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The Director
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Dear Sir

BAS consultation on Exposure draft of Pensions TAS

I am writing in response to the consultation paper on the above exposure draft. In answer to the particular areas where views were welcomed:

1 the application of the Pensions TAS to schemes not subject to Scheme Funding (paragraphs 4.19 to 4.21);

We believe that similar actuarial standards should apply to defined benefit schemes which are not subject to the Scheme Funding Requirements.

2 the definition of governing body, especially examples of schemes for which the definition is not appropriate (paragraph 4.22);

The definition of governing body refers to 'pension schemes', which includes personal pension schemes. However para 4.22 limits the discussion to occupational schemes – so if scope is intended to include personal pension schemes (where relevant – many of the provisions relate to defined benefit schemes only) this needs to be made clearer.

3 the proposed commencement date for the Pensions TAS (see paragraphs 4.23 to 4.25);

If the proposed implementation date of the Pensions TAS stands, actuaries will already be carrying out work which will be within scope. Bearing in mind the changes that have already been made to the proposed standard, actuaries will be reluctant to adopt the principles of an ED at this stage in case their procedures do not go far enough or indeed have gone too far. Actuaries have already had to make significant changes to processes to deal with TAS R and TAS D, and it is not helpful to clients for such changes to be drip-fed through to the reporting and processes. Bearing in mind that TAS M will apply to models used in the preparation of aggregate reports completed on or after 1 April 2011, it makes sense to adopt the same date for Pensions TAS in order to minimise the staggering process. However this does assume that the Pensions TAS is released early enough in summer 2010 for its implications to be understood and adopted by actuaries in good time.

4 the transition to the Pensions TAS from the adopted Guidance Notes (see section 5);

We note that earlier adoption of the Pensions TAS is to be encouraged. Many actuaries will have made as few revisions to their procedures to cope with TAS R and TAS D as possible, in full awareness that the Pensions TAS (and more particularly the removal of GN9) will allow a more comprehensive review of reporting material. Subject to the comments made in qn 3, such actuaries may wish to adopt the TAS as early as their systems will allow. However if GN9 remains until 31 March 2010, will this prevent the full revision of reports before then? We feel that it is preferable for the standard to state that the GNs will cease to apply for work which is issued in compliance with the

Pensions TAS (so that those who do adopt early can ignore the GNs). Failing that the statement on early adoption should be removed or qualified by a comment that early adoption does not remove the requirement to comply with the current GNs.

5 our impact assessment and the effects that the introduction of the Pensions TAS is likely to have on actuarial information (see section 6);

BAS expects the cost of transition to the TASs to be no more than 5% - 10% of the annual cost to practitioners and firms of performing actuarial work for governing bodies and trustees for most schemes. We assume this is intended to encompass all the TASs being introduced, both generic and specific. This is a significant figure, and could be made worse by the furthered staggered introduction of the TASs which has caused additional work over the several exercises of ensuring processes are compliant with each new TAS. Although most firms will endeavour to absorb these costs, it would be unrealistic to expect that no costs will pass to the clients in the long term. In addition, although 'the TASs will initially mainly cover trustee work' the costs in professional fees will eventually be borne by the sponsoring employers.

6 the text of the exposure draft as a means of implementing the proposals presented in this document.

Our comments here (which include general comments on the overall concept) are:

- B1.1 states that 'All text in this standard has equal status unless stated otherwise. Paragraphs setting out explicit principles are emphasised with boxes for convenience. In working through the practical implications of the generic TASs, it has become clear that the boxed paragraphs are seen as the important principles and the non-boxed text is in many cases amplification. The first sentence of B1.1 does therefore seem slightly misleading.
- The definition of informed reader includes the text 'An informed reader is not necessarily a user.' Should this also be 'and vice versa'?
- In general the standard is long and in many areas repeats material from general TASs eg TAS R (although clearly the intention is to augment and clarify the generic requirements for pensions purposes). Although reference to TAS R is clearly needed in some places, some repetition between the two could be deleted.
- The definition of users: BAS has made clear that it was not the intention for the PPF to be a user of the s179 valuation report. However the overall definition of users does not make that clear – it does comment that regulators and third parties are among those who would be regarded as users. As a general point, we would argue that a valuation report should not be written with the Pensions Regulator in mind as a user.
- Scope – the ED lists Reserved work as being within scope (we agree) and adds some specific lists of other work. The Scope and Authority for generic TASs also brings within scope 'any work which is presented as complying with TASs whether expressly or by implication.' On the current drafting, such work would fall within scope of say TAS R, but not the Pensions TAS – this may cause confusion.
The recent discussions over the precise definition of Reserved work do suggest some further clarity is needed. For example BAS appear to take the view that FRS17 calculations are not regarded as Reserved work and not within TAS R; although once the Pensions TAS takes effect any distinction will be irrelevant because TAS R will then apply, the lack of clarity in the definition could cause problems for other situations in the future.
We note the comments that BAS may consider bringing other work into scope (eg M&A work, inducements) at some stage in the future
- Regarding information in relation to the employer – the ED is silent on whether the information on the employer should include information on the employer's covenant. This would not affect the benefits itself but would impact on the assumptions made – the list suggests that this information would not be relevant, but this should be made clear.

- The earlier consultation asked whether a standard comparator rate for discount rates would assist users' understanding, and similarly whether in Scheme Funding exercises any prudent estimate of scheme liabilities should be accompanied by a best estimate. We (along with many respondents, as the consultation response noted) did not agree with either of these suggestions, as we felt they could affect or prejudice the discussions around the actual rate to be used. We note that BAS is convinced that such markers would be useful and should be retained. The best estimate requirement is now replaced by a requirement to compare with a 'neutral' basis – this will not resolve the issue we identified previously, and we believe that 'neutral' could cause problems in interpretation.

- Schemes within the Scheme Funding requirements: assessments and Scheme Funding reports

The definition of scheme funding assessment is not clear: it could be read as either the triennial valuation or the interim exercise of producing the actuarial report (although E5.2 suggests that it is only intended to refer to the full valuation)

Given the focus now within TAS R of component and aggregate reports, it should be made clear here that the Scheme Funding report must be one document (as seems to be the intention here).

We are concerned about the amount of information required to be presented in the Scheme Funding Report – we had hoped that the transition from GN9 would enable the final Scheme Funding Report to be kept as a minimal compliance document. In particular many items which TAS R requires at present would be regarded as immaterial for a 'report of record' which documents the results and decisions made (where the decisions will have been made based on advice which was TAS R compliant and included all the material information deemed necessary for that advice exercise). Yet the Pensions TAS proposes that items such as cash flows should be included within this document. This may not be an onerous exercise if the work has already been carried out as part of the advice – but it means that the final report will be unwieldy. We do not believe that this approach meets BAS's reliability objective. Materiality and proportionality considerations might permit the actuary to omit some of the items – but if they are specifically included within a list, actuaries will be reluctant to do this. E5.11 makes clear that although the Scheme Funding report may be a component report for a later exercise (for example setting factors, or the annual update report) it is not a component report for the valuation exercise itself. We therefore feel that items for inclusion within this should be kept to a minimum.

BAS has kept under review the proposal to issue specimen Scheme Funding reports. If it does decide to do this (we are not convinced of the benefit), we would suggest that it would need to be done early – before any actuaries have interpreted the TAS into their own standards.

Otherwise, if the released standards show a significant change in interpretation, there will be uncertainty over whether reports already issued would be regarded as compliant.

We would be pleased to discuss any of these matters in more detail.

Yours faithfully

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