

**First Actuarial response to
Consultation on Board for Actuarial Standards Exposure Draft:
Reporting Actuarial Information**

On behalf of First Actuarial plc, I am pleased to offer the following comments in response to the proposed TAS R.

Although we recognise that this is a generic standard, our comments reflect that we are pension actuaries who advise a range of schemes in both size of scheme and size of employer, with a particular focus on those at the smaller end of the market.

We broadly support the proposed standard's approach of having requirements relating to a decision making process rather than a specific document, per se. However, until we have had a chance to review TAS Pensions, and seen the reporting requirements as they apply to pensions, it is difficult to be certain how workable the standard may be.

As requested, we have largely restricted our comments to those areas on which views are currently being sought, although we have taken this opportunity to make a few further comments.

1) Are the proposed additions to the Scope and Authority desirable?

If our understanding is correct, the intention is that the scope of all Generic TASs should be applied to all work (governed by UK legislation) reporting actuarial information, that is "Reserved" work and "Required but not Reserved" work. Each Generic TAS is therefore seen as a building block on which Specific standards may set out further requirements relating to specific areas of work or switch off particular areas for particular categories of work.

Given this, the wording under the Scope section is currently confusing:

"Specific TASs may include provisions that include or exclude particular categories of work from the scope of this standard or other Generic TASs".

We don't see why there is a need to state "include or" if the Generic standard is to be applied to all Reserved Work?

Also, isn't this repeated in the "Relationship with other TASs and with Guidance Notes" section?

The cross references to the Scope and Authority are unhelpful and appear to be circular, with the Scope and Authority saying that the detail will be in the TAS. To aid the reader, we suggest that as a minimum, hyperlinks are included from TAS R to the relevant part of the Scope and Authority document. Furthermore, if the key limitation to the scope is its geographical limitation, would it not be clearer to state that under each Generic TAS?

Scope of Reserved work

On a fundamental point, we are unclear as to what constitutes “Reserved” work. For example, it would appear that producing FRS17 disclosures should be covered by “Reserved” work, as it is work that must be performed by a qualified actuary. However, our understanding is that this isn’t being thought of as “Reserved” work. We don’t understand the reason for this - which then questions our understanding of what exactly constitutes “Reserved” work?

In paragraph 3.30 (of Analysis of Responses and Initiation to Comment document), you discuss the issues relating to PPF reports, where the method and assumptions are prescribed. You state that the information is not usually used as the basis for any decisions by the Trustees or indeed the PPF. We would argue that the information is used by the PPF as that information, together with all other PPF valuations, determines the level of the levy scaling factor. However, we agree with the comment that many of the disclosures required by TAS R in this circumstance would be irrelevant and hence could be omitted on grounds of materiality. If the report then just set out the barest minimum as required by the PPF, would we still state that it was compliant with TAS R? Or should TAS P aim to exclude such a report from the requirements of TAS R?

2) The proposed commencement date of TAS R

Although we understand the desire to have the standards in place sooner rather than later, we request that serious thought is given to the timescale for compliance with TAS R in relation to scheme funding advice to Trustees and Employers. The BAS recognises that under the proposed timescale, TAS R would potentially apply to valuations with an effective date of 31 December 2008, which is months before publication of the exposure draft. Although BAS may feel that the current exposure draft is not onerous in relation to funding advice, we would argue that until there is a final document in place, we are working with a potentially moving standard. The implications of this for valuations currently in progress, but where decisions were taken after 1 April 2010, is that some additional work will be required to ensure compliance with TAS R, which will result in additional costs for our clients.

We would also be concerned if either Trustees or Employers currently going through the valuation process felt pressurised to make decisions more quickly in order to avoid the additional costs of complying with TAS R.

We understand that TAS P is not due to apply until after TAS R is in place. We do not believe that this is workable. We request that TAS R and TAS P apply from the same date, and will be calling for TAS P to include a transitional easement to not apply to valuation dates before the date the final versions of TAS R and TAS P are published.

There is of course nothing to stop actuaries from becoming “early adopters” and complying with the new TAS requirements before they are introduced.

Status

We support the inclusion of the background to the development of this standard in Appendix 1. Can it therefore be assumed that readers may rely on the comments reported by BAS when deciding how to apply judgement in some matters? This would be similar to the process which is followed by the Courts when they consider discussions recorded in Hansard when interpreting the intention of legislation.

3) Definitions of aggregate report and component report

Proposed definition:

For each decision taken by a user in connection with work within the scope of this standard, the set of all component reports received by the user containing information material to that decision. The aggregate report for a piece of work is the set of all component reports relating to that piece of work.

We support the approach taken by BAS whereby the requirements of TAS R should relate to decisions and the recognition by BAS that a piece of work may consist of a number of decision points (as stated in paragraph 3.4 of the covering document). However we are not convinced that this is obvious from the definition.

For example, for a funding valuation, which the users of actuarial information may regard as the 'piece of work', a number of different aggregate reports would be produced:

- Assumptions and methods to be used in the valuation, which are then set out in the Statement of Funding Principles.
- Results of the valuation, that is the technical provisions, including whether there is a shortfall or surplus
- Contributions required to meet the cost of future accrual of benefits
- Contributions required to meet any shortfall

We note that BAS has considered whether a piece of work should be defined (para 3.24 of Analysis of Responses and Initiation to Comment document) but feel that the standard must be capable of being interpreted in isolation, without having to refer to Appendix 1 to determine what was intended. It may therefore be helpful to either define what is meant by a 'piece of work' or to state that a piece of work may consist of a number of aggregate reports.

In the definition of component report, it will be important to ensure that all information referred to as a component report is readily available to the users. Further, we note that the term 'draft report' is included but this is not defined. We recommend that a draft report should state the extent that the user can base their decisions on that report prior to seeing a final report, or in other words, the limitations of the report due to its draft status.

4) The effects that introduction of TAS R is likely to have on the content, form and timing of communications

We support the general requirements underlying TAS R but are not convinced that this will result in a fundamental change as to how we currently present actuarial advice. For example, for the scheme funding process, we provide a number of smaller reports providing advice on each of the steps of the process, a number of which are issued before the actual valuation date. Furthermore, our clients have access to our interactive software to enable them to understand the sensitivity of the valuation results to variations in the key assumptions. It is no longer the case that Trustees just see a final valuation report. These days, the final valuation report, produced to comply with GN9, is a comprehensive summary of the valuation and may be produced towards the end of the process.

The main impact of TAS R will be ensuring that the users are aware of the communications that should be taken into account when making a particular decision

and maintaining a list of those documents. We believe this will aid clarity for the user and that it will result in better audit trails of the advice given throughout the process.

We are concerned about effectively applying standards before they are finalised and as previously stated, we call for a delay in their application so that they only apply to a piece of work that is commissioned, or for valuation dates after, the date the standard is published in final form.

5) The assessment that any long term costs will be justified by the benefits to the users of actuarial information

We acknowledge that any new standard will result in additional time being spent amending existing standards to ensure compliance. However, the costs of this may be minimised by ensuring that the standards do not apply retrospectively.

We welcome any initiative that aims to improve the standard of actuarial communication. The ability to use judgement to determine what may be omitted to achieve proportionately is welcomed and should ensure communications retain their focus.

6) Proposal that TAS R should prevail in the event of any conflict with current Practice Standard Guidance Notes?

This conflict would not arise if both TAS R and TAS P were to be effective from the same date. The current timescales suggest a 3 month time difference in implementation, which does not see long enough to justify implementation of TAS R sooner.

However, assuming that different implementation dates will apply, we support the proposal that TAS R should prevail.

7) Proposed additional requirements

A) Application

We agree that material information conveyed orally should be confirmed in permanent form (C 2.6).

B) Relevance – Subsequent events

In general we welcome C 3.10. However, we wonder what is intended by ‘an indication of any material changes or events’. Does this just require advising the user of subsequent events that may require them to revisit their decisions (although not necessarily immediately), or was the intention for an ‘indication’ to provide quantification. If the latter, then this is likely to be unworkable as changes occur daily.

Comprehensibility

We agree with requirement C4.8.

Completeness

We welcome the breadth of possible approaches permitted under C5.9.

In relation to probabilities (C.5.11), we are not sure why mortality rates have been excluded. The logic for exclusion could equally apply to other statistics that may be based on a scheme’s own experience – as they would also meet the definition of being obtained from another source. The mortality assumption is typically the most important demographic assumption adopted and it is therefore critical that the reader

understands both what is meant by a mortality rate, and the population of lives upon which the rates are based. Our interpretation may suggest that we have not fully understood the intention behind C 5.11.

We support the requirement to include an indication of projected values (C 5.18); it provides a useful building block to the next set of calculations and aids the users understanding. We welcome the breadth of options for presenting such results. However, it should be recognised that this is an area where judgement may at times be used to exclude provision of this information. This might, for example, be because provision of the information may be misleading (such as any attempt to project the results of a valuation for assessing the PPF risk based levy), or because the effort involved in producing the figures outweighs any benefit to the user. An example of the latter might be the projection of buyout costs in funding valuations whereby the underlying figures are so volatile that any projections are of little value to the user (this assumes TAS P does not make this a requirement).

Transparency

We support the requirement to disclose assumptions but we are unclear as to what is meant by C 6.4(b). When carrying out an actuarial valuation for funding purposes, we present figures on a range of measures, each with different assumptions. So could the interpretation of the wording in C 6.4(b) be that we need to state the assumptions underlying the SFO valuation, the assumptions underlying the PPF valuation, the assumptions underlying a cash equivalent transfer valuation, etc? Or is the intended meaning of the wording that if one set of assumptions is used to determine the technical provisions under the SFO valuation but another set of assumptions is used to determine the contributions required to meet any shortfall, then these differences need to be highlighted and explained? In other words, is the wording of C 6.4(b) intended to cover the circumstance where subtly different assumptions are used for different parts of the work (such as the Technical Provisions basis versus the Recovery Plan basis (whereby less prudent and more realistic assumptions can be used for the latter versus the former)) or is it intended to cover the use of completely different bases?

8) Does the text of the exposure draft implement the policy proposals?

We believe that improvements could be made to the exposure draft. Although the intentions behind some of the requirements may be interpreted from reading the covering document, the standard needs to be capable of being read in isolation.

Although we recognise the importance of meeting the Reliability Objective, structuring the document in this way is not helpful to the report writer.

Other comments

The user is defined as “those people whose decisions a report is intended ... to assist”. However, some documents may be disclosable to other users (for example the valuation report). The impact of TAS R on such a document needs to be considered by the Board of Actuarial Standards.

Thank you for giving us the opportunity to comment. We trust you find the above helpful and we look forward to seeing the final version of the TAS R in due course.

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