

## BAS Consultation

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Prepared for: Board for Actuarial  
Standards  
Prepared by: Hewitt Associates

# Reporting Actuarial Information

## Introduction

We welcome the opportunity to respond to your exposure draft on Reporting Actuarial Information (TAS R).

We provide some general comments and responses to your specific questions. Our comments relate to the application of the standard to actuarial calculations for trustees and sponsors of UK occupational pension schemes.

## Overview

The revised exposure draft represents an improvement on the original.

Our main concern remains the potential impact on smaller pieces of work, where clients might want a "quick and dirty" answer. The key problems appear to be the proposed scope and the interaction of the principle of proportionality with the materiality requirements.

The definition of materiality refers to matters being material if they "result in information whose disclosure or misstatement could influence the decisions or understanding of users". TAS R requires details of material uncertainties, risks, assumptions and calculations to be included in the aggregate report (although perhaps surprisingly there does not appear to be an explicit general requirement for all material information). Given the very wide definition of materiality this could require a huge amount of information and the definition of materiality does not put the relevant decision in a wider context.

The wider context is recognised in the principle of proportionality. However it is not clear how this principle should interact with the requirement to include the material information described above. Without clearer guidance advisers are likely to need to err on the side of caution and include significant amounts of information, even for relatively minor decisions.

This is a very significant point, particularly for smaller items of work. If the principle of proportionality is over-riding, many of the issues raised in TAS R could be considered but dismissed as disproportionate, even though they could in theory influence decisions or understandings. If the principle of proportionality is not over-riding lengthy reports could be needed for relatively insignificant advice.

From a wider perspective, we noted that the membership of the Board outlined in appendix A to the consultation contained several actuaries with insurance backgrounds but very few (possibly none) with a background in advising UK occupational pension schemes.

## 1 Scope and Authority

As currently drafted, the standard is only clearly appropriate for major items of work such as actuarial valuations. If our concerns over proportionality were addressed the scope could be extended.

We are however concerned that the inclusion of 'work that is required by legal obligation other than regulations', as referred to in paragraph 2.13, might bring unknown work areas into scope depending, for example, on the precise wording of scheme rules. Areas of advice which might come into scope, and which might only affect a handful of members and/or involve small sums of money in the context of the entity, include:

- Advice on reductions in pension where as spouse is more than 10 years younger than the member;
- Advice on surrender of member pension for additional spouse's pension;
- Late retirement increases; and
- More obscure, scheme specific rule requirements such as advising on the expenses deduction from money purchase accounts.

It is also unclear to us whether aspects such as advice on UK company accounts would be caught. This would need to be clarified.

Our preference is for the scope to be limited, perhaps only for an initial period, to work required under legislation (even if the proportionality issue can be addressed).

Finally, we note that the Scope of TAS R may be extended beyond Reserved Work when the specific standards come in to force and this remains a concern.

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## 2 Commencement date

We have significant concerns over the proposed approach to commencement. In particular, the suggestion that TAS R should apply to all aggregate reports completed after the proposed date (1 April 2010) is likely to lead to unnecessary additional work for valuations which are unexpectedly delayed. Given that some of the component reports will have been provided before TAS R is even available in final form this does not seem to be in users' best interests.

The summary of how the 1 April 2010 implementation might work in the context of a scheme valuation, as set out in paragraph 3.4, does not reflect how the valuation process is likely to work in practice. In particular:

- The suggestion that 'if the trustees have decided on the assumptions before 1 April 2010, the aggregate report for those decisions need not comply' ignores the fact that trustees will typically need to negotiate with the employer and agree assumptions, and that final agreement might not be reached until towards the end of the valuation process and may well include some changes to the assumptions originally proposed; and
- The suggestion that whether calculations have been performed before or after 1 April 2010 is relevant is misleading as in practice the vast majority of the work, including all calculations and the vast majority of the necessary advice, could be completed prior to 1 April 2010 but final agreement between trustees and employer, on all aspects and following supplementary advice on various aspects, could be after the cut off date thereby bringing the entire valuation into scope.

We think that the suggested approach is likely to lead to additional expense for users without any obvious benefit. In practice, advice relating to valuations is already likely to comply with the majority of the requirements of TAS R but it does not seem to be in users' interests to require advisers to trawl through advice already given to double check that TAS R has been complied with retrospectively.

This issue can be avoided by adding an additional condition that, whilst early adoption is encouraged, TAS R is not mandatory for any aggregate reports with effective dates prior to the date on which TAS R is finalised.

A transitional period of operating the standard as best practice might also be helpful. If BAS does not address the proportionality issue outlined above, we think this would be essential to enable BAS to obtain feedback on the application of TAS R to actual reports on smaller issues before making the standard mandatory.

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### 3 Report definitions

The proposed definitions of 'aggregate report' and 'component report' appear reasonable. However, TAS R needs to set out who takes responsibility for an aggregate report when component reports have different authors. This may be caused by a change in Scheme Actuary or simply because a component report was produced by a colleague. In addition, TAS R should provide clarification on necessary actions where individual trustees change during the period in which advice is being given on a particular issue.

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### 4 Communications

Provided a sensible commencement date is set, and the other issues we highlight can be addressed, the introduction of TAS R is likely to have a positive impact on the content and timing of communications with users of actuarial information for major items of work such as valuations. We agree with the comment in paragraph 1.8 that practitioners currently comply with most or all of the proposed requirements for exercises such as valuations.

One principle which is unrealistic, as currently drafted, is the requirement in paragraph C.4.2 for a report to both address the needs of and be understandable by all users. In practice the author will need to strike a balance where users possess a range of skills.

We are also concerned with the potentially onerous requirements of paragraph C.4.4. This paragraph appears closer to a rule than a principle, and requires actions to be taken where there is **any** evidence or misunderstanding by **any** user. There is no reference to materiality in this paragraph and, when combined with the requirement of paragraph C.2.6 would appear to require a follow up written report (including comment on further subsequent events under C.3.10) to address the slightest misunderstanding on the part of any user.

Even if these issues can be addressed, we are concerned that TAS R may result in unnecessary costs for smaller exercises which are in scope.

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### 5 Costs and benefits

Unless it is made clear that the principle of proportionality over-rides the requirement to provide details of all material uncertainties, risks, calculations and assumptions then cost will outweigh benefits, significantly so for smaller exercises. Unnecessary costs will also be incurred on valuations if the commencement date proposals are not amended.

Before proceeding we would suggest that you identify all types of work that will be in scope and test how the requirements of TAS R can be met without multiplying costs significantly. A full impact assessment should be carried out. Multiplying costs in relation to issues which only affect a handful of members and/or involve small sums of money in the context of the entity is not in the interests of users.

As an example, TAS R would require each of the following issues to be addressed, even for the issues outlined above:

- Any material information conveyed orally to be confirmed in a report as soon as practicable;
- A report including a statement of purpose, its users and who commissioned the work;
- An explanation of whether any calculations of monetary amounts are for planning, valuation or some other exercise;
- A statement on which TASs apply, whether the work complies with these TASs and provision of details of any other TASs that have been complied with;
- Full details of material departures from the standards, including reasons for the departures;
- An indication of material changes or events since the calculations and the date of the report;
- A statement of the intended meaning of any descriptions which are not uniquely defined and what the results of any material calculations are intended to represent;
- An indication of the nature and extent of any material uncertainty;
- An explanation of the approach taken to each source of material risk or uncertainty faced by the entity in relation to the work being reported on, including statements of the nature and significance of the risk;
- Statements on the nature and objective of material calculations, including any specific measures adopted and methods used to achieve the calculation objective;
- An indication of the nature of any future cashflows being quantified, including their timing;
- Comparisons with reports previously provided for a similar purpose, with explanation of any differences and covering assumptions, results of calculations (including reconciliation) and other material matters;
- A description, including the source, of any data or other information used, together with a description of any material uncertainty and the approach taken to allow for this uncertainty; and
- Statements of, and rationale for, material assumptions on which any calculations or judgements are based.

At present, a short email might suffice in some areas. The addition of the reporting requirements outlined above might well add thousands of pounds to the cost of providing such information, without any obvious benefit.

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## 6 Guidance Conflicts

It is not immediately obvious that there will be a conflict with existing Guidance Notes but, given that TAS R is anticipated to be the long term standard it appears appropriate that this should prevail in the event of any conflict.

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## 7 Extra requirements

The revised requirements on cashflows, likely results of future calculations and any differences between assumptions used in different parts of the work being reported on all appear reasonable.

The final sentence of paragraph C.5.10 appears superfluous.

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## 8 Implementing policy

We welcome your clarification in paragraph 3.33 that 'user' is not intended to include scheme members but we suggest that this need to be made absolutely clear in the definition itself. We also suggest that the definition of user should be restricted to those specifically listed by the author as being able to rely on the report.

It is not clear whether 'valuation' as currently defined is intended to include the calculation of technical provisions for scheme funding purposes. This requires clarification.

We have concerns over the subsequent event requirements in paragraph C.3.10. This paragraph appears to be closer to a rule than a principle. It is not clear what steps the author is intended to take to establish whether material changes have taken place – would investigations be required or are only those changes which the author is aware of required to be taken into account? There is also a potential problem where component reports were drafted by different individuals. For example, advice may have been provided early in the process by a Scheme Actuary who has since retired. As drafted, any person responsible for a component report would need to be consulted on potential material changes. Presumably, liaising with former members of staff is not the intention.

We also have concerns that the requirement to comment on the interpretation of words such as 'prudent' in paragraph C.4.8 might impose restrictions over and above the requirements of legislation. For example, in scheme funding valuations, trustees are responsible for setting certain prudent assumptions but the legislation does not require the trustees to explain how they have interpreted 'prudent'. We would suggest that the requirements on paragraph C.4.8 be limited to, at most, assumptions which the actuary has responsibility for setting.

On a couple of points of detail:

- It should be clarified that only material departures from any *applicable* TASs are required to be disclosed under C.3.9(c); and
- An exclusion is required under C.3.15 where there is no suitable/relevant prior report.

Appendix I is outlined on page 22 of the consultation document but yet to be drafted. It is not clear how this will provide assistance or what its status will be. If it is intended to help people interpret TAS R we would suggest incorporating relevant material into the TAS R itself. If it is intended to be of historical interest only we would suggest it may be preferable not to add this extra text.

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**Contact**

If you require further information please contact Peter Williams (on 01372 733763 or [peter.williams@hewitt.com](mailto:peter.williams@hewitt.com))

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