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Your reference:  
Our reference:

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The Director  
Board for Actuarial Standards  
5<sup>th</sup> Floor, Aldwych House  
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Dear Sir/Madam

### **Consultation Paper: Pensions**

Thank you for the opportunity to comment on this consultation paper. This response has been prepared by the Benefits Practice of Watson Wyatt. Watson Wyatt is a global consulting firm with particular strength in the area of UK pensions. We advise over half of the 100 largest corporate pension schemes, and the firm as a whole employs over 300 qualified actuaries in the UK.

Our responses to each of the 26 questions asked, together with a few additional comments, are set out in detail in the Annex to this letter. Some key points we would like to highlight are:

- The ‘proportionality’ and ‘materiality’ principles need to be refined if this TAS (and the other TASs already consulted on) are not to result in increased compliance costs.
- The consultation paper appears to contain proposals for a large number of separate principles, some of which look more like rules and many of which contain points of detail the appropriateness of which we would question. We would like the final TAS to have fewer principles with less-specific requirements.
- We are fundamentally opposed to the idea that members (or, in general, anyone else other than the commissioner of the work) should be regarded as ‘users’ for the purpose of this standard. This leads us in particular to oppose the proposals in the paper regarding additional requirements for scheme funding reports.
- We disagree with the proposal to require that any prudent estimate be accompanied by a best estimate, although would be supportive of a more general principle under which an indication is given of how any prudent estimate relates to what might be considered to be a best estimate.

We would be very happy to meet with you to discuss any of the points raised in this response. If you want to take up this offer, please get in touch.

Yours faithfully

Graham Everness  
Senior Consultant

## **WATSON WYATT RESPONSE TO CONSULTATION QUESTIONS ON TAS P**

*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?*

The stated purpose is consistent with the Reliability Objective. However, while we agree that TAS P (and other standards) should help meet this objective for those ‘users’ who have commissioned the actuarial work in question, we do not believe that it is in general appropriate to set standards which could require additional work to be done for the benefit of other potential ‘users’ who have not commissioned the work (and are not paying for it), except where the interests of these other users are specifically provided for through legislation.

This matter (the definition of ‘users’ and consequent scope of the TASs) is something on which we have commented extensively in relation to the generic TASs and which we do not feel has yet been satisfactorily clarified. We would like to stress that scheme members should definitely not be considered to be ‘users’ under TAS P where the actuarial information is provided to the trustees; the responsibility for passing on information in actuarial reports (if/where appropriate) rests with the trustees and not the actuary.

In addition, b) of the proposed purpose appears to be too wide-ranging, encompassing the normal calculation of pension scheme benefits under the scheme rules as well as the determination of benefits that depend on actuarial input.

*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)*

As argued in our responses to the draft generic TASs, we do not think that it is appropriate for ‘Reserved Work’ (as defined in the Scope & Authority document) to determine what is and what is not within scope of a TAS. (Reasons for this include difficulties in determining precisely what falls within ‘Reserved Work’ and anomalies resulting from small differences in the way that scheme rules and other provisions are worded.) That said, there are no items of pensions-related work that we would regard as being ‘Reserved Work’ which we would consider it inappropriate for TAS P to cover.

*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)*

Yes, subject to the work that the BAS considers to fall within this general description being explicitly defined.

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

On the whole, yes, we are happy that these areas of work be included. However, there will be areas where the actuarial advice is only one element of the information used for making a decision, where the need for compliance is much less obvious.

Our understanding is that, under 24(c)(iii) of the Scope & Authority, the client can, for work that is not 'Required', nevertheless instruct the actuary that compliance with the TASs is not needed. (It may be noted that such an instruction from the client will affect any other 'users' of the actuarial information in question, which helps illustrate the point we make on the TAS's 'purpose' under question 1 above.) We would appreciate the BAS' confirmation of this understanding.

*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?*

Yes, we agree these should not be in scope.

However, on 'accounting for pension costs', that is because we do not believe that this work should be covered by mandatory standards (because of anomalies we have previously described resulting from the international nature of this work and potential perverse incentives to use actuaries from a different country to do the work). If the BAS is nevertheless going to bring such work within the scope of its standards, our preference would be for it to be covered by TAS P rather than by a separate 'financial reporting' TAS.

On investment work, we agree that it is appropriate to leave this out of scope (because such work is often not done by actuaries), although would remark that where asset-liability models are used for funding advice (rather than investment advice) it appears that they would naturally fall within scope (especially where the funding advice is part of the scheme actuary's advice under s230 of the Pensions Act 2004).

*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)*

We are in principle happy for some work on DC schemes to fall within the TAS, provided that such work is carefully defined so that it is restricted to the (limited) DC work that falls within the "almost always carried out by an actuary" criterion set out in 4.11. In particular, this means restricting the scope to key areas of advice (and not including what is essentially calculation work). In practice, to minimise the risk of 'unintended consequences' it may be sensible to omit this limited DC work from the TAS at first, but plan to introduce it later.

An employer who chooses to pay 10% of pay into employees' DC funds does not typically feel the need for much actuarial advice on scheme design. However, employers who wish to design a DC scheme by reference to the likely benefits generated are more likely to use actuarial advice. Such employers will need actuarial advice on matters such as the preservation/uniform accrual tests and age-discrimination tests.

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

It appears reasonable for the work to be in scope where the client wishes it to be (see response to question 4 above). On this basis, there is a good argument for the BAS to exclude the work from the defined scope and leave it to users to decide if they want to take up an option to ask their actuary to follow some or all of the TAS' requirements.

As the BAS identifies, intense time constraints are a significant issue here. We note with interest the comments in 4.39 about compliance being nevertheless possible, because of the flexibility available in interpreting the standard. We assume that this is largely related to the 'proportionality' principle that the BAS proposes to include within the TASs. As we have commented in our response on the generic TASs, we think that this principle needs to be more clearly expressed if actuaries are to feel able to use it to justify 'reduced compliance' in certain circumstances (which it appears is what the BAS is intending).

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

Given our comments on questions 1 and 4 above, our answer here is 'no'.

**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)*

Arguably where a 'decision' is to be made by the sponsor alone, the associated actuarial information should be within scope (albeit subject to the comments in 4 and 7 above). This could include, for example, a sponsor deciding to set up a new scheme.

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

No.

**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?*

It needs to be beyond doubt that these requirements only apply 'where relevant' (and we would prefer that this is not simply left to interpretation of 'materiality'), and the

principle in 5.10 needs to acknowledge that actuaries are not lawyers and therefore will not always know what legal opinions might be ‘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 a general observation, our fear on reading this section of the document is that TAS P will end up with a long list of distinct ‘principles’ (many straying into ‘rules’ territory). Much better would be a significantly smaller number of principles from which the more detailed ‘requirements’ envisaged by the BAS emerge as a natural application.
- 6.3: We agree that benchmarks should not be set.
- 6.5: Although many of the principles will be similar in the two main ‘situations’ mentioned (actuaries advising on assumptions and actuaries determining assumptions), we do not think it is correct to indicate that the situations can be considered to be exactly the same. Care will need to be taken in drafting the actual principles for the TAS that the wording does not assume that the actuary has decision-making powers which, in practice, he or she does not.
- 6.8: Agreed, although this does not appear to be a matter specific to pensions.
- 6.10: We agree that assumptions should as far as possible and practicable be “based on evidence”, but would remark that sometimes there is no reliable evidence available and on other occasions practical considerations may render it appropriate to use an assumption that could not really be described as ‘evidence-based’. Therefore, we would not wish to see a requirement worded like this appearing in the actual TAS.
- 6.12: Again, this matter does not appear to be specific to pensions. But, in any event, we disagree with the second sentence. Although it may be reasonable to require (as the proposed TAS R does) that some indication is given of the possible impact of post-valuation events, it is impractical and inappropriate to *require* that the actual assumptions used for the actuarial information “take account” of information after the effective date. We also note that the Pensions Regulator has not suggested that this should be done in its Code of Practice on scheme funding.
- 6.14: We would delete the reference to “salary increase assumptions” as these are a mix of the demographic (covered anyway) and economic (not generally appropriate for this treatment). Also, in this principle there should be an explicit qualification by reference to size of scheme; the implication in 6.15 that this qualification is implicit because of the ‘materiality’ principle is unsound because of the very wide definition of materiality that the BAS has chosen (“*could influence the decisions...*”).
- 6.16: The phrase “take account” is dangerous as this could be interpreted as requiring the actuary to give a heavy weight to the sponsor’s input, whereas we assume that the intention is that the sponsor’s input should be considered as one factor among others.

- 6.19: We are opposed to a definitive ‘rule’ of this kind, although would support a principle that any such adjustment should be explicitly disclosed and justified. On scheme funding, the Pensions Regulator talks about “prudence of assumptions taken together”. To an extent, therefore, assumptions cannot be considered in isolation and if one particular assumption is difficult to determine an extra margin might be taken in another one to achieve ‘prudence’ overall – but arguably this would fall foul of the rigid ‘principle’ proposed in this section.
- 6.23: Although we agree that in scheme funding exercises discount rates would normally reflect the expected investment strategy, we would not say categorically that they “should” (see also comments on 6.33).
- 6.31: We would oppose adding a principle/rule of this sort, although would not object if the general principle requiring the rationale for assumptions to be set out were to contain a suggestion that it might be useful to comment on this sort of relationship. (NB: what is a ‘low risk rate’ for reinvestment?)
- 6.33: See comments on 6.16 and 6.23. While it is reasonable to expect that the scheme’s own investment strategy is considered in advice on or a decision as to the discount rate used, great care needs to be taken to ensure that the wording of the TAS is not read as indicating that this is an overriding consideration.
- 6.35: Similarly to the comment on 6.16, it should be made clear that the sense of “take into account” is “bear in mind”. Also, the reference to “lower than” should instead be “different from”, as it should not be assumed that all actuarial calculations should take margins on the side of overstating liabilities.
- 6.36: The current phrase “publicly available forecasts” is too wide. Our competitors and other institutions might make their opinions publicly available on their websites but we could not reasonably be expected to check them all before giving our advice.
- 6.42: Agreed.
- 6.46: We would comment similarly to 6.16 above.
- 6.53: Although we agree with the sentiments of 6.49, we do not agree with 6.53 as currently expressed, largely because not all running costs can sensibly be split between past and future benefits (and for many schemes where the expense assumption is insignificant compared with the other assumptions, any attempt to do so would be disproportionate). A more generalised principle to have regard to the underlying point (in 6.49) would be better. This underlying point would be reflected in the distinction between an ongoing valuation and a discontinuance valuation, which are normally both required under scheme funding legislation and which might quite reasonably use different approaches regarding the coverage of expenses.
- 6.58: We agree that it would be inappropriate for the BAS to attempt to define ‘prudence’ and that the legislation (normally) leaves this as a decision for the trustees to make. We were interested to infer a somewhat ambivalent tone in the comment “there is a view that prudence should depend... on the covenant...”, given the firm stance taken on this matter by the Pensions Regulator.
- 6.59: We are concerned that the BAS sees fit to make here an explicit statement about how a so-called principle in the proposed TAS M should be given effect to in a particular circumstance. We are also concerned at the BAS’ apparent assumption that ‘prudence’ (as defined in the scheme funding legislation) is not a qualitative concept

but an invariably quantifiable one measurable by reference to some kind of unique 'best estimate'. (See also the response to question 19 below.)

- 6.61: It is not clear what this proposed principle is seeking to add to the legislation (Reg 7(6) of SI 2005/3377). Our understanding is that the current version of GN9 essentially sought to ensure that in cases where the scheme was thought too large to buy out (or had uninsurable benefits, or the actuary was unable to obtain relevant quotations), the figure quoted in the report was determined on a basis consistent with what an insurance quotation would have been expected to be if one had been available. The proposed 6.61 does not seem to plug this potential gap, and reintroduces the possibility of the actuary using a rather different approach (for example, a 'closed fund' approach) in such cases. The BAS might or might not be happy with such a consequence.
- 6.63: Read literally, we do not have any problem with the proposed principle; however, we suspect (from the earlier sentences in 6.63) that the BAS does not intend that the different sets of assumptions merely be capable of being justified but that some kind of reconciliation be provided for the trustees. We are opposed to such a requirement being imposed because the two sets of assumptions are for very different purposes. We note that the Pensions Regulator proposed in its original draft of guidance on the new transfer value regulations that such a reconciliation be possible, but after the consultation replaced this with a much wider principle that required the trustees merely to consider how the two bases relate to each other.
- 6.66: The current regulations on employer debt have many failings of clarity (albeit that some of these are, we understand, going to be addressed in due course by the DWP). There is uncertainty as to how to value the liabilities where a quotation cannot readily be obtained (see comments on 6.61 above). There is also arguably scope for 'guidance' on the use of 'updated actuarial assessments' and on any advice requested in relation to the 'funding test' for scheme apportionment (or withdrawal) arrangements.

**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 would discourage users from requesting a 'standard comparator rate', for reasons that are mentioned in the response to question 13 above (paragraph 6.31).

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

The BAS might wish to consider whether it should include any principles relating to valuation of assets. At present, there appears to be an implicit assumption that a market value will invariably be used for this purpose.

**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?*

We are unsure of the need for the principle in 7.6, given the BAS' comments in 7.4.

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

Perhaps there should be something on roll-forward calculations – including those for employer debt mentioned in relation to 6.66 under the response to question 13 above.

**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?*

- 8.4: The wording of this principle appears to overlook the distinction between situations in which the actuary advises the trustees on assumptions and those (significantly less frequent) cases in which the actuary sets them (see comment in relation to 6.5 under the response to question 13 above). In any event, this matter does not appear to be specific to pensions.
- 8.14: We disagree with this principle as drafted. See response to question 19 below.
- 8.17: No comments – we note that this principle is taken almost straight from 2.5 of GN9.
- 8.18: The 'maximum liability' cannot in general be quantified in relation to matters like equalisation, even if thorough and detailed (and hence potentially very expensive) legal advice is obtained. Indeed, you observe yourselves that quantification is sometimes impossible. In any case, it seems less important to focus on the 'maximum' than on the range of possible additional liability values and the extent of uncertainty. (It may be that, with the use of the word "indication", the BAS is not actually intending an approximate quantification of the 'maximum'; however, this is unclear from the wording as currently proposed.)
- 8.30: We disagree with this principle. See response to question 20 below.
- 8.35: This is useful in clarifying the very limited scope (and hence compliance requirements) of PPF valuations (if we can assume that the second half of the sentence is trying to say that the only things the PPF is interested in, for s179 valuations, are the numbers needed for its levy calculation and reasonable assurance that these have been correctly determined). The fact that this principle is perceived to be needed does however highlight some of the practical issues (arising also for other pieces of actuarial work) in determining who are to be considered the 'users' and to what their 'decisions' can be considered to be limited (and hence how much 'compliance' is required).
- 8.38 & 8.39: We are happy with these principles, on the basis that the word "indication" has been used (as elsewhere) to allow wide flexibility as to how the requirement is met.
- 8.40: We are not convinced that this principle is needed, partly because transfer values should be considered covered already by the general proposals on scheme

factors, but would not actively object to it as currently drafted (although we would oppose it if it went further with respect to ‘reconciling’ the bases – see comments in relation to 6.63 under the response to question 13 above).

**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 are strongly opposed to the introduction of such a requirement. It potentially creates extra work (and therefore cost) and overlooks the fact that it is not always possible to come up with a meaningful ‘best estimate’ – future mortality improvements being the obvious example. It is dangerous to suppose that the transfer value regulations require that an objective ‘best estimate’ basis be derived, as the overall legislative requirement is for transfer values that are at least equal to a ‘best estimate’ value. Also, it raises the question of whose ‘best estimate’ this is – in a scheme funding context, is it the actuary’s, or the trustees’, or (for consistency with how the ‘prudent’ value is generally determined) one agreed by the trustees and employer?

Moreover, as remarked in relation to 6.59 under the response to question 13 above, we do not believe that under the legislation there should necessarily be thought to be a quantifiable ‘level of prudence’. An attempt to measure prudence in scheme funding as the difference between the technical provisions and a ‘best estimate’ value is one-dimensional and therefore potentially highly dangerous, failing as it does to acknowledge other aspects such as the variability of outcomes and the ability of the scheme and employer to cope with any such variability. Even if it accepted (which we think debatable, as with the word ‘unique’) that the word ‘prudent’ can properly be qualified by words like ‘more’ or ‘less’, can it reasonably be inferred that (for example) a movement in technical provisions from a margin of 5% to 10% over ‘best estimate’ is an ‘increased level of prudence’? We think not, given the potentially very different circumstances prevailing at the two points of time in question.

Nevertheless, we understand that some other respondents will be very much in favour of a disclosure of this type. What we would therefore suggest is a more widely-drawn principle under which a prudent estimate would be accompanied by suitable commentary (with quantification not necessarily required) indicating how this estimate might relate to a ‘best estimate’, so that the user of the information can get an understanding of how the person or persons responsible for assessing prudence have done so for this purpose.

**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)*

This is an example of the problems that arise if/when the BAS seeks to meet a Reliability Objective for ‘users’ other than the commissioner of the work. In our opinion, it is for

the Government (or, perhaps here, the Pensions Regulator on its behalf) to decide what level of information should be disclosed to members and unless it decides to increase the current requirements in legislation (which include the recently-conceived ‘summary funding statement’) we are opposed to the BAS imposing any such requirements, including those set out in 8.30. We do not believe that the purpose of the longstanding facility under the Disclosure Regulations for members and others to see the actuarial valuation report has been to enable individuals to make ‘decisions’ about their membership of the scheme, but rather to provide much more general reassurance about the good running of the scheme.

If, notwithstanding these objections, the BAS decides to continue to regard the members as ‘users’ of this report for the purpose of its standards, there might only be a small extra cost if the actuary merely had to recycle, without customisation, earlier information produced for the trustees, but these extra costs could increase substantially if the actuary is required to think of the member as a different sort of user from the trustees and tailor the report accordingly. The success of the TKU developments for trustees emphasises that trustees are a very different audience from the generality of scheme members. The way in which 8.30 is worded (with a difficult-to-interpret reference to “informed readers...”) indicates to us that it cannot generally be supposed that the trustee material can normally be used, and so there will be noticeable additional costs. Our concerns in this area are intensified by the final bullet in the list in 8.30, since “other material information” is potentially very wide given the ‘materiality’ definition adopted by the BAS (“*could* influence the decisions...”).

A further practical point is that if members are to be regarded as ‘users’, TAS R is set to require (see C.4.4 of the exposure draft) the actuary to respond to any requests from the member for clarification. Who would be expected to pay for this? Presumably, the actuary would not be able to decline such requests on the ground that, had that member actually been an ‘informed reader’, the misunderstanding would not have arisen?

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

The provision of specimen reports (in all areas, not just scheme funding) would help providers of actuarial information to gauge better the BAS’ thinking behind the principles in the TASs (and should help demonstrate that the standards are not disproportionate in practice). This should then have a knock-on value for users. Whether specimen reports would be of *direct* value to users is for the users to say.

**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)*

We suggest that the work in question should be included in the pensions TAS. It is not immediately obvious to us why, in principles-based standards, there would be much to add to the principles underlying other work covered by the TAS.

*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 can see the attraction of this, with a hope that it might increase consistency and reduce potential sources of confusion. However, in practice we are unconvinced that such a glossary would add significant value, bearing in mind that it is not always easy to secure general agreement as to what certain terms mean. We think that actuaries should take responsibility for explaining, in a way appropriate to their own audience, the meaning of terms they have used.

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

There are various issues to be managed as part of this transition process. We think that the BAS is aware of the key ones but would identify them here:

- To the extent to which some of the BAS-adopted GNs (e.g. GN16 and GN49) contain ‘ethical’ material which the profession wishes to retain, care will need to be taken to ensure that when TAS P comes into force and the GNs are withdrawn a ‘gap’ is not left for a while if the profession has not yet developed its own new pensions standard.
- The legislation underlying GN16 has been problematic for years and ideally the BAS (and others) will be able to take this opportunity to get alongside the DWP and agree some clarifications. GN16 itself now adds very little (other than the specified certificate wording) to the legislation from a ‘technical’ point of view but (via the Counsel’s Opinion obtained by the Profession) highlights the areas of difficulty, so if/when GN16 is withdrawn an ‘advisory’ aspect will fall away even if the formal technical position remains largely unaffected. The BAS and the Actuarial Profession should discuss whether this leaves a gap needing to be plugged.
- GN28 adds significantly to the legislation on the reference scheme test, with the most critical addition probably being that created by paragraph 4.10 (making ‘leaving service’ benefits the driver for the test). If the BAS is not going to retain analogous details in its standards, the DWP will need to amend its legislation either to fill in the missing detail (similarly to what happened in October 2008 with individual transfer values) or to make it clear that the test is a very general one and can be satisfied on any one of a wide range of methods which demonstrate a ‘broad equivalence’.

*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?*

As the BAS says, the technical/ethical split is not always clearcut and there is no unique answer to where some matters in the current GNs should end up. The critical point is that the BAS maintains a good working liaison with the Profession to agree the way forward on such matters.

That said, of the matters specifically mentioned by the BAS in this question, those which we think are primarily ethical are the first bullet in 10.5, the first bullet in 10.13 and both bullets in 10.24, and those which we think are primarily technical are the second bullet in 10.5, the second and third bullets in 10.13 and the single bullet in 10.20. The last bullet in 10.13 could fall into either, dependent on what the actuary has said upfront about the ongoing validity of the certificate (see 9.8 in the consultation paper); if the development means that the certificate is (under those provisions) no longer valid it is probably a 'technical' matter, but if the certificate is actually still valid under those provisions (but would not be if the actuary were to start from scratch) it is probably an 'ethical' matter.

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

Section 3 of the consultation paper discusses the general concepts of materiality and proportionality, which we believe are critical if the new TASs are not going to increase compliance costs. The 'materiality' principle will be of little use in this respect if the current wording ("could influence the decisions...") is retained, in which case (as we have stressed in our response to the generic TASs) the 'proportionality' principle will require greater emphasis and clarity – two particular suggestions we would make in this regard are to bind the concept into the 'purpose' section of the TASs (rather than include it only as a single paragraph under 'interpretation') and to amend the 'Scope & Authority' document to make specific reference to 'proportionality' in the 'compliance' section. In relation to the wording in this consultation paper (specifically 3.5), we are concerned that the act of documenting the rationale for deciding that something is not proportionate could itself be disproportionate.

Section 3 also introduces the 'judgement' principle. The exact choice of words here could be very important; the words "reasoned" and "justified" would imply a greater level of documentation concerning the judgements made (and consequently a significantly higher compliance burden) than would the words "reasonable" and "justifiable". For reasons that are not clear to us, the current draft uses a mix of these – i.e. "reasoned and justifiable".

Appendix A discusses what is and what is not 'Reserved Work'. As mentioned under question 2 above, we have significant reservations (expressed in our consultation responses on the generic TASs) to the use of the BAS' 'Reserved Work' definition as a

determinant of scope, as it can give rise to anomalies and to problems in identifying where the specifically ‘Reserved Work’ ends and other work begins. In support of this argument, we highlight the following points in relation to Appendix A:

- A.3: Our understanding is that SI 1996/1715 (Regulation 2(b), pursuant to PA95 s47(3)) merely requires that the trustees formally appoint those persons who are to give them this type of advice (which we may call ‘actuarial advice’); it does not require that this advice be given by the ‘Scheme Actuary’ (appointed under s47(1)(b)) nor does it even require that the advice be given by a person with any particular actuarial qualification.
- A.11 & A.14: These paragraphs quote two legislative requirements (the ‘actuarial report’ in years between ‘actuarial valuations’ and the ‘summary funding statement’) and correctly identify that the production of the former is ‘Reserved Work’ (a legal duty of the ‘scheme actuary’) but any advice in connection with the latter is not. However, any advice following production of the ‘actuarial report’ regarding whether or not the trustees should consider obtaining a fresh valuation should not, in our opinion, be considered to be ‘Reserved Work’ as it is not produced under a ‘legal obligation’ – the Pensions Regulator’s Code of Practice is not such a ‘legal obligation’, a fact which is acknowledged in footnote 3 to paragraph 16 of the BAS’ Scope & Authority document. (Nevertheless we think that readers would probably infer from A.11 that the BAS believes that this would be ‘Reserved Work’, although this is by no means clear and is certainly not stated explicitly.)
- A.19: The final sentence here correctly identifies that, under the BAS’ definition, whether or not such work is ‘Reserved Work’ depends on the specific scheme’s provisions. However, this distinction is in our view anomalous and its practical application may also sometimes be open to considerable debate where the relevant provisions in a set of scheme rules are not a model of perfect clarity.
- A.36: The BAS here, correctly in our view, makes clear that IAS19 advice is not ‘Reserved Work’. However, it is noticeably silent on whether or not it believes that the analogous FRS17 advice is ‘Reserved Work’. Any argument that it is ‘Reserved Work’ would presumably be based on the requirement in paragraph 23 of FRS17 that the assumptions “should be set upon advice given by an actuary”, but in our view this very general reference to an ‘actuary’ does not meet the criterion specified in paragraph 17 of the BAS’ Scope & Authority document for “an individual who holds a prescribed qualification”.

The document does not discuss an implementation date for the TAS, or any associated transitional arrangements. When the BAS comes to consider these aspects, we would ask that it does not follow the approach proposed for the generic TASs, under which there is an element of retrospection and a consequent need to revisit work already done.