

The Director
Board for Actuarial Standards
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10 June 2009

Dear Madam

Reporting: TAS R Consultation paper

I am writing in connection with the consultation paper issued by the Board for Actuarial Standards on Reporting - TAS R. I am aware that this is a late submission for which I apologise for the inconvenience it may cause you but I hope you can include our views even at this stage.

I have attached Buck Consultants' comments on the paper which are set out in the Appendix to this letter. Our comments are made from a pensions perspective as this is the major area of actuarial work in which we are involved.

Yours sincerely



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Appendix – Response to the issues raised in the consultation paper “Reporting” issued by the Board for Actuarial Standards

1) Whether the proposed additions to the Schedule of BAS’s Scope & Authority are desirable, and if so whether the suggested text achieves BAS’s aims.

We agree with the proposal to extend the scope of the Generic TASs to cover all Reserved Work. We believe that this is appropriate and will help to avoid possible confusion. The suggested text will achieve the desired aim.

We agree in principle with the proposal to include all work that is presented as complying with TASs within the scope of Generic TASs. However, we feel that the proposed text may not achieve the desired aim. We have no problem with the inclusion of “express statement” in the definition but “necessary implication” is not sufficiently well defined. It would be simpler to require any report that is presented as complying with a TAS to include a statement to that effect (or a disclaimer if the report does not comply with a TAS).

2) The proposed commencement date for TAS R.

From a pensions perspective, the main issue with selecting a commencement date is that, whatever date is chosen, there will be some pension scheme valuations with effective dates prior to the commencement date but where some of the advice required by Trustees to assist them is reaching a decision has still to be given by the time the TAS comes into effect. Pension scheme valuations have to be completed within 15 months of the effective date of the valuation with the most common dates for valuations being 1 January and 1 or 6 April. Having a commencement date of 1 April 2010 would mean that valuations commencing in April 2009 may not be completed before TAS R came into effect. Work on these valuations will have commenced before the final version of TAS R is published and this could lead to initial component reports that do not comply fully with the TAS. In such cases, component reports completed after 1 April 2010 would have to contain information already provided to Trustees which could obscure relevant information required by the Trustees in order to make decisions.

There will still be many valuations commencing in April 2009 in respect of which final advice has not been given or contributions not agreed between Company and Trustees by 1 April 2010 and even the 15 month statutory period may be stretched.

To counter these problems, we would like to propose that the commencement date applies to the effective date for a piece of work ie all pension valuations on or after the 1 October 2009. This will also reduce additional costs which in today’s financial climate must be a factor.

In addition, this would have the advantage that the final version of TAS R may be published before initial work on such valuations has commenced.

3) The definitions of “aggregate report” and “component report” in Part B of the exposure draft.

We note that “report” is intended to include emails and copies of presentations as well as letters and reports. We agree that any written communication must be drafted in such a way that the recipient of the information or advice is able to understand the message and make appropriate decisions as a result. However, paragraph 3.3 of the exposure draft states that: “A component report shall include statements of its purpose and to whom it is addressed”. This seems unduly onerous for emails in particular which may be very short covering only a minor point of the actuarial exercise being undertaken.

Apart from this point, we are happy with the definitions of component report and aggregate report.

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.

We believe that for significant pieces of work, for example triennial actuarial valuations, there will not be a material change in the form or timing of communications with trustees except possibly in the provision of a draft formal report in advance of the production of the final published report that is available to members and other relevant parties. However, in respect of content, some of the proposals, such as the requirement to indicate the results of future calculations as noted in our response to question 5 below, could significantly increase the content of reports.

For smaller assignments, there is likely to be an increase in the content of the report(s) with a greater volume of information and advice being given earlier in the process than is currently the case. The form is also likely to be modified as additional information is added to less formal methods of communication such as emails and presentations.

We are also concerned that in respect of work required for pension accounting standards the new requirements would add too much to our reports that is not ultimately needed by the users of the report. This is likely to be exaggerated for example for a UK Ltd company owned by an overseas employer where FRS17 is required by local statutory authorities but is not of relevance to the parent or its investors.

5) BAS’s assessment that any long term costs will be justified by the benefits to the users of actuarial information.

As BAS has acknowledged, there will be initial costs incurred in moving to the new standard. We concur in this view but do not believe these will be significant for our business.

However, we are of the opinion that there would also be increases in costs on an ongoing basis as alluded to in our answers to questions 3 and 7. We are less certain that these additional costs can be justified by the benefits to the users of the actuarial information. In the pensions arena the recipients of advice are likely to have less technical understanding than other actuarial areas. Thus adding to the amount of information that they receive may actually be detrimental to your aims.

While the introduction of TAS R could reduce the content of component reports in some cases, the overall impact is likely to be an increase in volume, and hence in costs. As an example, the requirement to indicate the results of future calculations as set out in paragraph C5.18 of the exposure draft could significantly increase the volume of work without, we believe, giving any greater understanding or insight to the recipients of the report. In such instances, the additional costs could not be justified by the benefits to the users of the information particularly in the current economic climate.

6) The proposal that TAS R should prevail in the event of any conflict with adopted Practice Standard Guidance.

While we do not have any problems with this proposal in general, there is one specific area where we feel that some relaxation of this requirement would be helpful.

One of the options in respect of a GN9 report is that it could be presented in draft to the Trustees and used by them in reaching a final decision on, for example, the recovery plan in the event of a deficit. There are specific and onerous requirements in respect of the content of a GN9 report, not least because this report is available to members of the pension scheme and also to any relevant trade union. It is possible that, due to the requirements of GN9, information that would be considered as immaterial in terms of TAS R has to be, or is, included in a GN9 report. In addition, GN9 requires a complete explanation of any departures from the Guidance Note which could also be considered as immaterial in relation to the requirements of TAS R.

Both of these examples would be contrary to the requirements of TAS R and hence would necessitate amendments to the GN9 report that may make the report less comprehensible to members of the pension scheme or a relevant trade union. It would be preferable in such cases to permit such information to be included in the GN9 report even if it could be construed as obscuring material information or advice.

7) The proposed additional requirements described in paragraphs 4.8 to 4.18 of the exposure draft.

We are fully in agreement with the proposal in paragraphs C2.6 and C2.7 of the exposure draft that any material information conveyed orally should be confirmed in writing or some other form of permanent record and as soon as practicable after the information is given.

We agree with the proposal in paragraph C3.10 of the exposure draft that any material changes or events that have occurred since the effective date of the information should be reported. Particularly in times of huge volatility in stock markets, not reporting the impact of asset or liability value changes may give a very misleading impression to the recipients of the advice.

We agree with the extension in paragraph C4.8 of the exposure draft that a statement of the intended meaning of a description that is not uniquely defined should also cover the results of material calculations.

The clarification in paragraph 4.12 and the drafting of paragraph C5.10 of the exposure draft is helpful as including detailed information about future cashflows may, in some circumstances, be unhelpful to the users of the report and actually obscure the message.

We are concerned that the requirement to indicate the likely results of future calculations as set out in paragraph C5.18 of the exposure draft may significantly increase the volume of work and / or not give any greater understanding or insight to the recipients of the report.

In respect of pension scheme valuations, there are normally various calculations carried out in respect of ongoing funding, future contributions, Pension Protection Fund liabilities and the estimated wind up position. In addition, sensitivity tests are carried out and the results advised to Trustees. While an estimate of the wind up position at the next valuation is already a requirement of GN9, requiring the future trend of all these bases to be set out in a report would impose significant additional requirements.

If the subject of the report was accounting disclosures, no projections are required although we might get a request for a budget. Requiring a projection even one year ahead when accounting disclosures can be extremely volatile would run the risk of misleading the recipients of the report and giving a false sense of security regarding future pension disclosures in company accounts.

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

In our response to this question, we have not reiterated our concerns with certain aspects of the proposed TAS as set out in our views on the questions above.

In general, our view is that the text of the exposure draft as a means of implementing the policy proposals is satisfactory. Specific comments are given below.

In paragraph C3.7, there is a requirement to state whether the result is the outcome of a planning exercise, a valuation exercise or some other exercise. From the point of view of the user, the difference between a planning exercise and a valuation exercise may be difficult to appreciate and would not aid any greater understanding of the work being undertaken. More general wording may be more appropriate such as requiring the description given in the definitions of “planning” and “valuation” in Part B of the exposure draft to be made in the aggregate report.

In paragraph C3.10, there is a requirement to include an “indication” of any material changes between the effective date and the date of the last component report. This needs to be more precisely defined as an indication may be no more than a comment that an event has occurred. If the change is material, an assessment of the impact of the change should be required.

In paragraph C5.5, it is stated that the significance of a risk includes its relative importance to the entity compared to other risks and to the entity’s capacity to bear risk. This may not be known by the preparer of the report (or, indeed, by the entity itself in some cases). It is possible in an actuarial valuation report to comment on the risks incurred in the operation of the pension scheme and to quantify those risks by, for example, showing the impact of incremental changes in the material assumptions but that might bear no relationship to an employer’s capacity to bear those risks.