actuarial valuation" to a member.

4. *The effects that the introduction of TAS R is likely to have on the content, form and timing of communications with the users of actuarial information (see paragraphs 1.8 to 1.12 and 3.40 to 3.46);*

The comments made in relation to the previous question continue to apply here. Equally we believe that member firms will have to spend considerable time in considering changes to templates as well as the fundamental approach to provision of advice. In this context it is important to retain efficiencies which by their nature aid the quality of the output and the communication thereof. Without at this stage being in a position to consider the impact on TAS R of the non generic TASs such as TAS P it is difficult to know what the impact will be.

5. *The BAS's assessment that any long term costs will be justified by the benefits to the users of actuarial information (see paragraphs 3.40 to 3.46);*

As indicated in the response to question 4 we question as to how we can judge the BAS comment at this stage until we know the full impact of implementing all TASs. Equally until we are able to assess how the user will view the "new world" we cannot say whether, in the eyes of the party meeting the costs, the benefit outweighs the cost.

6. *The proposal that TAS R should prevail in the event of any conflict with adopted Practice Standard Guidance Notes (see paragraphs 4.2 to 4.7);*

In paragraph 4.2 it states that the BAS will specify in TAS R (and other Generic TASs) how any such conflicts should be resolved. Looking at TAS R this has been achieved by merely stating that TAS R shall prevail. Whilst the commentary in paragraph 4.5 is useful that example clarifies how in fact there is not conflict in meeting both GN9 and TAS R which is not we suggest the issue. A conflict arises where compliance with both the TAS and the GN is not possible and TAS R states in this evident that TAS R will prevail. The document does not state show non compliance with the GN would be treated in the event that compliance to both is not possible. Nor does the fact that TAS R prevails absolve the actuary from criticism in not complying with the GN, which of course in accordance with the GN must be disclosed.

7. *The proposed additional requirements described in paragraphs 4.8 to 4.18;*

The requirements under 4.8 we would suggest is best practice in any case and because it is restricted to material information should not be onerous.

The practicalities under 4.9 could become onerous and indeed may cause the conclusion of a piece of work never to be reached. The valuation of a pension scheme involves a process lasting up to 15 months, or even longer in some isolated cases. We cannot but agree that changes to economic conditions in that 15 month period are relevant to the user and to the decisions he is to make. However judgement is needed as to how the process is managed and we welcome the use of the word "indication" in C.3.10. The key principle has to be that the user has sufficient information, including recent developments, to make an informed decision. However, that does not mean that work previously undertaken has to be replaced but rather needs to be amplified on.

We have no comment on paragraph 4.10.

In relation to paragraphs 4.11 to 4.217 we have no particular concerns now that the requirement for values of undiscounted cash flows have been dropped. Nevertheless it will be interesting how individual firms react to these requirements and undeniably some of the fuller solutions will be more costly to produce.

8. *The text of the exposure draft as a means of implementing the policy proposals presented in this document.*

Part B, Users

In the definition of users we are concerned that in order to meet the requirements of TAS R we need to ensure that we know who the audience is. We are comfortable that this includes the party for whose immediate benefit the report is written. However the definition of user includes "third parties for whose benefit a report is written". This does give issues in relation to say members of a pension scheme who have a right under the disclosure regulations to see a valuation report.

This extremely wide definition of users can therefore be unhelpful. If we then refer to the definition of materiality how can we judge whether decisions by the user (the member say deciding whether to transfer out of a scheme) has been influenced by his/her understanding the information.

Part B, Aggregate Report, Component Report, Report

We pick up here question 3. We find the terminology confusing. Aggregate report is defined as the set of all component reports. Therefore as set out the aggregate report is not a report in itself but a collection of reports, even where the collection is a single report. Thus the definition of report is actually just a component report. Because of that we suggest that component report is replaced by report wherever it occurs, but the word component (not bold) may be retained where it amplifies the meaning. We believe then that "aggregate report" reads more clearly. Nevertheless it will be necessary to check the wording of paragraphs C.3.2 and C.3.4 and others since these are written as if the aggregate report is a report. There may well be a "report of record" which will refer to all the component **reports**, but we would argue that is not the same as the aggregate report. We believe the confusion may have occurred as the drafting attempts to cater for both the situation where there is a report of record and where there is not.

C.3.2

"It will be necessary to ensure that each user is aware of which information is relevant to their decisions" is a little strong and arguably we may not be in a position to know this. Thus we suggest that the second "is" is replaced by "may be"

C.3.10

We agree with the thrust here, but we believe it needs rewording as follows:

"A report shall include an indication of any **material** changes or events that are known to have occurred between the effective date of the data and other information on which it is based and the date of the last component **report**."

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