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Our ref gs

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By e-mail to: baspensions@frc.org.uk

Dear Louise

Consultation Paper: Pensions

Following the above Exposure Draft, issued in May 2009, we are pleased to enclose our responses to the questions posed in the above paper. This represents the views of the pensions actuarial practice of our UK firm.

As you will see, we believe strongly that it is misplaced of the BAS to attempt to cover non-required work in the pensions standard, at least not to the widespread extent proposed. We have no indication from corporate users of actuarial services that they would feel better served if such requirements were in place. To the contrary, they would object to extra costs being imposed for requirements which they do not seek.

As an alternative to extending the scope of TAS P beyond required work, we would encourage the Board to consider the approach adopted by the Auditing Practices Board, which has a series of Practice Notes to supplement its standards. If there is a real user need to have something in place for corporate advice on scheme funding, a better approach may be to have a supplementary Practice Note, where different requirements for corporate advice could more readily be catered for.

If you have any questions regarding our response, please contact Gordon Sharp, whose details are at the top of this letter.

Yours sincerely

Alastair McLeish
Partner

QUESTIONS

- 1) **Will the proposed purpose of the pensions TAS that is set out in paragraph 2.3 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?**

We agree with the stated purpose.

- 2) **Do respondents agree that all Reserved Work concerning occupational pension schemes should be within the scope of the pensions TAS? (paragraphs 4.2 to 4.7)**

We agree that all Reserved Work should be within scope.

- 3) **Do respondents agree with our intention that the pensions TAS should apply to work in connection with occupational pension schemes which is almost always carried out by an actuary and which is used to make important financial decisions or which might affect the level of benefits payable to members? (paragraph 4.11)**

Not completely – see our detailed responses to the following seven questions.

- 4) **Should the pensions TAS cover the non-Reserved Work listed in paragraph 4.26?**

We agree that five of the six proposed descriptions of non-reserved work should be within scope, since they are closely allied to Reserved Work.

For clarity, 4.26 a) should define what is meant by “support” – would an annual actuarial report produced to satisfy legislation come under this heading, where trustees do not consider any changes to their existing funding arrangement as a result?

The one proposal which we do not agree should come within scope (at the very least, not to the extent proposed) is proposal b), for the following reasons:

- It is not always actuaries who provide information to scheme sponsors in relation to scheme funding.
- Frequently actuaries are members of multi-disciplinary teams when carrying out such work, and are not always in a position to veto every report to a client.
- “Providing information to scheme sponsors on matters relating to scheme funding” covers a wide range of assignments – from being asked to give a quick second opinion on trustees’ assumptions, to carrying out a full second opinion valuation, with many variations in between – all of which are normally carefully specified in scope by the sponsor client. If this is to be included in scope at all, a much narrower definition of what within this range of activity should be given in the Pensions TAS. Simply “providing information” is much too wide a definition.
- It is often the case that much, if not all, of the advice and information provided by the scheme actuary to trustees will be made available to the scheme sponsor. Requiring a corporate actuary to duplicate the sensitivities etc already provided would lead to unnecessary costs for sponsors. Any requirement should explicitly state the need to avoid any such duplication of work.

5) Do respondents agree that the areas of work described in paragraphs 4.29 to 4.33 should not be in the scope of the pensions TAS?

We agree that work regarding accounting for pensions costs may sit better within a TAS for financial reporting activities.

6) Should the following areas of work performed in connection with defined contribution schemes be within the scope of the pensions TAS:

- a) scheme design; (paragraph 4.35)
- b) benefit projections; (paragraph 4.36)
- c) any other work? (paragraph 4.37)

No. Such work is quite frequently carried out by non-actuaries, and so it would not be in keeping with the aim of covering work which is almost always carried out by actuaries.

7) Should work performed in connection with mergers and acquisitions be in the scope of the pensions TAS? (paragraphs 4.38 to 4.40)

We find it difficult to answer this question, in the absence of further information about the proposed TAS on business rearrangements. Given that pensions accounting issues are to be included in a TAS on financial reporting, so that not all pensions issues will be in the pensions TAS, the business rearrangements TAS may be the better place for this. But if the pensions part of a business rearrangements TAS were to be effectively a stand-alone section, it would be preferable to have this as a section of the Pensions TAS, to avoid the need for actuaries to have to refer to too many documents.

8) Should work for scheme sponsors on inducements to transfer be in the scope of the pensions TAS? (paragraphs 4.41 to 4.42)

No, we do not believe so. Firstly, such work is quite often carried out by non-actuaries, with no or minimal input from actuaries. Secondly, the issues are at least as much behavioural ones as technical ones, and if specific requirements are to be imposed on actuaries' behaviour, this would be better done from the Actuarial Profession.

9) Is there any work for scheme sponsors other than work on Scheme Funding where agreement is required and inducements to transfer, that should be in the scope of the pensions TAS? (paragraphs 4.43 to 4.44)

We cannot think of any.

10) Is there any other work which is not mentioned above that should be within the scope of pensions TAS? (section 4)

We cannot think of any, given that pensions accounting issues are to be covered in the financial reporting TAS.

11) Do respondents have any comments on the proposals concerning data that are presented in section 5, especially those in paragraphs 5.7, 5.10 and 5.12?

We wonder firstly whether any of these items needs to be included specifically, given the principles-based nature of BAS standards, and the requirements of TAS D which apply in any case.

5.7 The scheme actuary has no relationship with the scheme sponsor. His dialogue on appropriate assumptions is with the scheme trustees, and so it should be made clear that the scheme actuary is not under any obligation to communicate directly with the sponsor. The draft wording can be taken to infer that he would have such an obligation.

5.10 We are concerned about the inclusion of this item, since it could potentially lead to significant extra costs for trustees, as actuaries delve around legal archives. It is up to trustees to determine the benefits payable under their schemes, and this item is but one factor in determining what these benefits are.

5.12 We agree that this is appropriate, but again wonder if it is necessary to include it as a specific item in a principles-based standard.

12) Are there any other data issues which respondents believe should be covered by principles in the pensions TAS? (section 5)

Given the requirements of TAS D, we do not believe that anything further is required.

13) Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, especially those in paragraphs 6.3, 6.8, 6.12, 6.14, 6.16, 6.19, 6.33, 6.35, 6.36, 6.42, 6.46, 6.53, 6.61 and 6.63?

We agree that most of the comments in section 6 are sensible and follow good practice. Our only comments are as follows:

6.12 It is difficult to get the right balance between what is said in 6.10 (“assumptions should reflect the state of the world at the effective date of the calculations”), and encouraging attention to be paid to material events which have occurred subsequently. A better phrase to use might be “clients’ attention should be drawn to material events which have occurred subsequently”, otherwise a literal interpretation of what is presently in 6.12 would conflict with what is in 6.10.

6.16 This is good practice, but such information will not always be forthcoming. We would therefore suggest that it should be phrased as “take account of information *if any* from the sponsor”.

6.31 We are not sure if this is trying to introduce a new concept, or if it is merely repeating the requirement already in legislation for the actuary’s estimate of solvency to be included in scheme funding reviews. If the former, it would appear to be an unhelpful additional burden in such exercises, and it should be subject to an impact assessment. If the latter, it is superfluous.

6.36 Given the widespread use of market-consistent valuation assumptions, we would think that any requirement or suggestion to look at forecasts of inflation in addition to the published market information from the Bank of England would lead to confusion and argument in this area, rather than consistency.

6.53 Splitting out administration costs between accrued liabilities and future accruing liabilities is simply not possible. Pension schemes do not have systems in place to provide such information. In any event we would opine that the costs of administration of future accrual, once all other scheme costs have been paid, are marginal.

14) Respondents are asked for their views on whether a standard comparator rate for discount rates would assist users' understanding, and if so whether a low risk rate should be used? (paragraphs 6.28 to 6.31)

As noted above, there is already a statutory requirement to produce figures for estimates of solvency, and so we believe these should be used.

15) Are there any other principles on the selection of assumptions which respondents believe should be in the pensions TAS? (section 6)

No.

16) Do respondents have any comments on the proposals concerning modelling and calculations that are presented in section 7, especially those in paragraphs 7.6 and 7.10?

The proposal in 7.6 is good practice.

So too are the proposals in 7.10, except that the proposal for checking procedures is not practical. How a pensions administrator goes about checking calculations is up to them (usually by having independent calculations performed), and it would not sit well for actuaries to be seen to dictate to professional administrators how to run their businesses.

17) Are there any other principles relating to models and calculations which respondents believe should be in the pensions TAS? (section 7)

No.

18) Do respondents have any comments on the proposals concerning reporting that are presented in section 8, especially those in paragraphs 8.4, 8.17, 8.18, 8.35, 8.38, 8.39 and 8.40?

Our comments on these matters are as follows:

8.18 "The explanation should include an indication of the maximum liability." As already noted in 8.18, such an indication may be impossible to calculate. This sentence must be dropped.

8.38 We would appreciate an explanation of what is meant by "robust" in connection with actuarial factors.

19) Do respondents agree that in Scheme Funding exercises any prudent estimate of scheme liabilities should be accompanied by a best estimate? (paragraphs 8.10 to 8.15)

We can see considerable merit in comparing prudent estimates to best estimates for scheme funding calculations. Putting best estimates alongside the required estimates of solvency will give trustees and sponsors the required range within which scheme funding negotiations can take place.

However we would stress that any requirements should be as pragmatic as possible. In particular:

As noted in 14) above, the statutory estimate of solvency may better be considered as the 'low-risk' measure.

Schemes already required to have a basis for transfer values, which in some cases will be a 'best estimate' basis. Therefore this basis should be capable of being regarded as the best estimate measure of funding, so as to avoid having to produce too many different sets of figures, which would only serve to make communications more difficult.

20) Do respondents agree with our conclusion that the final Scheme Funding report should include sufficient information for an informed reader to understand the financial position of the scheme, and that this is best accomplished by defining the intended users and decisions accordingly? Do respondents agree with our conclusion that this would result in little extra work? (paragraphs 8.20 to 8.31)

No, we do not agree with this. We see problems with the definition of an "informed reader". Further, we would not expect scheme members to take decisions based on actuarial valuation reports – pensions legislation requires other documentation to be prepared specifically for scheme members, such as annual funding statements and transfer value information, which do have this aim in mind.

21) Would the provision of specimen Scheme Funding reports be of value to users? (paragraph 8.32)

Yes, provision of specimen reports is always helpful, and in particular this will help inform actuaries as to what BAS consider to be an "informed reader".

22) Are there any other principles on reporting which respondents believe should be in the pensions TAS? (section 8)

No.

23) Do respondents think that actuarial comparisons in pensions should be covered in the pensions TAS or in a Specific TAS covering similar matters across all areas of actuarial work? (section 9)

As with question 7), we find it difficult to answer this question without sight of the proposed TAS on business rearrangements. Would this cover, for instance, a rearrangement of pension schemes within an employer group, without any changes to the employing companies?

24) Do respondents have any views on whether it would be of value to users of actuarial information for the BAS to maintain a glossary of actuarial terminology and if so, what it should contain? (paragraphs 10.15 to 10.17)

We think that a glossary such as GN26 is helpful. However we have no strong views as to whether this should be produced by the BAS, the Profession, or someone else.

25) Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 10?

We are not clear from this document as to what is intended for GN16, and the difficult issues actuaries and trustees are confronted with when dealing with such certifications. A standard form of certificate is surely best for the industry. Also, we are not clear why you are so dismissive of Counsel's Opinion referred to.

26) Do respondents have any views on whether matters which could be construed as technical or ethical such as those mentioned in paragraphs 10.5, 10.13, 10.20 and 10.24 should be included in the pensions TAS?

They should be included somewhere. It is preferable for them to be in the Pensions TAS, to reduce the number of different documents scheme actuaries have to refer to. However, it would be possible for them to be contained in a new pensions standard from the Actuarial Profession, provided the Profession is given sufficient time to consult on such a new standard.

27) In addition to the specific questions listed above, we would welcome respondents' views on any other aspects of the proposed pensions TAS.

No further comments.