

Board for Actuarial Standards  
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18 September 2009

Dear Sirs

### **Pensions Consultation Paper**

I am writing on behalf of HSBC Actuaries and Consultants Limited in response to your consultation paper on Technical Actuarial Standard – Pensions (“TAS P”). Our comments on the document are as follows.

Overall, we are concerned about the level of detail addressed by the consultation document, and fearful that the eventual TAS P will impose very detailed requirements with which actuaries have to comply. We appreciate that the TAS is written for the benefit of users of actuarial information and not actuaries, but find the level of detail very hard to reconcile with the BAS's often stated comment that it doesn't expect its standards to raise significantly the cost of actuarial advice to end users. We suggest that the commitment you give in para 3.3 should be another principle for determining what is and is not to be covered by the TAS.

In this connection, we suggest that your standard will effectively prescribe the information that most users are likely to get, whether they want it or not. Most actuaries will inevitably act "on the safe side" when operating the materiality provisions (see next point). Therefore before including a requirement in the TAS, you should be as certain as possible that the majority of users will get value from the relevant actuarial information. It should be remembered that if a particular user perceives value in a piece of actuarial information (or the actuary can demonstrate that value to the user), the work is likely to be commissioned anyway.

### **Materiality**

- We appreciate that you have already rejected suggested amendments to your definition of “material”. However, actuaries will quite justifiably be concerned that “could influence the decisions ....” will be judged with the benefit of hindsight, and will inevitably interpret materiality cautiously. The result will be work and cost which will not necessarily be in the interests of the users of actuarial information. We therefore ask you to consider again a revised definition of “material” which includes wording like “could reasonably have been considered would influence the decisions .....
- Subject to the point below, we agree with the purpose of the TAS described in para 2.3, but seek reassurance that para 2.5 is not an indication that actuaries will have to provide all the material information required for scheme members to make decisions in relation pension schemes. Given the range of these decisions and the fact that members are not our clients, this would be impossible to comply with.

- We are concerned that the use of the word “accurate” in 2.3(b), could prejudice the use of the reasonable approximations which are part and parcel of actuarial work.

### **Scope**

- Whilst we have a preference for only Reserved Work and pension accounting work being within the scope of TAS P, our overriding imperative is that the scope is clear to both users and actuaries. With this in mind, we seek your reassurance that the proposed scope described in para 4.11 is only intended to be background information in the discussion document and not a definition which will end up in the TAS. If the TAS is to cover non Reserved Work, we recommend strongly that this is done by listing the clearly defined items of non Reserved Work explicitly in the TAS.
- We agree that investment related work should be out of scope
- We would prefer that accounting for pension costs should be covered in TAS P rather than in a separate financial reporting TAS. The actuaries producing such work and the direct users of it are likely to be pensions specialists and it is best for both groups not to split the requirements between any more documents than is necessary
- You seek views on whether work for scheme sponsors on inducements to transfer should be within the scope of the TAS. Our view on this is that it should not, but the question also prompted a discussion on whether work for trustees in relation to inducements to transfer (as distinct from to advice on cash equivalents) was within the scope of the TAS. Please can you clarify this point.

### **Assumptions**

- It should be recognised that, by number, the vast majority of occupational defined benefit schemes advised by actuaries are small. Certainly they are too small for an analysis of their particular past experience to be statistically significant. We realise that the materiality provisions can be used to prevent para 6.14 imposing unnecessary requirements, but we suggest that if the TAS was being written with the majority of schemes in mind, the principle proposed should be worded differently. We suggest that “analysed” should be replaced by “considered”.
- The proposed requirement for a “comparator” discount rate would appear to raise all sorts of questions about what this could mean. Given this, we question its automatic value to users. If the communication of a “comparator” is required by the TAS, then even if it is not prescribed, the tendency will be to illustrate liabilities on the comparator rate. Then you are separately suggesting a requirement to disclose liabilities on best estimate assumptions. Users are already overwhelmed by calculations on technical provisions, buy-out, s179, pension accounting bases. Do you really think that potentially two more sets of liability calculations will be helpful to them? We are strongly opposed to a requirement for either a comparator discount rate or best estimate liabilities.
- In para 6.36 you suggest that assumptions about future inflation should take account of “financial indicators and publicly available forecasts”. Please can you clarify what is meant by publicly available forecasts. We have a committee who consider financial indicators and forecasts from various sources including a private poll of investment managers. From this, the committee forms a view on future inflation which is then communicated to actuaries in the firm, who in turn can pass it on to clients. Would this comply with your proposed definition?

- We do not agree with para 6.53. Running costs do not split neatly between past and future accruals of benefits. Surely the important point is that overall the allowance for running costs should be reasonable.
- We see an unsatisfactory contradiction between the BAS's stated intention in 6.58 not to define prudence or give guidance on how it should be determined, and the requirement referred to in 6.59 that the meaning of prudence should be explained to the user of actuarial information.

### **Calculations**

- As regards para 7.10, we cannot see how it is appropriate (or practicable) for actuaries to be required to provide other parties (eg administrators) with instructions on how to check their calculations.

### **Reporting**

- The use of the word "similar" in the principle proposed in 8.4 is problematic. For instance, if an actuary is advising on technical provisions, does "similar" refer to the previous calculation of technical provisions, the previous full actuarial valuation, the last FRS/IAS calculations, Section 179 valuation, or buy-out cost estimate, or even several/all of these? Each of them could be perceived by the client as 'similar' given they each provide a funding position for the pension scheme. We need some clarification of this.
- Finally, but by no means least, we are hugely uncomfortable with para 8.30, and see the last bullet point as completely unworkable. How can actuaries provide "other material information" to allow scheme members to make decisions when we have no idea what those decisions are? Para 8.31 makes the problem worse as almost any information about the scheme could conceivably affect a decision by scheme members (this links in to our concerns regarding the materiality definition). Wording such as that in para 8.35 clarifying the decisions to be covered might help, but ultimately we do not believe that scheme members should be deemed specific intended users of the report.

Yours faithfully

Stewart Lee