

BAS – Pensions TAS Consultation

This is an extremely limited response, to only a small number of questions raised by the consultation.

Question 14 – No standard comparator should be defined by the TAS. Where comparisons are required they should be specific to other rates; the introduction of a comparator is redundant.

Question 13 and 15 – The word ‘prudent’ appears in many places in legislation. Nowhere is it defined. It is covered in guidance from the Pensions Regulator (Code of Conduct, Funding Defined Benefits, Para 85) which states: “We interpret prudence as taking a margin on the cautious side of a best estimate (or expected value).”

Unfortunately this interpretation of prudent is unjustified and in conflict with standard accounting practice. This interpretation, with its addition of a safety margin, produces a value which is biased away from the true and fair values required by accounting and English company and common law.

The principles which correctly apply to prudent assumptions are that they should be based upon decisions or choices which are rationally determined and well-informed. The application of these principles would result in a ‘prudent’ valuation which is identical to the ‘best estimate’ and accord with UK and international accounting standards.

Question 19 – if a so-called ‘prudent’ estimate is published it should be accompanied by a best estimate and explanation that the prudent estimate is biased and could be subject to challenge in the courts.

Question 24 – A glossary of terms could be useful, particularly so if these were descriptions rather than definitions. It should exist outside of the TAS.

Con Keating

European Federation of Financial Analysts Societies

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