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The Director
Board for Actuarial Standards
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Our Ref: JM/JB/4.1

February 24th 2009

Dear Sir,

BOARD FOR ACTUARIAL STANDARDS CONSULTATION PAPER: MODELLING

We welcome the opportunity to comment on the above consultation paper.

INTRODUCTION TO SPC

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

The consultation paper has been considered by SPC's Actuarial Committee, which comprises actuaries from consultancy and life office backgrounds.

RESPONSES TO CONSULTATION QUESTIONS

Will the proposed purpose of the Modelling TAS, as set out in paragraph 2.9, help to ensure that users of actuarial information can place high degree of reliance on its relevance transparency of assumptions, completeness and comprehensibility?

Essentially, yes, but it is important that the content of paragraph 2.31 is kept clearly in mind.

It is important that the TAS does not require models to be presented and explained in such a way as to limit their practical value to clients.

We do have significant doubts about whether it is appropriate to bring documentation of models within a TAS, particularly since, in itself, documentation has no bearing on whether a model is fit for purpose.

The Society of Pension Consultants

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Will the definition of a model given in paragraph 2.13 encompass the full range of models which contribute to actuarial information?

We believe that the definition will be satisfactory at a high level. It will be important to take a proportionate approach to its application at a detailed level.

Do respondents have any comments on the proposals in Section 3, especially those in paragraphs 3.15, 3.22 and 3.27?

We support the sentiments in paragraph 3.13, on documentation.

On the principle set out at paragraph 3.15, we are not sure how it could be applied in a proportionate way to, for example, a routine spread sheet, which, we assume, is intended to fall within the definition of the term model.

It would therefore be important to keep in view the principles set out in 3.22 and 3.27.

Do respondents have any views on the definition of materiality which is proposed in paragraph 3.5?

No.

Should the Modelling TAS include principles concerning a need for documentation, as discussed in paragraphs 3.9 – 3.18?

We certainly do not believe that these principles should apply to models produced purely for internal purposes.

Do respondents have any comments on the proposals concerning irrelevance and parsimony, which are presented in section 4, especially those in paragraphs 4.12 and 4.17?

No.

Do respondents have any comments on the proposals, concerning inputs and outputs, which are presented in section 5?

Our main observation is that this section of the consultation paper provides a clear illustration of the practical difficulties in satisfactorily defining a best estimate.

With regard to paragraph 5.42, we suggest that the requirement that all estimates should be given statistical definitions is too stringent. We suggest that the requirement should either be for clear definition or for “statistical definition, where appropriate”.

Should the Modelling TAS include (a) any requirements relating to the disclosure of known or suspected shortcomings in data, over and above those expected to be included in the reporting TAS?

No, we would expect any such shortcomings to be addressed in the preparation of the model

(b) requirements to provide an estimate of the effects of any data shortcomings, and that any compensating adjustments should avoid bias?

No, because such effects will generally be difficult to quantify, particularly since reference is to any data shortcomings, rather than to any material shortcomings.

Should the Modelling TAS include a requirement that, if data is grouped, the effects of the grouping should be quantified?

As far as we are aware, grouping is not a feature of pensions work, so we have no comment.

Do respondents agree that best estimates (and other similar estimates) should be independent of the use to which they would be put?

Yes.

Do respondents have any views on (a) whether bias estimates such as those concerning prudence depend on context?

No.

(b) The practicality or otherwise of requiring that the equivalent best estimate be presented alongside every prudent estimate, and the benefits to users of actuarial information of doing so?

Presentation as described can be useful, but should not be required because it could add needlessly to costs and could be confusing for the end user.

Do respondents have any views on the practicality, or otherwise, of requiring the use of a range in conjunction with every single point estimate?

The use of a range can be helpful, but is not always necessary and should not be required. The use of a range could sometimes imply a degree of certainty on variability, which does not exist.

Do respondents have any comments on the proposals concerning the fitness for purpose of models, which are presented in section 6, especially those in paragraph 6.8, 6.12, 6.20, 6.28 and 6.33?

The principle at paragraph 6.8 is too broad. Paragraph 6.7 helpfully spells out circumstances in which it might be appropriate to check a model in a pensions context. For example, we do not think that a model used solely for calculating transfer values should be required to be checked every time it is used. It would be better to have a requirement to check whenever a model is used for a different purpose.

The principle at paragraph 6.20 could be inappropriate. One could validly construct a model which compares two possibilities, neither of which is regarded as very likely to represent a reality.

With regard to paragraph 6.28, we consider that it is going too far to require the documentation of the definition of all data items.

Are there any types of model, which cannot be implemented in such a way that they exhibit reproduceability?

We are not aware of any.

Should the Modelling TAS include a principle concerning back testing, (a) are there any models for which back testing is impossible?

We are not aware of any.

(b) Are there any practical difficulties which might arise if back testing, were to be a requirement?

Such a requirement could give rise to unnecessary costs, for example, in conjunction with the use of a very simple spread sheet. There might also be situations where there might not be data going far back enough to conduct back testing. It might, for example, not be possible to back test hedge fund returns over twenty years.

Would it be desirable and practical for users of external models to document the judgments they make, the checks that they perform and other relevant matters and include explanations of the inputs, outputs and limitations, in the same way they would for models which they themselves have developed?

It would be desirable, but it might be disproportionately time consuming to obtain the necessary detail on the model to fully document its input, output and limitations in the same way as they would for a model which they themselves had developed.

Do respondents agree that requirements for robustness and reasonableness would not be enforceable and could have undesirable consequences?

Yes.

Do respondents have any comments on the proposals concerning the limitations of models, which are presented in section 7, especially those in paragraphs 7.29 and 7.41?

The content of paragraph 7.29 is perfectly reasonable in the context of a large model, possibly used across a whole company. But, when using a model, possibly once only, to address a relatively small question, it would be excessive to require documentation of everything which one did not do, other than by making a simple statement that in view of the nature of the model one had not carried out a specific test.

Does the discussion in paragraphs 7.7 – 7.24 include all the major sources of limitations in models?

Yes.

Do respondents have any comments on the advantages and disadvantages of the options set out in paragraphs 7.38 – 7.42?

No.

Should the Modelling TAS identify the specific types of limitation, which should be explained in actuarial information?

No.

Are there any matters not covered in this consultation paper, which should be addressed in the BAS's Modelling TAS.

No.

Yours sincerely

John Mortimer
Secretary