

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

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Direct line: 0207 951 4666

Email: rhealth@uk.ey.com

By post and email: [basreporting@frc.org.uk](mailto:basreporting@frc.org.uk)

Dear Director

## BAS Exposure Draft: Reporting actuarial information

### INTRODUCTION

1. Ernst & Young LLP welcomes the opportunity to comment on Exposure Draft: *Reporting Actuarial Information, March 2009* ("the ED") issued by the Board for Actuarial Standards ("BAS"). This outlines the proposed Technical Actuarial Standard Reporting ("TAS R").
2. We are interested in this ED because actuarial matters have generally come to the fore in our work as auditors and providers of advisory services. We make use of actuarial information and our own team of actuaries provide expert opinions to clients. Although most of their work falls outside TAS R (review of internal actuarial opinions and pensions) the wider implications of the proposed standard are nonetheless important to us, and we have responded accordingly.
3. We have a number of overall observations to make on the proposed TAS R which we outline below, before commenting on the BAS's specific questions.

### OVERALL OBSERVATIONS

4. We support the overall aims of BAS and consider its introduction of TAS R to be consistent with these aims. In particular, we approve of the intention to provide a principles-based reporting standard with a clearly defined and relatively narrow scope. We believe that the diverse commercial context in which actuaries operate and compete, and the degree of judgment and flexibility required when forming actuarial opinions, require nothing less.



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5. For example, the removal of Required Work from the scope of an earlier draft TAS R should help to reduce the overall cost and time (perceived or real) of compliance. We expect this will encourage a greater number of actuaries to apply the standard more fully to their reporting activities. This should also lower the risk of actuarial work being pushed out to non-actuaries in an attempt to avoid compliance. Situations like this could lower the overall quality of actuarial information and prevent users from making the most informed decisions.
6. Another potential implication, had the scope of TAS R remained unchanged, could have been a negative effect on the competitiveness of the UK's actuarial profession. This is because overseas actuaries would have been able to carry out Reserved Work in the UK without compliance with TAS R.
7. Finally TAS R, like any other professional standard, should be consistent in both substance and form. In this regard we believe additional work is required on the standard to ensure its purpose and scope is explained more clearly e.g., the definition and application of its scope, and references to users and decisions in the context of aggregate and component reports. These views are explained in more detail in our responses to the following questions.

## RESPONSES TO QUESTIONS

**BAS welcomes views on the following matters:**

**Q1 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)?**

The proposed additions to the Schedule state that TAS R applies to reserved work, but it does not state explicitly what it **does not** apply to. This may cause confusion and should be clarified.

For example, the reference to one of the two Reserved Work exemptions (Paragraph 2.6) namely: 'work assigned by regulations to the holder of a unique post' could be explained further. This is because the main areas of Reserved Work are defined (Paragraph 2.10) as those performed by Actuarial Function Holders, With Profits Actuaries, Appropriate Actuaries and holders of similar offices. This raises the question of what is meant by a "unique post". This is answered in the July 2008 draft *Scope and Authority*, but not in the TAS R.

We encourage BAS to add this definition to TAS R, to avoid potential confusion over the precise scope of the standard. For example, "unique post" is one for which the post exists uniquely in the profession, e.g., Government Actuary, PPF Actuary or Lloyd's Actuary. Scheme Actuary and Actuarial Function Holder are unique within individual organisations, but "not unique" across different organisations in the wider marketplace. This distinction could be misinterpreted in the absence of a full explanation.

**Q2 the proposed commencement date for TAS R (see paragraphs 3.1 to 3.6)?**

We have no issues with the proposed commencement date. We understand that it will take time for all of the (adopted) Guidance Notes to be transposed into relevant Generic TASs. To this end the proposed date should provide a focus and a useful starting point for the profession as well as BAS.

**Q3 the definitions of “aggregate report” and “component report” in Part B of the exposure draft (discussed in paragraphs 3.18 to 3.24)?**

In our view the definitions in Schedule B could be broadened. For example, they suggest there is a linear relationship and binary process between the provision of information and a single end-user decision. This implies that every piece of information forms a composite report, and all of these reports have a material influence on a client's decision and should therefore be included in an aggregate report. In our experience this is not usually the case, so we encourage BAS to revise the definition accordingly.

For example, a board could be defined as a user and decision maker, but some members of the board will require more information than others, perhaps at different stages along the decision making process/timeline. Therefore several clusters of composite reports might be required to support each of these "client considerations", as well as a final aggregate report which has some or all of these composite reports combined to help inform the client's final decision.

It might help if TAS R makes a provision that allows actuaries to state up front what constitutes a composite report. For example, they could explain in a client engagement letter that information received prior to a final (aggregate) signed report should not be regarded as composites (for determining client decisions), unless or until they are included/append to the final aggregate report.

**Q4 the effects that the introduction of TASR 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)?**

We support the principle of tailoring and presenting information (by various means) that meets the requirements of users. In this regard the requirements outlined in TAS R should help to encourage the development and adoption of "best practice" business reporting.

We therefore support the general approach that involves the exclusion or demotion of information which might be regarded as immaterial or less material for the (users) purpose

of "taking the final decision". However, we believe it is important to bear in mind who the users are and how many decisions could be made before the "final decision" is taken.

This should help to ensure that users get the information they need, when they need it, and in a form they can best understand. However, for risk management purposes and in the interests of helping to ensure clarity of purpose and intent, we encourage BAS to clarify how actuaries can determine what constitutes component and non-component reports, as per our response to Q3.

**Q5 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)?**

We agree that change-over costs may be incurred, especially by smaller users and actuarial practices which have to revise their internal procedures and templates. In particular, added time and cost might occur when defining the materiality of information relative to different users and decisions in the decision making process/timeline. However, if TAS R helps to augment best practice communications, enabling more users to make more informed decisions, the up-front cost should offer a worthwhile long-term investment for the actuarial profession as a whole.

**Q6 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)?**

We agree that TAS R should prevail in these circumstances to avoid confusion and misunderstanding. We accept that it will take time for the (BAS adopted) Practice Guidance Notes to be transposed into Generic TASs, so the launch of TAS R (in its current form) should provide a useful starting point for the profession and users of actuarial information.

**Q7 the proposed additional requirements described in paragraphs 4.8 to 4.18?**

We believe that the references to relevance, comprehensibility, completeness and transparency are appropriate. Descriptions of matters such as cash flows and sensitivities are straightforward in our view and we regard these additional requirements as sensible and proportionate, within the scope of the proposed TAS R.

**Q8 the text of the exposure draft, as a means of implementing the policy proposals presented in this document?**

The clarity of the proposed TAS R (and ED) could be improved in certain areas, as we have explained in various responses to the questions above.

## OTHER INFORMATION

8. We note with interest the timing of this TAS R ED with the issue of the draft Actuarial Code by the Faculty and Institute of Actuaries. The Code makes a clear reference to TASs and we question whether TAS R ought to make a similar cross-reference to the Code, in the interests of mutual reinforcement.
9. On a related point, the Code (paragraph 2.5) refers to the need for actuaries to agree the basis for their remuneration with their client before any work commences or changes in scope. Perhaps an additional reference could be considered here, to outline the need for actuaries to explain to their clients how their work will be reported (as per our response to this ED in Q3).

## CONCLUSION

To conclude, we approve of the intention to provide a principles-based reporting standard with a clearly defined and relatively narrow scope. Anything less could have the effect of driving actuarial work to non-actuaries and/or firms outside the UK.

The potential outcome of this could counter the reason for introducing a standard in the first place. Therefore we encourage BAS to consider very carefully the responses it receives to its ED. In our view it would be better to have no TAS R, rather than one which could ultimately fail the interests of the profession in general and users in particular.

We are grateful to BAS for publishing this ED and we hope you have found our comments helpful. If you would find it useful, colleagues in our firm are available to discuss further any of the points we have raised.

We wish you every success with the rest of the consultation process and encourage you to publish all non-confidential responses shortly after the closing date. We look forward to reading the results.

Yours sincerely

  
Robin Heath  
UK Managing Partner  
Regulatory & Public Policy