

## TOWERS PERRIN'S RESPONSE TO EXPOSURE DRAFT: REPORTING ACTUARIAL INFORMATION (TAS R)

The following comments are from Towers Perrin, including Tillinghast. They have been divided into those relating to more general aspects of the TAS R and points of principle, and those concerned with the detail of the requirements.

### General Comments

1. Although there are many advantages to principles-based standards there are also some difficulties related to the need for judgement to be exercised, and we would like to know what consideration has been given by BAS to the following:
  - a) Peer reviewing work which has been carried out to a principles-based standard would seem to be a very different exercise from its rules-based equivalent. Challenging and validating the (often extensive and continuous) exercise of judgement concerning materiality and proportionality is likely to be far more time consuming throughout an assignment compared to the final "tick box" approach which is currently usually sufficient to check compliance with a GN. In extreme cases, it could be argued that a second actuary would need to be involved in the whole process, and have equal (but independent) knowledge of the user, to enable a thorough review to be undertaken. We are clearly concerned about the potentially significant additional cost, and would be interested in BAS's view on this issue, and how it sees GN48 (or its equivalent) operating efficiently and effectively within a principles-based framework.
  - b) The need to exercise judgement when applying a principles-based standard will inevitably mean that not all actuaries will agree. How will complaints of non-compliance with TAS R be investigated, and how will decisions be reached about the appropriateness of not following certain principles in the standard for a specific assignment? It is often difficult to isolate the relevant facts which might have informed an actuary's decision to exclude certain information on materiality grounds (especially where there is no requirement to document the judgement) where the passage of time shows that judgement to be wrong.

2. Legislation often requires reports to be made available to third parties. For example, pension scheme trustees must provide a copy of the actuarial valuation report to the scheme sponsor within seven days, and also to any member on request. It does seem as though aggregate reports would become disclosure documents in such cases – which would be cumbersome and could include confidential information – unless “reports of record” (which do not need to comply with TAS R) can be used as disclosure reports.
3. Monitoring the progress of an entity between aggregate reports is a common activity, and sometimes falls under the Reserved Work category. An example of this is the Actuarial Report prepared for trustees of pension schemes in those years when an actuarial valuation is not carried out. It is intended as an inexpensive snapshot to give a feel of progress – but decisions will be made based on the report (even if the decision is “do nothing”) and it will be subject to TAS R. It might be sufficient to apply the proportionality principle in C2.11 to justify the current simple approach (although it would be difficult to sweep aside all of the new principles – for example C3.10), but it would be helpful if the TAS R could provide for the monitoring report to be aggregated in these circumstances with the previous actuarial valuation.
4. It is very difficult to envisage how the new standards will be applied without considering the practice-specific TAS and final versions of the other generic TASs. Given the rather radical change in approach, it might be expected that actuaries and firms will need to give considerable thought to how their processes and internal standards will need to change, and it is quite likely that revisions will be required to those processes (or even the TASs) as we learn from experience. Therefore, while we agree with the encouragement of early adoption, we do not consider it practical or appropriate for full compliance with TAS R to be effective before 1 October 2010, to allow new processes to be in place for 15 months from the date the TAS is finalised (15 months being the statutory maximum period for the completion of actuarial valuation reports).

Further, we suggest that there is a case for having a period of transition from the GNs to the TASs where, for example, TAS R applies to all work completed on or after 1 October 2010 but, until 1 October 2011, compliance with professional standards in cases of complaint can be assessed against either TASs or GNs. This would avoid the potential conflict issue raised in paragraph 4.2.

### Points of Detail

In relation to the questions listed in paragraph 5.3

1. We have no objection to the proposals.
2. We have strong objections - see General Comment 4 above.
3. We consider that the proposals require further clarification. For example, there appears to be no requirement for any document, or collection of documents, to be recorded as an aggregate report. In what manner is compliance with the TAS intended to be recorded for the reassurance of the user?
4. Pending clarification of point 3 above, we find it difficult to comment on this aspect.
5. We have concerns about the potentially significant additional cost - see General Comment 1 a) above.
6. See General Comment 4 above, and while we consider that every effort should be made to avoid conflict, we would accept that TAS R should ultimately prevail.
7. C3.10, C4.8 and C5.9 will necessitate changes in practice, the full nature of which should become clear once the practice-specific versions are finalised.
8. Although some further clarification will be essential – see above – the general format and text of the exposure draft seems appropriate. However, we expect that the TAS will lead to many significant changes in standard practice (C2.8, C2.11, C5.1, C5.4 and C5.11) [and other modifications to current practice (eg C3.10, C4.8, C5.9, and C5.18)].

May 2009