

Board for Actuarial Standards
5th Floor,
Aldwych House
71-91 Aldwych
London
WC2B 4HN

FAO: Louise Pryor, Director

29 May 2009

Dear Sirs

Exposure Draft on Reporting Actuarial Information

Deloitte LLP is pleased to respond with comments on your exposure draft “Reporting Actuarial Information” (TAS R) and, as always, we welcome your consultative approach. We think that the way in which you are developing Generic Technical Actuarial Standards will contribute to maintaining and improving the quality of actuarial work. We set out below our key comments on the definition of “users”, new requirements and implementation date, and respond to your specific questions in the attached appendix.

We are generally in agreement with your proposals and consider that the revisions you have made to the previous version published in April 2008 have led to a much improved draft standard. We trust that you found our comments on that draft helpful. Overall, we would say that our own thinking on many of the proposals in the draft standard accords with yours, and our internal procedures reflect that.

Definitions of “users” and materiality

Our first comments relate to the definition of “users”; we regard the current definition as too broad. It could be read as implying that our “report” would have to address a large number of parties we would not consider as legitimate users of our work and for whom the “understanding” of the work, or the level of expertise, may be different to that of our clients. This also raises the issue of duty of care on which we expand below. One impact of this broad definition would be an increase in the cost of preparing reports and disclosures with no additional usefulness to the decision-makers.

We would like the definition of “users” to be clarified so that engagement letters can validly define more precisely those “people whose decisions a report is intended to assist”. We welcome the comments in 3.33 of the paper that “users should not include, for example, pension scheme members in the context of a funding valuation carried out for the scheme’s trustees”. However, the definition as it appears in the current draft does not seem to achieve this aim. Without further clarification, we think there is a risk that our duty of care is extended to unintended users and third parties which would materially impact our risk management processes. We would be unlikely to enter into an engagement where a duty of care was extended to third parties who are not in a contractual relationship with us. This is of fundamental importance. The standard must not create or suggest any duty of care that is not reflected in the contract governing our work.

As expressed in our responses to your previous consultations, we find the definition of materiality too subjective, given that a key part of materiality is how the term “users” is defined. We also note that a sentence has been added to the definition of materiality: “... Assumptions, calculations and other matters are material if they result in information whose disclosure or misstatement could influence the decision or understanding of users...”. We suggest that you remove this as it confuses matters, and the wording prior to this in the definition already covers what we believe BAS intends to cover.

New requirements

We think that the requirement in C.5.15 to provide comparisons / reconciliations would, in some cases, expand the scope of an actuary’s work to an unintended level (e.g. similar to an Analysis of Change) which may not be relevant or cost effective, and create work that the client has not commissioned and would not wish to pay for. In other cases, comparisons may not be easily possible, if for example, another actuary prepared the previous report. To avoid this requirement being more onerous than is intended, you could consider being more specific about when this is a “requirement” and when it is merely something for the actuary to consider.

In C.5.18, the benefits of requiring a report to include an indication of the projected results are not clear. Depending on the nature of the work reported on, these projections could be pure speculation. In other circumstances they will not be needed by the user – we cannot have a situation where a standard forces us to do work that our clients do not wish to pay for. As alternatives, we suggest the use of sensitivities to understand how the position may change in the future, and/or a change in the wording of the requirement (see appendix).

Implementation date

We think it is important that the industry and practitioners are given sufficient time after the final standard is published to draft template reports and modify existing reporting processes and procedures that will support compliance with the new TAS R. Therefore we would encourage the BAS to consider later implementation dates or to formalise in the actual standard the transitional provisions that already appear in section 3 of the paper. We comment further in the appendix with some examples. In such cases a slightly later commencement date, or a specific opt-out, would be preferable.

As previously mentioned, we set out in the attached schedule our answers to the specific questions in your exposure draft. We hope that you will find our comments useful in developing an appropriate standard on reporting actuarial information. If you would like to discuss further any of the points we have raised, please contact David Murray (Life Insurance, 020 7303 3372), Orlando Harvey Wood (Pensions, 020 7007 2982) or Alex Marcuson (General Insurance, 020 7303 3378).

Yours faithfully

Deloitte LLP

APPENDIX

RESPONSES TO QUESTIONS

1. *Views on whether the proposed additions to the Schedule of our Scope & Authority are desirable, and if so whether the suggested text achieves our aims.*

We have no specific comments.

2. *Views on the proposed commencement date for TAS R.*

Regarding the proposed implementation date of the standard, we appreciate BAS would like to introduce the standard as soon as possible and that BAS is aware that the proposal could impact pension scheme funding valuations with effective dates after 1 January 2009. In particular, many pension schemes have funding valuations with a 31 March effective date and some of the aggregate reports for these valuations would be subject to the standard. For such long term projects, it would be more practical to make the implementation date to which the report relates also dependant on when the work was commissioned in the first instance.

The proposed timing also cuts across the period when Lloyd's reports are normally completed which would present a practical difficulty. A commencement date of 1 May 2010, or a specific opt-out, would be preferable.

We think it is important that the industry and practitioners are given sufficient time after the final standard is published to draft template reports and modify existing reporting processes and procedures that will support compliance with the new TAS R. Therefore we would encourage BAS to consider later implementation dates or to formalise in the actual standard the transitional provisions that already appear in section 3 of the paper.

3. *Views on the definitions of "aggregate report" and "component report" in Part B of the exposure draft.*

We have no specific comment on the proposed definitions.

4. *View on 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.*

Assuming the issues raised in our letter are addressed, we think the additional work required to comply with the standard will have the positive impact of improving communications, disclosures and risk management processes where they are not already to a high standard.

5. *Views on the BAS's assessment that any long term costs will be justified by the benefits to the users of actuarial information.*

Assuming the issues raised in our letter are addressed, we agree with the BAS.

6. *Views on the proposal that TAS R should prevail in the event of any conflict with adopted Practice Standard Guidance Notes.*

The suggestion that TAS R should prevail in case of conflict with existing guidance notes appears pragmatic. This might however give rise to some practical issues if there are reports written to address aspects within and outside the scope of BAS standards simultaneously (e.g. a report on an entity prepared for a UK and non-UK regulator). However, this should not be a major challenge to overcome.

7. Views on the proposed additional requirements described in paragraphs 4.8 to 4.18.

Relevance:

The requirement C.3.10 “Subsequent events” is not clearly worded. We would like to clarify that work performed and reported on *as at a balance sheet date*, and for which the report clearly states that any events occurring after the balance sheet date are not taken into account, remains compliant with TAS R.

Completeness:

- We think that the requirement in C.5.15 to provide comparisons / reconciliations would, in some cases, expand the scope of an actuary’s work to an unintended level (e.g. similar to an Analysis of Change) which may not be relevant or cost effective and create work that the client has not commissioned. In other cases, comparisons may not be easily possible, if for example, another actuary prepared the previous report. To avoid this requirement being more onerous than is intended, you could consider being more specific about what is required. We also think it could be more carefully worded to make it clear it is talking about an aggregate report which has been previously provided to the same user/users, i.e. the same client in the case of consultancies.
- As noted in C.5.18, the benefits of requiring a report to include an indication of the projected results are not clear. As alternatives, we suggest the use of sensitivities to understand how the position may change in the future, and/or a change in the requirement to read: “if in the opinion of the actuary there are significant changes from the previous period, the report should include comments on material differences between the two sets of results”.
- We think C6.3 should refer back to the Data TAS.

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

We have no specific comments to add to the comments made elsewhere in this letter.

SPECIFIC COMMENTS

- We think that the second sentence of C.4.4 should be removed as the first one seems to be inclusive enough.
- Assuming this standard would apply to reports made by a Reviewing Actuary to the firm’s partner responsible for the audit, we would like to clarify the impact C.4.6 would have on those. GN12 says that reports “should normally contain detail sufficient for another suitably experienced member to form an opinion on the original member’s key judgements and assess the reasonableness of the results”. This often means that, to comply with GN12, the report would include discussion on non-material points, essentially to demonstrate they are non-material. We are assuming this would comply with TAS R.
- We find the requirement C.5.4 relating to “Risks faced by the entity being reported on” too wide. It implies an exhaustive list of the risks faced by the entity would have to be drawn up. We don’t think it is practical or possible to identify all the material risks faced by the entity and we think it would be more realistic for the requirement to refer to material risks that have been identified.
- C.5.14 says that C.5.11 does not apply to probabilities such as mortality rates. We are assuming one would still have to explain percentages that are used in conjunction with standard mortality tables (e.g. 80% of TM92-5)?