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18th September 2009

Ms L Pryor  
Technical Director  
Board for Actuarial Standards  
5th Floor, Aldwych House  
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London  
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Dear Louise

**Pensions: June 2009 Consultation Paper  
Lane Clark & Peacock LLP (“LCP”) response**

We are pleased to submit our response to the above consultation document.

By way of background, Lane Clark & Peacock (“LCP”) is a leading firm of actuaries and consultants, with over 90 partners and principals, and a team of more than 450 employees across Europe. The firm provides actuarial, employee benefit, investment, insurance and risk management related advice as well as pensions administration services.

We agree in principle with the vast majority of inclusions in the pensions TAS but the nature of the consultation is that most comments we have will be requests for change.

1. The two major concerns that we feel must be addressed before implementation are:
  - The need to wait until the generic standards have had time to settle in before extending their scope beyond Reserved Work in topic-specific areas.

We support the introduction of the TASs and want to see a successful implementation. There will of course be significant additional work refreshing processes and procedures to ensure compliance, all in addition to existing workloads. We believe therefore that it makes sense to have a successful implementation of the key building blocks and then extend out into broader areas. Any unforeseen difficulties in the implementation of the generic TASs would be magnified greatly if the scope to which they were applied was quickly extended to areas such as corporate advice and non-reserved individual calculations.

We note that under the Guidance Note regime any extension to scope would be debated on an area by area basis with all implications thoroughly considered before implementation, but under the new structure all Reserved Work, and more, will be introduced at once. We urge you to reconsider.

LCP is part of the Alexander Forbes Group, a leading independent provider of financial and risk services.

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All partners are members of Lane Clark & Peacock LLP.

A list of members' names is available for inspection at 30 Old Burlington Street, London, W1S 3NN, the firm's principal place of business and registered office. The firm is regulated by the Institute of Actuaries in respect of a range of investment business activities.

Offices in London, Winchester, Jersey, Belgium, Switzerland, the Netherlands and Ireland.

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- The lack of cost/benefit analysis so far. We believe that, whilst it is hard to argue the proposed measures will not increase the reliability of actuarial information, the users of actuarial information will notice the increased cost far more than the increased quality. We are concerned that the apparent lack of engagement from users to date may suggest that they do not actually place a particularly high value on the higher reliability objective.

In terms of cost, our Reserved Work is generally done at a junior level, checked at a more senior level, then reviewed and peer reviewed by qualified actuaries. The judgements that will need to be applied on the inclusion/exclusion of the possibly immaterial/disproportionate matters set out in the standards will have to be taken by the qualified actuaries and documented, either causing a good deal more senior involvement at an early stage in the process or risking having to re-do work where the more junior staff have made initial judgements. Either way, cost will increase at a time when most firms are looking to reduce expenditure in order to accommodate clients' financial pressures.

In terms of benefit, whilst we accept more thorough working practices will reduce the number of errors, it is difficult to see what major mistakes have caused a significant loss of confidence in defined benefit pension scheme consulting in recent years that warrant such an increased compliance workload.

We have recently become aware that the BAS is intending to embark on such a cost/benefit analysis. We hope this will be completed as soon as possible to allow any adjustments to the standard to be made in good time and would be happy to assist in its completion.

2. We have previously raised our objections to the materiality definition, most recently in our responses to the Exposure Drafts of TAS D and TAS M, and still feel all control is with the user after the event. As the definition currently stands we would be forced to include a "boiler plate" caveat on all our work in scope along the lines of:

"We have used our judgement in identifying and/or addressing the most material risks to the entity from an actuarial perspective, but there is inevitably the small possibility of a major event occurring that was not considered sufficiently likely to occur at the effective date of these calculations. The fact that a very material event that was not previously identified occurs does not, in our opinion, mean that the event should have been regarded as material to the actuarial calculation at the time of that calculation."

We strongly urge you to address the concern with the wording, rather than leaving it to the providers to set out an acceptable interpretation in the advice.

3. There are a number of principles within the Pensions TAS that feel like a lot of "near" rules rather than principles. This could make actuaries uneasy about using the materiality and proportionality defences as freely as we understand you would like them to.

Finally, we ask that you engage with your Working Group (mentioned in Appendix C of the Consultation Paper) as you move towards the Exposure Draft. We have a concern that once a Consultation Paper has been issued, there is insufficient round table engagement with stakeholders in the production of the Exposure Draft and final Standard.

Our responses to your individual questions, set out in section 11 of your consultation paper, are in the Appendix and are in addition to the issues outlined above. Please feel free to contact us if you would like to discuss any of the points made.

Yours sincerely

{Sent as an attachment to an e-mail on 18th September 2009 at 17:18}

Fiona J Morrison FIA  
*Partner*

Enc: Appendix

Copy to: [baspensions@frc.org.uk](mailto:baspensions@frc.org.uk)

**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 support the objective in 2.3(a) subject to the comment below and expect the vast majority of people to respond “yes” to this question. However, there is no account taken of the cost of the additional work involved in achieving this purpose, particularly when the extra cost incurred might be to benefit a user that is not paying the bills. It is our view (and it seems to be shared amongst the profession) that, when faced with a principle that should probably be excluded on grounds of proportionality, initially actuaries will err on the side of caution and include the potentially disproportionate information. This will probably be the case until the first few actuaries have been called in front of the disciplinary process (it is likely to be a matter of luck as much as judgement who these individuals will be) and the rest of the profession can gauge how much reliance can be placed on the proportionality safeguard.

To promote greater confidence in the safeguard we believe that proportionality should be included within the “Purpose” section to reinforce the notion that “nothing in this standard should be interpreted as requiring work to be performed that is not proportionate”.

It is not clear to us why 2.3 (b) should form part of the purpose of the Pensions TAS. It seems to be pushing the boundary of the responsibility of poor administrative practices too far onto the actuary. It is also not clear how such a purpose can exist in the Pensions TAS when the calculations appear to be out of scope in the three generic TASs because the users of actuarial factors are not normally the members (as section 3.32 of the Exposure Draft of the Reporting TAS suggests).

**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 can see the attraction of including all Reserved Work but, as highlighted in our response to the Exposure Draft of the Reporting TAS, in order to ensure a successful launch it is necessary to omit the “other legal obligation” aspect of Reserved Work, at least initially. There has been very little research performed so far on how the new standards will be implemented and therefore introducing them to core activities first will help to limit any teething problems that might occur. The arguments put forward in our Reporting TAS response for this adjustment hold equally for TAS P.

**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)**

As in question 2, a more restricted scope initially, extending to work that is almost always carried out by actuaries in due course if it seems appropriate is likely to ensure a more successful launch. Whilst we support, in principle, most of these areas being covered in due course, these areas of work need further thought and should only be included once implementation issues with the Reserved Work have been resolved.

We are also concerned that actuaries subject to the BAS Technical Actuarial Standards may be disadvantaged in their work compared to other practitioners in a particular area who are not subject

to such regulation and as a consequence are priced out of these markets. Our concern is not so much for the actuaries, but for users of the advice who are likely to be disadvantaged if non-actuaries, not subject to your standards, produce a greater proportion of the advice. It is therefore crucial that the level of regulation is not such as to price actuaries out of these markets. Nor would it be sensible if a consequence of regulation were that actuaries chose to drop out of the profession but continued to use their skills in these areas.

You have not stated whether the non-reserved work you intend to bring into scope falls within “Required but not Reserved Work” or “Other Work” as defined in your Scope and Authority document. We note that under paragraph 24(c)(iii) of the Scope and Authority, “Other Work” can, if the person responsible for commissioning the work decides, be taken outside part or all of the TAS that would otherwise be applied to it. We can see a number of situations where work within the intended scope of TAS P will be taken outside it at the direction of the client.

We note that the current proposals to extend the scope beyond Reserved Work focus on different areas of actuarial work to be included, whereas the focus of the generic standards themselves is on the decisions to be taken by users (by virtue of the fact that aggregate reports relate to decisions of users). We are not sure if you intend to make this distinction, but if you do we think that it will prove to be problematic. For example, section 4.25 refers to the provision of factors for individual cases coming into the scope of TAS P, but from the generic standards (eg 2.14 of the latest TAS M Exposure Draft) we understood the users of the advice on factors/instructions were the trustees. We are not clear exactly what decisions the trustees have to make in relation to the factors/instructions once the assumptions have been agreed and therefore are not sure whether the generic TASs would apply (see also our response to question 1 above).

Another difficulty with the current proposals to extend the scope beyond Reserved Work is that the decisions that are intended to be referenced may not be clear. For example, in an area such as wind up, decisions could include items such as:

- Trustees deciding with which insurer to place the business;
- Members deciding whether to complain against the benefits they are allocated;
- Trustees deciding how far to take data cleansing;
- Trustees deciding how to equalise the Guaranteed Minimum Pension benefits;
- Trustees deciding how to invest during wind up; and
- Trustees deciding on which date to perform the wind up.

This is a small selection of the decisions that could be argued to depend on actuarial advice. We think that there should be further clarity on the intended decisions and users covered before this area, and the other areas that are being introduced, can be implemented smoothly.

We suggest that it may be more helpful to define scope in terms of the decisions for users to make rather than referencing undefined areas of actuarial work.

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

The points raised in our response to question 3 hold equally here.

In terms of the specific areas we comment as follows:

- a) Scheme funding updates are regularly provided more for information than decision-making, and there may be an implementation issue where the last full funding valuation has not been performed in accordance with the generic and specific TASs. Given the often very approximate nature of a funding update we believe the proportionality safeguard will be used extensively here as elements such as sensitivity analyses are often not required – provided that is acceptable we do not object to the inclusion of scheme funding updates.
- b) We can see the benefit of including scheme funding advice to employers where agreement has to be reached and broadly support the inclusion. We do have residual concerns about how any increased fees would affect the take-up of this voluntary advice – particularly at a time when companies are looking to minimise all expenditure.
- c) We do not think it is appropriate to include work relating to scheme amendments at this stage, particularly as the majority of amendments are not a result of trustees exercising their powers. Most amendments reflect either:
  - Legislative changes, so little need for trustee decisions; or
  - Changes following an employer decision to change benefits, often by changing contracts of employment. The trustees' role is often simply to document the change.

It appears this area needs to be thought through more fully before it is included within scope.

- d) We believe non-reserved advice relating to bulk transfers could be usefully included within TAS P at a later date in so far as it is deemed to be technical rather than ethical.
- e) We agree that pension scheme wind ups sit more naturally within TAS P, but note that the sheer volume of decisions made during a wind up process might make identifying individual aggregate reports unmanageable.
- f) It is difficult to see how individual cases can practically be included within the scope of TAS P:
  - Once the basis has been agreed there does not appear to be a decision for a user to make (assuming members are not classed as users in line with previous arguments) – how then would the generic TASs apply to related advice?
  - Where administrators perform the calculations on supplied factors, the actuary can be reasonably expected to provide certain safeguards but it is surely the responsibility of the administrators to ensure the instructions are followed correctly (and to implement appropriate checks). We have difficulty interpreting TAS P (and indeed the generic TASs) in cases like this where the lines of responsibility could potentially become blurred.
  - Many of the principles proposed in this consultation paper do not sit comfortably with individual cases – indeed we can envisage many cases where the majority of principles contained in both TAS P and the generic TASs would be ignored on the grounds of proportionality. As such it is difficult to attach much value for users to the inclusion of individual cases within scope.

Whilst we see the logic for the inclusion of most of these areas in due course in terms of meeting the Reliability Objective, we suspect the cost of doing so would often outweigh the benefit. The costs are exacerbated by paragraph 4.27 that means all of the generic TASs would apply to each of these areas. It might be helpful to outline the volume of cases you are aware have caused difficulties in each of these areas.

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

We do not believe work relating to investment or accounting for pension costs should be in scope at this stage, although some of the work currently undertaken by our investment department (such as assessing the equity risk premium and reviewing the “risk-free” discount rate at various terms) will be subject to the BAS standards if, as currently, they are used in Reserved Work such as setting scheme funding assumptions.

We also note that much investment work is carried out by non-actuaries.

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

**a) scheme design; (paragraph 4.36)**

**b) benefit projections; (paragraph 4.37)**

**c) any other work? (paragraph 4.37)**

We believe that particularly work relating to benefit projections and scheme design might benefit from being within scope at a later date, but urge that it is not rushed into TAS P at this point.

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

Although the principles behind TAS P and the generic TASs should usually be applied, the particular features of mergers and acquisitions may make it more difficult to apply the principles in practice, depending on how one can utilise the materiality and proportionality safeguards. Nevertheless, we consider it may be appropriate for mergers and acquisitions work to come into the scope of TAS P at a later date given the importance of the actuarial information that is being supplied. We would also note that this is one area where the advice may be provided by non-actuaries. Hence, as in our response to Question 3, we are concerned that disproportionate regulation would disadvantage users as it may lead to worse advice to them in the round if non-actuaries not subject to your standards provide a greater proportion of it.

We note that, where possible, it is reasonably likely that the person responsible for commissioning the work will seek to use the paragraph 24(c)(iii) exemption contained within your Scope and Authority document so as to remove the advice from the scope of the pensions and generic TASs.

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

Not at this stage. There is an argument this is a regulatory and/or ethical matter, and therefore one for the Pensions Regulator and/or the Actuarial Profession, rather than for the BAS.

**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 within the scope of the pensions TAS? (paragraphs 4.43 to 4.44).**

No. We note that corporate advice can at times be overly aggressive, but this is an ethical rather than a technical issue.

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

Not at this stage. We did have some difficulty in understanding what was intended to be within the exemption that you were proposing in paragraph 1.7. We assume that you are not intending to exempt scheme actuaries who work for insurance companies from TAS P.

**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?**

The data principles seem sensible, provided 5.10 does not require the trustees to obtain a legal opinion at any time there is doubt. We suggest the words “that have been obtained” should be added at the end of the principle in 5.10 to avoid such confusion. Extra wording should be added to clarify that the actuary, without legal training, should not be expected to know what legal opinions are “relevant”.

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

No.

**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?**

As outlined in our response to 4(f) we note that much of the commentary and proposed principles appear to have been written from a macro exercise perspective. Many are neither relevant nor proportionate to small exercises such as individual calculations.

We have specific comments on the following aspects:

- 6.3 – We agree benchmarks are not appropriate.

- 6.8 – Agreed, although we believe it could be removed and incorporated within C6.9 of the Modelling TAS exposure draft as this covers similar ground.
- 6.12 – Many aspects of the post balance sheet experience are important, not just the “selection of assumptions”, with the most obvious change being the value of assets which is not an assumption. It might also be dangerous to propose that material events after the effective date **should** be taken account of, as this might give companies the initiative in asking the trustees to reflect every bit of “good news” since the effective date of a valuation.

For some exercises it is the effective date that matters (eg many legislative functions) where post event changes are not relevant and amending assumptions for them would be incorrect.

At a practical level, the clock must stop at some point. We hope that the real principle is more to do with reflecting post effective date material events in the overall advice given (where this is relevant) rather than necessarily adjusting the underlying calculations.

- 6.14 – Agreed subject to the materiality and proportionality safeguards.
- 6.16 – Generally we agree with this principle, but can see difficulties when applying it to individual non-standard calculations for which a basis must be individually derived. Would the cost of an augmentation for an executive member be expected to be based on the individual’s expected salary increases rather than those of the workforce or executives as a whole?
- 6.19 – We agree with the example given in 6.18. However, we believe there can be occasions where adjustments to other assumptions can be made to allow for possible inaccuracy in an assumption. This principle looks very much like a rule but we assume the appropriate “materiality” and “proportionality” safeguards can still apply. We believe the word “shortcoming” could be inappropriate – “shortcut” or “approximation” might be a better description of the usual reason for not completing a thorough investigation of the assumption.
- 6.33 – For macro exercises (eg scheme funding) we agree with this principle. As for 6.16 we can see difficulties in applying this to individual cases. Should an individual’s commutation factor, augmentation cost or conversion of AVC factors always be affected by the level of risk the trustees take in their investments?
- 6.35, 6.36 and 6.42 – These all appear to be very detailed points that are not in keeping with the rest of the TAS’s principles-based approach. Specifying that a discount rate should allow for reinvestment risk is not always helpful (and indeed can be confusing for many trustees) whilst it would be difficult to set inflation without taking account of financial indicators. The base table used for mortality and the rate of projected improvement are two completely different assumptions anyway. We believe these paragraphs should be removed.
- 6.53 – Whilst we appreciate greater transparency of the expense assumption would sometimes be beneficial (such as for closed schemes) – a point incidentally that is not covered by the proposed principle – we do not agree with this principle as it is stated. How do you separate costs for accruing and accrued benefits for an active member? As stated this also appears to be more akin to a rule rather than a principle.
- 6.61 and 6.63 – The points made in these principles, and indeed most of the paragraphs from 6.54 onwards, appear to be repetitious and we believe they can be deleted. For example, the

principles in 6.8 and 6.12 in combination should leave one in no doubt the processes in 6.61 should be completed. The principles in 6.8 and 6.19 as they currently stand together with C6.9 and C6.15 of the Modelling Exposure Draft would also make 6.63 difficult not to comply with.

**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)**

We support this proposal, subject to the provisos below, in the context of scheme funding and quite normally our advice would build up the discount rate to be used from a low risk comparator. Where we do have a concern is if this is then used as a starting point to produce a point best estimate and hence explicit measurement of prudence in any actuarial information that is supplied.

Given the difficulty in setting a standard comparator we believe there should be scope to choose an appropriate method for each individual circumstance.

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

Section 6 appears to be focused on liability assumptions suggesting that assets are always taken in at market value. But this does not always have to be the case. Do you need to consider some principles in relation to asset assumptions?

**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 principle in 7.6 seems reasonable, but you need to clarify what "future increases to benefits" means (we assume it is meant to exclude pension increases, for instance).

We question the need for the principle in 7.10 (aspects of which appear too rules-based) as it is not clear what decision the user (trustee) is making. Asking the actuary to include "procedures for checking the calculations" is effectively doubting the professionalism of the administrators involved and could strain relationships with third parties. Whilst happy to give assistance or guidance we believe administrators' checking procedures are firmly their own responsibility.

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

Not at this stage.

**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?**

We have comments on the following aspects:

- 8.4 – Agreed, although it does not seem to us a pensions-specific issue.
- 8.17 – We do not understand the first sentence, which appears circular. The list given can have very standard explanations – there is a danger firms will produce a standard “risks to be aware of and what they mean” sheet that covers these points but is unlikely to be read if it is not scheme-specific. If you do decide to go ahead with a list we suggest that it should be constructed less like a rule (“Material risks could include...”) and include the impact of adverse experience against the price inflation assumption as this is likely to be one of the more material risks.
- 8.18 – This looks set up to fail. If it was appropriate to give a maximum liability estimate we would normally give a “maximum reasonable liability” estimate, based on most things going badly. If you claim to give a maximum liability indication do you assume all members live forever? Further, if there is uncertainty, by definition the maximum benefit is not defined.
- 8.35 – We note the clarification and restriction on the user and decision in the case of PPF levy calculations, but you should be aware that the PPF does not receive the report or is interested in seeing it (the PPF relies on an electronic certification instead), whereas the trustees may have decisions to make (such as whether or not to submit and the degree of overestimation they will accept to speed up the calculations).

Looking at the practice of specifying the user(s) and their decision(s) more broadly, we are concerned that there are likely to be a number of other situations where the user and/or decisions are not necessarily well defined. They might benefit from the treatment you have suggested for PPF levy calculations. In our response to question 3 we identified some examples of decisions in the case of a wind up – if the BAS were to identify scope by reference to specific decisions within an area of practice there would be much less confusion about what is subject to the standards.

- 8.38 – “Robust” seems rather an odd word to describe the factors, you would hope all were technically robust but some might need to be reviewed more than others. We agree with the principle of specifying when the factors should be reviewed. Perhaps it would be better to refer to “how sensitive the factors are to changes in conditions and how they should be reviewed as a result”.
- 8.39 – We imagine the materiality and proportionality safeguards will be used quite often here as we do not expect it will usually be appropriate to entirely fulfil the requirements of this principle.
- 8.40 – As in our reply to question 14, we believe a spot comparison of assumptions can be dangerous (especially when the assumptions are set at different dates) and question whether the value of producing a revised scheme funding basis at the date the transfer value basis is set justifies the cost. Such a set of assumptions is also irrelevant for the purpose of the cash equivalent transfer value legislation.

We also make the following comment on the general text of the section:

- 8.8 – We disagree with the statement in the first sentence. A prudent approach, which is at the heart of the scheme funding regime, would not take full advance credit for options which if exercised by the member, would be to the scheme’s financial advantage. Given this, it might be appropriate to assume that no commutation takes place.

**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 believe that this principle could dangerously reduce the debate about prudence to simply the difference between two point estimates if an overall best estimate valuation is routinely prepared. It is not clear to us that users require this information or that it will help them in reaching their decisions – indeed, the provision of this estimate may reduce security for members as companies could use this information to challenge the levels of prudence trustees have incorporated in their basis. The trustees should have regard to a whole range of issues when deciding on their prudent assumptions. Given the uncertainty that can surround a best-estimate (we have seen best estimate equity risk premiums range from around 3% pa to around 6% pa), it is difficult to see how using this as a comparator – and so in reality needing to have some sort of agreement with the employer on the figure – is going to assist members or the scheme funding process.

It should also be noted that the real world is one in which the trustees may set a best estimate basis for cash equivalents that is simplified compared to the complexity of a scheme funding basis. For example, only a sub-set of assumptions is required for a cash equivalent basis.

We can see the value of giving a broad, qualitative assessment of the change in prudence over a period but would be strongly opposed to giving a numerical breakdown of that change. Consider a scenario where prudence plays one of its most vital roles – a scheme funding valuation soon after the employer’s covenant has been found to be much weaker than previously expected. Can you imagine how difficult it will be for the trustees to justify how much greater the difference between their prudent and best-estimate liabilities is as a result of:

- the reduced ability of the employer to pay future deficit-reduction contributions, particularly if the size of the scheme compared to the company is increasing;
- the reduced risk that can be allowed for in running the scheme, particularly the investment strategy;
- potentially the increased volatility in investment markets if confidence has been lost in the market as a whole;
- the scheme maturing over the three years (particularly as most schemes are now closed); and
- a change in the range of mortality tables considered appropriate since the last valuation, widening the gap between a prudent and best estimate assumption.

Prudence is far from a one-dimensional concept – the factors above are just a selection of the reasons a comparison of two “prudence” numbers is dangerously misleading.

Looking at the proposal more widely, you are no doubt aware of the debate in the financial community about the over-reliance on value at risk measurements to determine capital adequacy of financial institutions where it appears that point estimates have actually reduced a proper assessment of risk and uncertainty. Your proposed principle risks scheme sponsors and trustees going down a similar path.

From a corporate perspective, the first reaction to seeing two point estimates at a valuation that are much further apart than the two point estimates at the last valuation will be to set about reducing the gap. Far from protecting members we strongly believe this would lead to a strengthening of the employer’s hand during funding negotiations, with scheme members potentially suffering.

**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 require little extra work? (paragraphs 8.20 to 8.31)**

The purpose of the final scheme funding valuation report for trustees is primarily as a report of record for the scheme funding decisions that have been taken. We are interested to hear what decisions you believe members are likely to make based on that report particularly given the rarity with which, in our experience, members request scheme documents. The position on wind up could be of interest to certain high-earning individuals, but with the advent of the Pension Protection Fund that fact is that even if the scheme is poorly funded all but the highest paid members are likely to be better off leaving their pensions in the scheme. Information that encourages members to transfer out of the scheme at the first sign of trouble is unlikely to be beneficial to the majority.

We struggle to see what other major decisions members are likely to make. Whether to transfer benefits into the scheme, increase pension contributions, retire early or how much of a lump sum to commute? They all seem a little tenuous, which makes it unlikely a cost/benefit analysis would justify the increased disclosure.

Aside from this, member disclosure is usually an area monitored by the Department for Work and Pensions rather than a body that sets professional technical standards. We agree that a final report of record should include sufficient information for an informed reader to understand the financial position of the scheme, but we are not convinced that the intended definition will achieve this aim, or that you should be the body that sets the standard. Care also needs to be taken to ensure the purposes of the final scheme funding valuation report and the summary funding statement (the statutory method of providing members with this sort of information) do not overlap.

If you are to proceed with this principle we would be concerned that it would be difficult to comply with C.4.4 of the Reporting Exposure Draft if we assume members are informed. If the report needs to be rewritten for less well informed members it would certainly involve a substantial amount of additional work. The last bullet of the principle (“other material information”) cannot practically be complied with as the users’ decisions will not be known.

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

We would appreciate seeing a specimen scheme funding report but cannot comment until then as to its potential assistance to users.

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

Not at this stage.

**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)**

It seems to us slightly odd that actuarial comparisons should be separated out from the rest of pensions actuarial work in the pensions TAS. The pensions TAS seems more appropriate than the business rearrangements TAS to cover the comparisons listed, but we would prefer the introduction of non-Reserved Work in this area to be delayed to ensure the generic TASs work as expected with the core activities.

We do not understand the relevance of 9.7 for an actuarial standard – such matters are covered by the 1996 Disclosure of Information regulations (SI 1996/1655).

We also wonder whether the comparison of contribution rates before and after transfer in paragraph 9.9 is meant to be a comparison of deficit funding before and after transfer.

**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 believe having some of the standard terms set out reduces possible confusion. We would like to see the current contents of GN26 extended and possibly rewritten, although it would not need to be BAS that does this.

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

We ask that you work closely with the Actuarial Profession and others, on a guidance note by guidance note basis, since your proposed transition is in fact the deletion of all eight pensions guidance notes now in your care. There is a risk that without such co-operation, some important ethical and conduct issues are removed ahead of their potential inclusion in an Actuarial Profession Standard.

It would not be helpful if GN16 was simply torn up. This guidance note would merit discussion with the Actuarial Profession as to where the important thoughts that lie within it should in future lie.

We agree that certain aspects of GN28 should be maintained and the DWP are the right people to be looking into this. There is some logic in incorporating much of the mechanics of the reference scheme test as expressed within GN28, into regulations.

**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?**

We agree the line between ethical and technical standards is often blurred, and it will be a judgement call as to whether items sit with BAS or the Actuarial Profession. At this stage we believe it is key that the Pensions TAS is kept as simple as possible, so would recommend that, subject to discussion with the Actuarial Profession, the additional areas are omitted but reconsidered at a later point.