

## Emily Brown

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**From:** stewartlee@hsbc.com  
**Sent:** 29 May 2009 08:18  
**To:** BAS Reporting  
**Cc:** john.w.wilson@hsbc.com  
**Subject:** Response to Consultation on Reporting Exposure Draft

What follows is my personal response to the consultation.

I fully support the stated objectives of the proposed TAS R, and the principals on which the requirements are based. I also fully support the idea that compliance should be focused on the "collection of communications on which a user bases one or more decisions".

Nevertheless, I am deeply concerned that the practical application of the TAS R as currently drafted will create a substantial infrastructure dedicated simply to detailed compliance with the Standard. I appreciate and accept that the BAS's objective is to write standards for the benefit of users and not actuaries, but if standards lead to a substantial compliance infrastructure, ultimately it is users who pay for that infrastructure. The question then is whether users will get "value for money"? I suggest that this is a particular issue in the context of defined benefit pension schemes, many of which are in "run down mode", and where limiting cost is a high priority.

Why do I believe there will be a "substantial infrastructure"?

- For obvious reasons, the prevailing mood at the present time is risk aversion. Firms and individual actuaries will want to be very sure that they are complying with the standard, and have evidence of that compliance.

- You have identified 25 separate requirements for compliance. This number of separate requirements will lead almost inevitably to a "tick box" approach.

- The fact that most of the 25 requirements apply in the context of a "collection of communications" mean that systems will have to be redesigned. What constitutes the "collection of documents" for a particular piece of work will have to be specified. It is not trivial to identify what does and does not constitute an "aggregate report". Some firms may have to change the structures under which they store documents..

- You have a requirement that aggregate reports shall be "proportionate", but it will be a matter of judgement what this means. Assuming it is entirely the actuary's judgement which is being exercised (or does the user have any scope for input?), risk aversion is likely to lead to over-engineered compliance. There is little provision to discourage this tendency.

### Suggested changes

Ideally, I would like to see the 25 requirements substantially reduced in number, so the Standard relies more on the application of clear principles than "box-ticking". Alternatively, I would like to see the emphasis of some of the requirements changed so that they only apply "if it would assist the users in the exercise of their decisions".

### Point of detail

I remain unsure about aspects of the proposed Standard as it will apply to an

actuarial valuation for the purposes of part 3 of the Pensions Act 2004, surely the pensions actuary's headline piece of work. For instance:

- Is the collection of communications associated with such an actuarial valuation one aggregate report or a number of aggregate reports? (ie one for the trustees' decision on methods and assumptions for technical provisions, one for statement of funding principles, one for decision on recovery plan/schedule of contributions?)
- Is the certification of technical provisions an aggregate report, or a component report as part of the trustee decision on recovery plan/schedule of contributions?
- If it is a separate aggregate report, is the certification of technical provisions a planning exercise or a valuation exercise? (Your examples seem to subtly avoid specifying this.)
- Is then advice on recovery plans/schedules of contributions so assets cover technical provisions a planning or valuation exercise?
- To indicate future cash flows, in what circumstances will it be sufficient/not sufficient to simply state that they consist of payments to retired scheme members expected to occur over the next .... years?

I believe the Standard should be sufficiently clear that actuaries do not have such fundamental questions about what compliance with the Standard means in the context of such a frequently carried out and substantially prescribed exercise. Please can the BAS find some way of providing greater certainty in relation to such exercises as early as possible. This could perhaps be by additional explanation in the Standard, or in some separate documents.

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