

The Director
Board for Actuarial Standards
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Dear Louise

Exposure Draft: Reporting Actuarial Information

PwC is pleased to respond with a few further comments on the Technical Actuarial Standard on Reporting Actuarial Information.

We are pleased with the Board's approach to the latest Exposure Draft, both in terms of what it asks of actuaries and how it is expressed and presented. We believe the focus on requiring actuaries to communicate in a way that is tailored to be comprehensible to the recipient will improve the understanding of actuarial advice and the decisions that flow from it.

The latest draft answers almost all our previous concerns and we do not feel any significant changes are needed. We make a few further suggestions below which may be useful in preparing the final version. In particular, we suggest considering a slightly wider definition of which factors in a report are "material".

The consultation paper asks for views on several specific matters. We have not commented on these as, in each case, we support the Board's approach.

Timing

We are comfortable with the proposed commencement date of 1 April 2010 for the Standard. However, given this timetable, we strongly encourage the Board to finalise and publish the Standard as soon as possible and to generally raise awareness of it within the profession.

Some actuaries could already be working on advice that will fall within the scope of the Standard. Others may simply wish to start complying earlier rather than later. For example, actuaries working on triennial pension scheme valuations with effective date 31 March 2009 could fall within both these groups, depending on when their valuation is finalised. Early access to the final Standard would provide welcome certainty for them.

Aggregate and Component Reports

The new concept of "aggregate" and "component" reports should provide welcome flexibility to communicate key material separately from other material (provided, of course, that in aggregate

the report meets its objectives). However we also find this new concept complicates the Standard and wonder whether, in practice, actuaries may find it difficult to ensure they are complying.

We also have the following suggestions about the definitions of these terms:

- Component Report - In B.2.1, a “draft report” is cited as one example of a component report. Interim reports, preliminary reports or reports covering only part of an issue could be component reports; but we question whether draft reports – which could include material that is not confirmed as correct – should fall within this definition.
- Aggregate Report - In practice it will usually be implicitly clear which component reports constitute an aggregate report. However, should the Standard contain an explicit requirement to list all the component reports?

Pensions advice – Who are the users?

The Standard applies to advice reported to “users” (“people whose decisions [the report] is intended to assist”). We support this scope and have no issue with the definition of user.

However, in the pensions area there is a need to clarify whether/when actuaries should consider pension scheme members to be “users” of their reports. For example, a valuation report addressed to the trustees of a pension scheme might subsequently be disclosed to members (in fact, if a member requests a valuation report, the trustees are obliged by law to provide it).

We think there are strong arguments why scheme members are not “users”. However, it is a matter upon which a consensus is needed. Without clarity there may be substantial inconsistencies in the level of care exercised by actuaries with different views about this.

We do not think this should be addressed in the Reporting Standard but suggest it could be covered either in BAS’s Pensions Specific Standard or in one of the Profession’s Information and Assistance Notes. Again, the earlier this is addressed the better.

Materiality

The ED defines **material** so that a material departure is one which could influence the decisions to be taken by users and users’ understanding of the information on which decisions are based.

We feel the definition places unnecessary reliance on the actuary’s judgement and misses out on the client’s or user’s role in instructing the actuary as to what items are material to them. We propose a modified definition, given in full below:

material *A departure from this standard is material if, at the time the work is performed, the effect of the departure (or the combined effect if there is more than one departure) is not be expected to be a matter of indifference to the user, given the stated purpose of the aggregate report. Where the user does not instruct the actuary as to the level of materiality, a departure (or the combined effect if there is more than one departure) is material if it could influence the decisions to be taken by users or the users’ understanding of the information on which decisions are based. Assumptions, calculations and other matters are material if they result in information whose disclosure or misstatement could influence the decisions or understanding of users. A matter that is immaterial when considered in isolation may be material when considered in conjunction with others.*

As well as being consistent with the user-centred approach of the standard, we feel this definition has some important advantages:

- The user is encouraged to be involved in decisions over materiality – as a result they should better understand the purpose of the aggregate report.

- The materiality level can be set higher when the user feels this is appropriate (actuaries may otherwise be forced to set the materiality level low to avoid the risk of legal claims).
- The information of real interest to the client/user will not be obscured by irrelevant levels of detail.
- There are the important secondary benefits from the above points that these should improve the user's decision making process and understanding of the report.
- Finally, where actuarial advice consists of checking other's work, the materiality level is critical to the scope and costs of the work, and not generally within the role of the actuary to decide.

Scope

We disagree that certain reports where the content is prescribed by regulation should be mandatorily within the scope of the Standard. We also question BAS's conclusion (in 3.38 and 3.39 of the consultation paper) that the Standard places few additional requirements on such reports. Reports in several areas of life and pensions practice are affected (eg PPF levy valuations in the pensions area).

We look forward to receiving the final Reporting Standard. In the meantime, please contact me if you would like to discuss any of the points we make.

Yours sincerely

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