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21st May 2010

Ms L Pryor
Technical Director
Board for Actuarial Standards
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Dear Louise

**Pensions – February 2010 Exposure Draft
Lane Clark & Peacock LLP (“LCP”) response**

We are pleased to respond to the above consultation document.

1. Our expertise and areas of work

Lane Clark & Peacock LLP (“LCP”) is a leading firm of actuaries and consultants, with over 90 partners, 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. Our main focus is in the pensions advisory field.

2. Our response to the consultation

We welcome the significant development that has taken place in the production of this Standard since the Consultation Paper was issued last June. Nevertheless, we have a number of concerns with the content of the Exposure Draft as will be seen from this letter.

Our responses to your individual questions, set out in section 7 of your consultation paper, are provided in the appendix to this letter. We would also like to emphasise the following points:

2.1. There is uncertainty as to the scope of the standard

This is the first topic specific TAS to reach exposure draft form and hence the first TAS where we are seeing scope move beyond Reserved Work. We feel that your unwillingness to provide an explanation as to what is “actuarial information” and through this “actuarial work” will make it very difficult for actuaries to decide in most non-Reserved Work areas whether one is in scope in relation to the specific advice or information which is being given. It is likely to be even more difficult for users to make that judgement.

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Therefore we disagree with your statement in the response to the Consultation Paper: “*We consider that most actuaries and users of actuarial information know what actuarial information is when it is produced*”.

As this is an issue that is likely to affect all topic-specific TASs, we urge you to give serious consideration to this issue. Actuaries will need carefully thought-through guidance on what is actuarial work since, if their judgement on scope is incorrect, they will be exposed to the disciplinary processes. Whilst it may not be possible to be precise, we hope that you would be able to reduce the chance of a misjudgement by the actuary. One possibility worth exploring is indicating what work that is typically undertaken by an actuary is not regarded by you as actuarial work.

Aside from the difficulties caused by the uncertainty as to what is actuarial work, we feel that more precision is required in the drafting of Part C of this Standard

We believe that these issues must be addressed as otherwise you are in danger of not complying with paragraph 2.9 of the Conceptual Framework that states that TASs “*should not only be intelligible to lay readers, but also be intelligible to readers (whether lay or actuarial) who are new to the issues addressed in the standards*”.

2.2. You may have missed opportunities to ensure internal consistency of all the principles

From your response to the Consultation Paper it is not clear that you have sought to:

- map all the general principles that you set out in Part D against each of the topic areas that you bring within the scope via Part C to check whether these Part D principles make sense – for example, we believe that it is not appropriate for instructions for third parties to be subject to all of Part D;
- compare all the principles contained within the three generic TAS with the general principles in Part D to see if there are any inconsistencies or room for confusion when an actuary comes to consider the application of the principles across all four standards.

We further believe that you are building up a complex matrix of principles which, from a practical viewpoint, will be difficult for the actuary to assure him or herself that compliance has been achieved. One can only expect this issue to become more difficult and impractical as the existing TASs are reviewed and revised over time and other TASs are added. If the standards are difficult to comply with, the Reliability Objective may not be met in the way in which you hope.

2.3. Inclusion of a hard disclosure of the neutral estimate of the scheme funding liabilities could have adverse outcomes

We have a number of concerns over your continuing with this principle as we make clear in our response to Question 6. But our key worry is that by going ahead with this principle, you would be acting against the public interest, which is something that the FRC accepts that it must uphold.

As we mentioned previously, we believe that the provision of this estimate may mislead the trustees into a false sense of security, as well as potentially damaging trustees’ bargaining

power. The result could well be less prudence in scheme funding with the risk that this poses for scheme members.

2.4. You are not the appropriate body to set the contents of the Scheme Funding Report

We have concerns over the Scheme Funding Report as we make clear in our response to Question 6. In particular, we do not believe that it is appropriate for the Board for Actuarial Standards to set the requirements of what these days is largely a disclosure rather than an advice document, especially when it is not clear whether those normally charged with disclosure responsibilities, such as the Department for Work and Pensions and the Pensions Regulator have engaged with you on this issue.

We conclude that significant amendments are needed to this Exposure Draft which would in turn warrant further exposure and discussion.

Finally we note with disappointment that you have not sought to engage at all with your Working Group (to which you refer in Appendix A) in the production of this Exposure Draft. We think that it is inappropriate to refer to such a group and name individuals of that group when its involvement ceased prior to the Consultation Paper being issued. Moreover, that group never met, never came to a considered view to put to you and never engaged as a group with you in any sense. It is not responsible in any way for the contents of the Consultation Paper or the Exposure Draft. Continuing to publicise the Working Group in this way causes some difficulties for the individual volunteers referred to.

There also appears to have been very little engagement from the user community. We feel strongly that you need to rectify this. Especially with the topic specific standard extending the TASs so widely in the pensions area, the views of users on the appropriateness of this seems essential to your decision making process.

Please feel free to contact us if you would like to discuss any of the points we have made.

Yours sincerely

{Sent as an attachment to an e-mail on 21st May 2010 at 13:39}

Fiona J Morrison FIA
Partner

Enc: Appendix

Copy to: baspensions@frc.org.uk

Response to specific questions

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

Our comments are as follows:

- In F.1.1 the term "funded pension schemes" is used but it is not defined. It would appear from 4.20 of the response to the Consultation Paper that it is intended to include Local Government schemes. As these schemes partly fund their benefits it seems that the definition needs to be more precise in order to capture them.

Another difficulty is that the term would appear to capture all money purchase schemes which presumably is not intended.

- We do not understand why F.2.1 enables funded pension schemes subject to Part F to escape from your requirement for disclosure of a neutral estimate of the value of the liabilities of the pension scheme. The logic for this is not stated and seems to conflict with your policy intention set out in 4.20 of the response to the Consultation Paper.
- It seems to us that it is essential to be clear on which schemes will be subject to Part F. We set out three examples where we are not clear what treatment is intended:

- Private sector occupational pension schemes which would be subject to the scheme funding requirements were it not for the fact that they have commenced winding up.

They would appear to be subject to Part F but this would not seem to be appropriate given their situation.

- A scheme that has gone through a PPF assessment period, has not been accepted but, as it is unable to find an insurer, is being treated as a closed scheme under section 156 of the Pensions Act 2004.

There are required funding assessments of such schemes and it is not clear to us that they should be subject to Part F of TAS P as well as the PPF's own requirements.

- A money purchase scheme that is targeting a level of defined benefit. A number of small self-administered schemes have this characteristic.

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

We feel that your definition of governing body is insufficiently precise. It is not clear whether the employer is brought within the definition where it has a role in part of the governance of an occupational pension scheme – eg where the employer has the power to set the commutation terms. We feel that you should make a specific exclusion here otherwise you may find that, unintentionally, corporate actuarial advice is brought within scope in a number of areas.

A further difficulty is in understanding what is meant by the governing body in relation to personal pension schemes (potentially brought into scope through your definition of “pension scheme”). Are you intending to cover the employer here, the product provider, or both? Or do you in fact not intend to cover such schemes? It would seem that in relation to individual calculations (C.1.17), actuarial advice delivered to the product provider could potentially be caught. We are not sure whether this is intended.

The definition would also appear to encompass the NEST trustee, but we are not sure whether this is intended.

3. The proposed commencement date for the Pensions TAS (paragraphs 4.23 to 4.25)

The key to successful implementation of TAS P is for there to be a sufficient period after its content has been settled prior to its commencement for actuaries to be able to become fully appreciative of its scope and the extent to which they can use materiality and proportionality arguments. With certain exceptions that we will come on to, it is not so much the proposed principles that will be at issue in this TAS.

Our concern is that the TAS will be settled with insufficient clarity in the scope section (see the covering letter and our detailed comments in 6.3. below) which will then give rise to many queries and concerns. To give you some context, we are experiencing some difficulties in relation to the definition of “Reserved Work” at the present time. Yet this term should require little by way of judgement when applying it to a particular situation to determine whether or not TAS R applies.

Assuming that the scope section is sufficiently instructive, we would want there to be a period of not less than six months from the settling of the contents of the TAS and its commencement. Therefore if you are able to keep to your summer 2010 finalisation target, a 1st April 2011 commencement would be workable. However, if your timetable slips we urge you to put back the commencement date.

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

It is not clear to us that your thoughts have moved on materially from those set out in the Consultation Paper issued last June. We reiterate the need to work closely with the Actuarial Profession and others on a guidance note by guidance note basis given that you are proposing the deletion of all eight pensions guidance notes in your care.

We are not sure what difficulties exist through having TAS R and Guidance Note 9 in place together, especially when the former overrules the latter should there be a conflict. Given this, we are not especially attracted to the idea of enabling actuaries to choose between complying with TAS R and Guidance Note 9 and complying with TAS R and TAS P in the period from when TAS P is issued in final form and its commencement. We prefer Guidance Note 9 to remain in force for this purpose until TAS P comes into force.

We do not believe that it is sufficient to withdraw Guidance Note 16 but maintain its contents as a historic document on your website. We think that this guidance note merits discussion with the Actuarial Profession as to where the important material within it should in future lie.

We are not aware of any discussion you may be having with the Department for Work and Pensions (DWP) on the future of Guidance Note 28. It seems to us that the future of the contents of this

guidance note should be linked with the DWP's development of actuarial certification in relation to the test scheme standard for contracted-in schemes seeking to meet the defined benefit quality test under the auto-enrolment legislation. Depending on the speed with which this is taken forward it may not be possible to rescind Guidance Note 28 on 1st April 2011.

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

We are grateful for you seeking to produce an impact assessment and we recognise the constraints under which you operate. However, it is difficult for us to comment on your assessment as you have exposed very little of your thinking and it would seem that it is dependent on some key judgements that have not been tested within the actuarial community.

There will clearly be a cost of transition and a driver for this will be not so much the content of the standards but rather the ease or otherwise with which it can be understood and procedures put in place, along with the requisite training, in order to achieve compliance. Given the difficulties we have highlighted in our opening remarks we suspect that, as TAS P is currently drafted, your 5 – 10% figure under-estimates the true cost.

We also note that the cost of compliance will vary depending on the size of the project being undertaken, with smaller projects incurring a higher percentage compliance cost when compared with larger projects such as scheme funding valuations. This is accepted but TAS P seems to bring into scope many small projects (which will then also have to comply with the three generic TASs).

You state that *“As the TAS will initially mainly cover trustee work the costs to employers are not expected to be material”*. This seems to ignore the fact that in most situations the employer meets the cost of trustee advice, one way or another.

Given our concerns above we find it hard to accept that over the long term there will only be a slight increase in the cost of carrying out actuarial work for trustees and governing bodies, especially if your Scheme Funding Report idea goes ahead in anything like its present form.

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

We set out below a line by line comment on the Pensions TAS starting with section A.

6.1. Part A

In A.1.1 you state the Reliability Objective. This is constructed around “users”. We have no difficulty with this, but not all of TAS P is linked to users. In particular, the Scheme Funding Report in E.5 is intended to be designed, not for users, but for an “informed reader”. It seems to us that inclusion of requirements concerning the Scheme Funding Report is outside the ambit of the purpose of the Standard. In other words, you have not given yourself the authority to set down requirements in relation to the Scheme Funding Report. It seems that the only way that you can validly set down requirements in relation to an informed reader is to amend the definition of the Reliability Objective within the Scope & Authority. Unless you do this, it seems that actuaries can choose to ignore the Scheme Funding Report requirements.

We accept the second bullet of A.1.2 as an appropriate purpose of an actuarial professional standard on pensions. But the principles that then flow from this (ie in D.4) are not necessarily always linked to a “user”. Where this is the case the same problems as we have mentioned immediately above in relation to the Scheme Funding Report apply.

We think that you need a third bullet in A.1.2 to cover the accounting work intended to be within scope. It does not seem to be captured by the first bullet as such work has very little to do with decisions relating to the financing of the pension scheme or the benefits payable to members of the pension scheme.

6.2. Part B

In paragraph B.1.2 you recite the materiality safeguard. Separately, “material” is defined in terms of influencing decisions taken by users. But, as we have mentioned in 6.1. above, some of the requirements set out in TAS P are not related to decisions to be taken by users.

It is not clear to us what happens. It seems that you can either run the argument in 6.1. that the requirements are invalid and ignore them, or choose to comply with them, but then find that you cannot do so in a proportionate manner because the materiality safeguard does not operate in situations where there is not a user.

In paragraph B.1.3 you recite the proportionality safeguard. This paragraph is no different to similar paragraphs in the three finalised generic standards. Read at face value it suggests that proportionality can override materiality. In other words, you can choose to ignore a principle that would be material to the user because it would be disproportionate to take it into account.

This is not how we understand the proportionality safeguard to operate. Our understanding is that it operates as you have set out in paragraph 3.6 of the significant considerations document that you released when you finalised TAS M.

“There is an important distinction to be made between materiality and proportionality. If a piece of actuarial information is not material, there is no requirement to follow the principles set out in the standard. If work is material, the principles must be complied with proportionately. For example, in some cases a required explanation might be comparatively brief, or an indication might consist of a short description, while in others a detailed explanation or full quantitative analysis might be appropriate. A departure from compliance on the grounds of proportionality does nevertheless constitute a departure.”

It seems that you need to revisit paragraph B.1.3 in this TAS and the three settled generic TAS in order to make clear precisely how the proportionality safeguard is intended to operate.

We have some difficulties with a number of your definitions set out in section B.2. They are as follows:

- Actuarial factor – this is defined in relation to actuarial techniques but as you are not giving any guidance as to what is actuarial work, it is not clear when a factor becomes an actuarial factor.

- Funding assessment – this definition does not seem right to us as it will bring within its ambit any comparison of liabilities with assets such as for section 75 debts.
- Governing body – we have mentioned our concerns in respect of this in answering Question 2.
- Informed reader – we suggest that you should limit the definition to its intended purpose, namely the Scheme Funding report. As currently drafted it suggests that the reader has a very high level of financial literacy with a certain degree of expertise in the complexity of financial issues impacting pension schemes.
- Measure and method – it is not clear to us how the generally accepted pension funding methods (described in Guidance Note 26) fit within these terms. Perhaps they don't at all. Is the projected unit method a method under your terminology or is it a measure? Or is it neither of these? We suggest that there should be some clarity here otherwise there will be scope for much confusion amongst actuaries and users (which in turn will be at odds with paragraph 2.9 of the Conceptual Framework).
- Neutral – the first sentence needs to be made consistent with that in the finalised version of TAS M. In other words it should read “*A neutral measure, assumption or judgement is one that is not deliberately either optimistic or pessimistic and does not incorporate adjustments to reflect the desired outcome.*”

But even with this correction it is not clear, from the drafting, what is meant by a “*neutral measure*” (which although an emboldened term is not defined). We understand that the intention is for the measure selected to be without bias. So, for example, in establishing a neutral measure of the buyout cost of a pension scheme's liabilities, neutral assumptions would be used and the resulting estimate would be intended to be neither a cautious nor an aggressive estimate of the cost.

We think that it is important to ensure that this concept is clearly understood, especially if you intend to use it in areas beyond the principle set out in E.4.2. Given this, perhaps the drafting should be along the following lines:

*“A **measure**, assumption or judgement is neutral if it is not deliberately either optimistic or pessimistic and does not incorporate adjustments to reflect the desired outcome. An estimate that is neutral is one that is derived using **measures**, assumptions and judgements that themselves are neutral. There may be a range of estimates that are neutral, reflecting inherent uncertainty.”*

This redrafting would also need to be taken into the finalised TAS M.

- Pension scheme – some precision is needed here so that it is clear to which UK legislation you are referring. Our suggestion is that you should refer to the definitions of “occupational pension scheme” and “personal pension scheme” within section 1 of the Pension Schemes Act 1993. Without such precision it will not be clear what types of pension scheme are in scope.
- Scheme Funding report – many reports are likely to be made to the trustees as part of the scheme funding process. Given that it is called the “actuarial valuation” in

the legislation and in order to make an appropriate distinction with other reports we suggest that you rename this the “Scheme Funding valuation report”.

6.3. Part C

As we mention in our covering letter we have some real concerns over the drafting of the scope section and urge you to put some considerable effort into this area before finalising this standard. Throughout, the lack of definition of “actuarial work” causes us considerable uncertainty, as mentioned in our covering letter.

Looking at each non-Reserved Work area in turn we comment as follows:

Funding work for governing bodies

C.1.5 – we think you should make it clear that this scope ranges beyond the scheme funding assessment (if this is your intention). For example it would appear to include actuarial work in relation to augmentations where the trustees have to decide whether or not to request special contributions.

C.1.6 – calculating the value of the assets can also be relevant.

C.1.7 – we have found it hard to judge precisely what is intended to be brought within scope by C.1.7 and so would have some difficulty in seeking to comply with the requirements here. Some further work in this area and perhaps an amalgamation with C.1.5, if there is a linkage, may be the way forward.

We find it somewhat odd that there is no mention of asset work in C.1.8.

Scheme rule amendments

C.1.9 – restricting the scope to amendments to the pension scheme’s governing documents would appear to be unnecessarily restrictive. It would exclude for example amendments that follow as a consequence of overriding legislation and alterations to members’ benefits through the operation of measures outside the scheme rules (such as may be possible through re-examination of the elements of pensionable pay). On the other hand “*which might (our highlighting) affect members’ benefits or the security of their benefits*” is very wide.

There would also appear to be more work that could be described as actuarial work under this heading than you have set out in C.1.10. We are aware that the list is not intended to be exhaustive, but the current list seems very restricted. For example, we suggest that assessing the implications for the security of members’ benefits should be in scope. It would also be useful to make clear that amendments impacting future accrual of benefits are equally as caught as those impacting past accrual (if this is your intention).

Scheme funding work for employers

C.1.11 – whilst we support the inclusion of this work within the scope of the Pensions TAS it is not clear to us that a standard which is aimed at enhancing the actuarial information supplied to a governing body should apply in its entirety to a situation where an adviser is being retained to assist his principal in essentially matters of negotiation and may be “turned off” having only had the opportunity to do a partial job. You also do not appear to have explored the possibility that different principles may be necessary in such situations.

Turning to the wording you propose, the use of the phrase “on any matter related to” could draw in all kinds of corporate advisory work which taken by itself is outside the formal scheme funding process, but given the nature of the advice, impacts any future or indeed current negotiation with the trustees. For example, many scheme funding processes in recent years have gone hand in hand with corporate engagements in relation to scheme design. It is not clear to us whether you intend that such advisory work falls within C.1.11. Another issue is where the employer determines the level of discretionary pension increases and is influenced in its view, naturally, by the latest scheme funding valuation result. Is advice to the employer on such increases brought into scope through its linkage with the scheme funding process? We suggest that you restrict the scope of corporate work by replacing the “on any matter related to” phrase with something like “on any matter specifically intended to influence”.

We feel that you need to explore the real difficulties that may emerge here as it may not be possible to draw a line as to which corporate advice is within and which is outside the scheme funding process.

Bulk transfers

C.1.13 – this is an example of where the lack of any definition of actuarial work can make it particularly difficult to establish precisely what is within scope. Much of the work in this area is in the nature of due diligence of the situation before and after the transfer along with a communication of risks to which the governing bodies may be exposed. And yet this would not appear necessarily to be within scope. Some of this work could be said to be beyond at least a narrow interpretation of actuarial work and so there may be confusion as to precisely what is intended to be within scope in this area.

We find it odd that C.1.14 does not make mention of advising on the amount of the transfer.

Winding up

C.1.15 – winding up is a very wide area and the work that you describe under C.1.16 does not appear to be sufficient. For example we feel there ought to be explicit mention of asset shares in relation to the statutory or other priority orders. A view is also needed as to the extent to which work undertaken within a PPF assessment period is within scope.

This is a good example of an area where the lack of a definition of actuarial work causes particular difficulties. In wind up there can be close actuarial involvement with, for example, legal advisors in the advisory work, so clarity is needed as to what is within and what is outside scope.

It also seems to us that the phrase you have used in C.1.15 has the potential to bring into scope any actuarial work for a governing body that makes mention of winding up, even if the scheme is not in wind up and not likely to trigger winding up in the near future. This could be overcome by adding wording at the end of C.1.15 along the lines of “, either in progress or with a reasonable likelihood of beginning in the near future.”

Individual calculations

C.1.17 – again, a definition of actuarial work is needed here to make this element of scoping workable. It is not clear, for example, if the actuary undertakes the calculations whether such work is within scope. It is also not clear whether supplying factors based on previously

agreed assumptions and/or methodologies is within scope. Another difficulty in interpretation is where the employer, not the trustees, has the say on certain actuarial factors, such as commutation factors. Would they be regarded as the governing body for this purpose and so any actuarial work for the employer in this area be regarded as within scope?

It is important to come to a clear landing as to whether this is in scope as these are small pieces of work which we expect will have relatively high compliance costs.

Projections for defined contribution schemes

C.1.19 – there appears to be a drafting flaw in that if one chooses to adopt assumptions set out in legislation or other rules one falls outside the scope of the standard. We think that the exclusion should only operate where you are required to undertake projections in line with these assumptions.

Another difficulty is that the scoping is not linked to undertaking a piece of work for a particular entity. It seems that corporate work could be caught by the current wording. It is not clear whether this is intentional. Work undertaken for a specific individual might also be caught. We are not sure whether that is intentional either.

A further problem is that, by referencing benefits from defined contribution schemes, you are excluding all those money purchase benefits that are delivered from hybrid schemes (including a defined benefit scheme with a money purchase AVC facility). We assume that this is not intended.

The scoping also seems to encompass situations where others have set the assumptions and the role of the actuary is purely technical – to undertake the calculations. We are not sure whether this is intentional.

Accounting for pension costs

C.1.22 – should there not be some restriction so that this aspect of the scoping applies only to UK pension schemes whose sponsor is reporting under a UK reporting obligation? As it currently reads it seems that any work done by a UK actuary in relation to an overseas reporting obligation is caught which we believe is outside your Scope & Authority.

Directors' disclosures

C.1.25 – we suggest that you make specific mention (perhaps in C.1.26) of the Companies Act 2006 disclosures and the Listing Rules.

6.4. Part D

D.1 – Introduction

We believe that the principles set out in D.1.2 should in fact appear in section B since it is not so much a principle but rather a guide to interpretation of all the standard (and not just section D). We regret that you have not moved this aspect in other TAS that you have settled.

D.2 – Assumptions

D.2.19 – The first sentence of this paragraph looks like a rule rather than a principle. The “and” also seems incorrect.

D.2.24 – We do not object but the reference to running costs of the pension scheme highlights the difficulty that a piece of actuarial work (in this case on running costs) that is delivered outside the scheme funding process and is not caught by TAS P, could nevertheless become a component or possibly even an aggregate report in the scheme funding process at a later date.

D.3 – Information

D.3.5-3.6 – We note that this principle is quite narrow in its application as it is limited to situations where the uncertainty is caused solely by overriding legislation. It does not cover, for example, situations where the legislation itself is capable of multiple interpretations.

D.3.7 – The phrase “might need to” may be troublesome where it is not possible to determine the maximum liability, yet one cannot appeal to the materiality safeguard.

D.4 – Calculations of payments to members

Instructions for third parties

As presented, it seems that instructions for third parties need to be subject to the principle set out in D.4.1, all the other principles set out in Part D before this point and the three generic TAS. We believe that it is sufficient for just D.4.1 to apply and suggest that the generic TAS are not relevant as there is no “user” taking decisions in his situation.

We have some concern that the principle set out in D.4.1 might unnecessarily expose the actuary to liability for calculations that are carried out incorrectly despite the actuary’s best endeavours. Instructions may be a model of clarity, but they do not in themselves enable calculations to be carried out correctly.

D.4.1 should make mention of actuarial work because instructions can be provided that do not by themselves use actuarial factors – for example the calculation of a deferred pension.

Information for governing bodies

We accept, that work falling under the heading of “Information for governing bodies” as set out in D.4.3 should be subject to the three generic TAS and the balance of section D of TAS P.

D.5 – Financial statements

The principles set out in D.5 would not appear to be relevant to C.1.25. It is not clear whether you intend that D.5 should also apply to C.1.25.

It is not clear to us why D.5.4 is where it is or what purpose it is intended to serve as there is no subsequent paragraph that explains the application of these TAS M and R principles in the TAS Pensions context.

6.5. Part E

Moving on to section E we have a number of concerns in this area.

E. 2 – Scheme funding – Risks and Uncertainty

This section seems to be misplaced. In a client discussion we would expect material on risk and uncertainty to come after the main results have been delivered. We therefore suggest that the material currently under E.2 should appear lower down, perhaps just before the scheme funding report section.

We also note in passing that a requirement to explain risks faced by a pension scheme to a user may come across in an unbalanced way if the report does not also state some of the benefits of making such pension provision.

Looking at each of the risks mentioned in E.2.2 we suggest that you should add the impact of adverse experience against the price inflation assumption as this is likely to be one of the more material risks.

E.3 – Assumptions used for Technical Provisions and Statements of Funding Principles

Given our uncertainty as to what is a measure and what is a method and how, if at all, the various generally accepted funding methods, as mentioned in Guidance Note 26, fit in, we do not understand what is intended by the principle set out in E.3.3. Using your terminology, it seems to be irrelevant to explain the implications of different methods since, according to your definition, they should arrive at the same result. Given our concerns, there may need to be some adjustment to the third bullet in E.3.4.

It is not clear to us whether E.3.5 is a new principle or is in fact implied through the contents of TAS R. We also do not understand why you have used “will” in E.3.6 when “may” would seem to be more appropriate.

We cannot see the benefit to users of the principles set out in E.3.7. There have been situations in the past where the assumptions used in the solvency basis are inappropriate in isolation but when combined with other assumptions in that basis deliver an appropriate indicator of the solvency level. So comparing individual assumptions would appear to be misguided and have the potential to be meaningless. By contrast, we would support a principle based around a comparison of the assumptions taken as a whole.

E.4 – Technical Provisions, Recovery Plan and Schedule of Contributions

The title of this section does not seem to be appropriate given its contents.

We have reviewed the arguments you put forward in support of the requirement under E.4.2a that the prudent estimate of the value of the liabilities be accompanied by an approximate neutral estimate of the value of liabilities. We remain unconvinced:

- On a matter of procedure, it is not clear from where the support for this principle is coming, given that it seems to have emanated from “*Further discussion with stakeholders*” rather than actual consultation responses.

- We see, in paragraph 3.51 of the response to the Consultation Paper, that you have rejected the weakening the negotiating power of the trustees argument. We believe that the points you make, around the Reliability Objective, do not recognise a much wider issue and suggest that a more important factor is the FRC's "strategic outcome" that it should be "operating in the public interest". As we mentioned previously, we believe that 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 – this would act against the public interest. The figure may also detract trustees from needing to have regard to a whole range of issues when deciding on their prudent assumptions – this too would not be for the common good.
- It is not clear to us that the hard disclosure of a point estimate of a neutral measure of the scheme's technical provisions is consistent with the Reliability Objective in relation to the actual level of the technical provisions. This is given added emphasis when you consider that the trustees already have the cost of buying out benefits, the cost of securing PPF compensation and possibly the employer's disclosed accounting cost available to them.
- There is no evidence that you have discussed this proposal with either the Department for Work and Pensions or the Pensions Regulator. They may have their own views on this matter. One might have expected to have seen this as a requirement of the scheme funding regime had it been thought to have been appropriate when the policy was being discussed and the legislation prepared. We note that there is not a similar principle proposed in the Insurance TAS and the rationale for this is that the appropriate regulatory bodies have taken the decision.
- It is not clear how one goes about determining the neutral estimate – for example, whether it should assume that the employer covenant is above reproach.

We would support a principle that required actuarial advice to include discussion about the approach being taken to the technical provisions and the risks and uncertainties associated with it. But to potentially reduce such discussion to a point estimate may mislead the trustees into a false sense of security, as well as potentially damaging trustees' bargaining power. The result could well be less prudence in scheme funding with the risk that this poses for poor outcomes for scheme members.

We feel very strongly about this issue and would welcome discussing the issue with you at a meeting in order that a more thorough exploration of the issues can be achieved.

E.5 – Scheme Funding Report

Our other main concern under section E is the Scheme Funding Report.

We believe that you need to rethink your proposals in this area and in particular, start a discussion with the Department for Work and Pensions and the Pensions Regulator. The 2004 scheme funding legislation and your concepts of component and aggregate reports should serve as an opportunity to review the purpose of a report of record at the end of the scheme funding process. That should be the driver for the content, rather than essentially treating it as Guidance Note 9-style compliance.

In the light of the above we have the following more detailed comments:

- We do not believe that you are the appropriate body to set these requirements. Given the nature of the scheme funding process allied with TAS R, this is now at heart a disclosure document. It is not for the Board for Actuarial Standards to dictate the contents of such a document. It should be for other bodies such as the Department for Work and Pensions or the Pensions Regulator to set down its views in this area, or explicitly ask you to undertake this work.
- As we have mentioned in commenting on Part A, this part of TAS P would seem to be outside your remit based on a reading of the Scope & Authority. Given this, it would seem possible for the actuary to ignore the requirements.
- It is inappropriate to have a section compelling the detailed content of a document in a Standard which is intended to be principles-based. It is not clear how this apparent compulsion interacts with the materiality and proportionality safeguards, if at all.
- Some of the disclosures are far too detailed for an informed reader, let alone a scheme member. Information on projected cash flows is one of these (E.5.8) as is some of the information on risk and uncertainty (E.5.10).
- We do not understand the thought that lies behind E.5.3. Given that the Scheme Funding report is, in your eyes, being produced to assist the “informed reader”, there does not seem to be any merit to include matters that such readers may not be able to understand. We suggest that you remove this Principle.
- On a drafting point, the first bullet under E.5.10 should refer to the risks faced by a pension scheme **in relation to its funding**.

E.6 – Transfer values

We do not understand why E.6 is within part E. It would seem more appropriate to put it under a separate heading as it is not an integral part of the scheme funding process.

We feel that it would be useful for the rationale for the inclusion of this principle to be explained within the body of the proposed Standard. Otherwise it is not immediately obvious why actuaries should seek to comply. You state in the response to the Consultation Paper that trustees “*should understand the relationship between the funding basis and the CETV basis*” when they set the latter. We can see some merit in this, but the principle you propose, which is around a comparison of assumptions, seems to be inappropriate. A better principle would be for the trustees to be provided with an explanation of the implications for funding policy of adopting a particular transfer basis.

Returning to your proposed principle, there may be situations where there is some sense in comparing assumptions with those used for the most recent scheme funding assessment, but this will not always be the case. The assumptions are being set for different purposes and inevitably will be at different dates. As currently proposed, we would expect to use the materiality safeguard in many situations and choose not to comply with this principle. Where it is appropriate to make a comparison, we would be happy to provide an explanation, as required by E.6.4 in order to provide some indication of the implications for funding policy of adopting the transfer basis.

6.6. Section F

See our answers to Question 1.

In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of the proposed TAS. To ensure that the significance of their point is fully appreciated by the BAS, respondents are asked to indicate how their comments would address the BAS's aim of increasing the reliance that users of actuarial information can place on it.

We have no further comments.