

Exposure Draft: Reporting Actuarial Information

Comments from Xafinity Consulting Limited

INTRODUCTION TO XAFINITY CONSULTING LIMITED

Xafinity Consulting Limited employs 28 Actuaries – of which 18 are Scheme Actuaries – out of a total of around 350 staff. It provides a range of employee benefits consulting, actuarial and administration services to pension scheme trustees and sponsoring employers.

Xafinity Consulting Limited is part of the Xafinity Group, which also includes Hazell Carr, Xafinity Paymaster and Xafinity Claybrook. The Group now employs over 1,500 people throughout its offices in the UK.

COMMENTS ON THE EXPOSURE DRAFT DATED MARCH 2009

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

We believe the proposed additions are desirable and the suggested text achieves its aims.

However, we do wish to bring to BAS's attention one aspect of the definition of Reserved Work. Paragraph 17 of the Scope & Authority refers to the entity commissioning the work from an **individual**. Whilst the Scheme Actuary is indeed an individual appointment & role, other aspects of pensions actuarial advice might be "given" by an actuarial firm. For example, it is not unusual for pension scheme documentation (trust deed & rules) to define the term "Actuary" as meaning "an actuary or firm of actuaries appointed by the Trustees". Where a firm is so appointed, it needs to be made clear whether or not advice given as "Actuary" under the scheme documentation (and not falling within the legislative scope of the individually appointed Scheme Actuary) is still Reserved Work. This could mean that where a firm is appointed the associated work is not Reserved Work, even if signed off by a named actuary (who could also be the Scheme Actuary). We would have thought this is not the intention. In contrast, the existing Professional Conduct Standards (PCS) of the Actuarial Profession defines "reserved advice" as "advice given by a member which ... could not have been given by the individual if that individual were not a member" – this seems to be a wider definition than that currently in paragraph 17 of the Scope & Authority.

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

The proposal is that TAS R should come into effect for all aggregate reports completed on or after 1 April 2010. As an aggregate report is simply a set of component reports, but see 3. below, this means all component reports issued **before** the commencement date that comprise that aggregate report would also have to comply with TAS R. The example contained in paragraph 3.4 appears to confirm this. Paragraph 3.43 also refers to proving compliance retrospectively.

We believe it is unacceptable that the commencement date should apply retrospectively like this and that component reports already issued to trustees would potentially need to comply with TAS R even though it is currently only in an exposure draft stage.

We understand that TAS R is due to be finalised in the third quarter of 2009, following which any standard reports will need to be reviewed to ensure that they comply with the standard. It is reasonable to provide a transitional period to adopt TAS R between quarter three 2009 and 1 April 2010.

We suggest that an acceptable approach would be for the commencement date to only apply to component reports issued after 1 April 2010 rather than the aggregate report.

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

Use of the terms “aggregate report” and “component report” is confusing. In particular, it is unclear whether an aggregate report must be produced as a single aggregate document. As C.3.3 differentiates between what has to be included within an aggregate report and a component report, this would seem to imply that an aggregate report has its own tangible identity. However, B.2.1 simply defines an aggregate report as the set of component reports relating to the work in question. This needs to be clarified one way or the other.

As regards component reports, the risk remains that presentations will not be provided in permanent form and will thus escape compliance with the standard. However we note the requirement to provide any material advice conveyed orally to be confirmed in a report.

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 (see paragraphs 1.8 to 1.12 and 3.40 to 3.46)

The content of communications will be reviewed to ensure that it is compliant with TAS R, with regards to both additional explanations and removal of immaterial comments. Overall we believe that the content will increase the likelihood that the BAS’s Reliability Objective will be met.

Although there is a requirement to exclude information that is not material, it is not apparent to us what information from the existing (pension scheme) valuation reports (for example) could currently be excluded. Therefore we see the content increasing rather than decreasing.

We do not envisage the form of communications changing following the introduction of TAS R, in particular we do not foresee fewer formal documents being produced.

Once the initial understanding and adoption of TAS R has taken place the timing of communications should not be affected by the new standard.

The risk that TAS R has a disproportionate effect on small pieces of work has been removed by the explicit materiality statement in section B.1.2.

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

Justification of an increase in costs may be best provided by the recipients of actuarial information. Our experience suggests that Trustees are unlikely to agree that the benefits outweigh the costs.

The additional costs imposed by TAS R will be disproportionate for small pension schemes. We do not have a solution to this problem.

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

We agree with this approach.

7. The proposed additional requirements described in paragraphs 4.8 to 4.18

Application – we agree with this approach (oral information to be confirmed in a report).

Relevance – This requirement (to report material events since the effective date) could lead to a significant increase in costs. The materiality of events may not be known until calculations have been performed to assess the impact. If the event transpires to be immaterial the trustees will be unhappy at paying for such calculations. This may lead to indications of changes that are generalist in nature. Nevertheless, we agree that material changes relevant to decision-making should be reported.

Comprehensibility – The assumptions for scheme funding purposes have to be chosen prudently, yet “prudently” has not been defined either in the regulations or by the Pensions Regulator. In this example it is not possible to state exactly what prudent means. Similarly “best estimate” is not a precise concept and a degree of pragmatism will be required in interpreting such terms.

Completeness – A simple statement of the cash flows of a pension scheme will be easy to implement but of limited value to trustees. A more detailed analysis of cash flows would be much more valuable but more expensive to provide. It must be noted that detailed cash flow analyses are currently provided to a number of pension schemes, but at an additional cost. The additional requirements of TAS R may be unlikely to improve the understanding of those trustees who decide not to pay for additional advice.

Transparency – We agree with this requirement as it is mostly achieved currently.

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

We support the revised text of the exposure draft as a means of implementing the policy. However, we do have some comments on the text, as follows:

B.2.1 – See above regarding the definition of “aggregate report”.

C.2.3 – The first sentence is unnecessary, by virtue of the definition of an aggregate report.