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Dear Sir

Exposure Draft - Reporting Actuarial Information

This response to the consultation draft is on behalf of the Scheme Actuaries of Legal & General and therefore is specifically about the consequences of the TAS R on pension work.

You asked for comments on the following specific matters:

1. Whether the proposed additions to the Schedule of our *Scope and Authority* are desirable and if so whether the suggested text achieves our aims (2.5 to 2.17)

The change to the schedule to include work that would not be covered by a Specific TAS would seem to be appropriate though it may be that the definition of Reserved Work could be clarified. As pension actuaries, the majority of our work would eventually have come under a Specific TAS so this change will make little difference to the ultimate scope for us. The change to introduce the TAS from a fixed commencement date will make it easier to plan for the transition. There do however seem to be anomalies with what reports will and won't be covered, though undoubtedly some of these will be resolved when Specific TASs come into operation. For instance, it seems that the Actuarial Valuation Report will not be covered, as it is simply recording decisions rather than providing advice. Similarly there will be little effect on FRS 17 reports and PPF valuations as they have limited scope. Therefore this TAS will have little effect on three of the most widely issued reports produced by Scheme Actuaries. However, an email to Trustees advising that the effects of a single member taking early retirement will be negligible will come into scope.

The immateriality clause as written is difficult to apply when anything that *could* be material should be included. In our opinion the definition of immateriality should be changed. It may be that the actuary could be required to make the judgement (and be prepared to justify the decision if needs be) as to what is and isn't material. Alternatively, the approach adopted by the accountancy profession could be followed whereby a matter is material if knowledge of the matter would be likely to influence the user of the financial or other statements under consideration. The use of the word "material" in relation to accounting matters is intended to allow scope for different interpretations according to the variety of circumstances that can arise.

2. The proposed commencement date for TAS R (3.1 to 3.6)

Whilst we welcome the suggestion of a fixed commencement date for the new regime, the time scales involved in the preparation of valuation reports for pension schemes means that we have already issued some documents that we would expect will become component reports where the effective date of the aggregate report is likely to be after the suggested commencement date. Whilst the requirements for individual documents are not onerous, there will be some issues not least regarding comments as to what guidance has been followed.

3. The definitions of "aggregate report" and "component report" in Part B of the exposure draft (3.18 to 3.24)

The definitions of aggregate and component reports are clear and useful. The lack of repetition in reports from these definitions should streamline the decision making process and we would expect it would be appreciated by the end users of actuarial reports.

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 (1.8 - 1.12 and 3.40 - 3.46)

There are some items in the Completeness section of the draft guidance that are not specifically covered by all our reports at present, such as Cash Flows, Comparisons and Projections. Covering these, even at a minimal level, will clearly add to the content of aggregate reports. The timing of communications is not expected to change significantly, though the form of individual documents will change because of the move away from one document bringing all information together. There will be a potential change to a larger number of shorter documents: for example, we currently include an Insufficiency Report within the Actuarial Valuation. With the TAS R as suggested, the Insufficiency Report is part of a decision making process and as such will come under the scope of this TAS. The Valuation Report records a decision and therefore does not. It is likely that it will be clearer to Trustees which professional guidance has been followed if these reports are separated. This will mitigate the increase in content. In total we would expect the volume of material being issued to Trustees to be less as a result of these proposed changes. Because information is not being repeated it should be easier for Trustees and other users to extract that which is relevant which should in turn improve the decision making process.

5. The BAS's assessment that any long term costs will be justified by the benefits to the users of actuarial information (3.40 - 3.46)

In terms of pension scheme reports, if the definition of materiality were changed, the increase in content overall would be minimal. Reports are revised and updated on a regular basis in any case, so, whilst there will be a one off exercise to ensure compliance when the guidance comes into effect this will be offset by the normal ongoing expense of keeping standard documents and processes up to date. We do not therefore expect there to be a significant cost that will be passed on to clients. As already mentioned we would expect that end users would benefit from the bulk of the changes proposed.

6. The proposal that TAS R should prevail in the event of any conflict with adopted Practice Standard Guidance Notes (4.2 - 4.7)

It is essential that the TAS R clearly states what will happen in the case of a conflict of this nature even though conflicts should be rare and occur over a limited time period. The suggestion that TAS R prevails is acceptable. There is however a concern that there may be inconsistencies where a report (such as, for example the Actuarial Valuation Report which is a legal requirement, and records decisions so is not part of an aggregate report) is covered by GN9 whereas the aggregate report which formed the decision making process is covered by the TAS R.

7. The proposed additional requirements described in 4.8 to 4.18

4.8 - Where material information is given orally it is good practice to confirm this in writing, not least to ensure that all relevant parties are aware of the information and this practice already exists. There may be minor presentational changes to ensure that the chosen means of communication specifically includes addressees and purpose.

4.9 - It is clearly important that decisions are based on as up to date information as possible. However the requirement to automatically update information whenever there is a change is clearly challenging, particularly in the current volatile market. We have many schemes for which we are in the process of carrying out valuations. We are aware of deadlines and when decisions are to be made and ensure that clients have up to date information to enable them to make the best decision they can. A requirement to constantly update information is likely to be unworkable.

4.10 - Whilst it is clearly essential that reports are understandable to their users, it seems overly prescriptive of the guidance to insist that all such descriptions are explained. We would expect the majority of users of our documents to understand the concept of "prudence" for instance and adding an explanation would therefore be unnecessary. An actuary should be able to apply judgement as to the end user of the document to ensure that the language used is appropriate for the addressee.

4.11 - 4.13 There are circumstances where cash flows are of much less relevance than other factors, for example in a pension scheme with a healthy contribution rate and relatively few pensioners. However the possibility of covering this with a textual description rather than a more numerical approach means that this requirement is not onerous. Whether this will always be a useful addition to actuarial reports is less clear and would seem to be at odds with the stated aim of only including information which will be helpful.

4.14 - 4.17 - An indication of possible results at the next report may seem like useful information, however it can provide a false sense of security. Recent events in particular have shown that actual experience can diverge significantly from assumptions particularly over a relatively short (in the context of a pension scheme) time frame. It is to be expected that there will be periods of favourable experience and vice versa. Specifically covering the likely results of future years not only involves extra work, but also there is significant work involved at the time of the next report in explaining why the actual results are different from those indicated previously. In setting the basis to be used in actuarial valuations, Trustees select assumptions that they believe to be prudent (where appropriate). They will have received information on the respective effects of the assumptions not being as assumed and it will not always be useful to them to have additional information regarding the possible outcome of a valuation carried out 3 years from now.



4.18 - The use of different assumptions for different purposes is commonplace amongst actuaries but needs explanation. This is good practice and compliance will not create extra work

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

There are elements of the exposure draft that could be refined or clarified but the concept of aggregate and component reports combined with actuaries using judgement to ensure that all communications that help the decision making process are clear and understandable is to be welcomed.

I hope that these comments prove useful in your continued consideration of these matters.

Yours faithfully

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Fellow of the Institute of Actuaries