

21 May 2010

The Director  
Board for Actuarial Standards  
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Dear Louise

### **Exposure Draft: Pensions**

Thank you for the opportunity to comment on this consultation paper. This response has been prepared on behalf of the retirement benefits practice area of Towers Watson, a global firm with a substantial presence in the actuarial consultancy market. The firm provides advice to around one-half of the top 100 pension funds in the UK and overall employs over 300 actuaries in the UK.

Our responses to the questions asked in section 7 of the consultation paper are attached. The main issues we would highlight are:

- **Scope:** This lacks clarity and consistency, including in the meaning of “actuarial work” and the application to accounting work.
- **Neutral estimates:** The word “neutral” is not well-defined and appears to allow scope for a wide range of interpretations, which is not necessarily a bad thing (certainly, we prefer the newly-expressed requirement to the previous one involving a “best estimate”). But where the requirement for such an estimate will necessitate an additional set of figures, we continue to believe that the extra cost will not carry a commensurate benefit. Instead, a qualitative rather than quantitative comment on the relationship with prudence would be not only a more cost-effective approach but also in our view frequently a better one as regards real usefulness to the user.
- **Scheme Funding report:** We remain fundamentally opposed to the idea that the BAS should take it upon itself to plug a perceived gap in the legislation by imposing on trustees – via their actuaries – additional disclosure requirements which, for whatever reason, the Government and the Pensions Regulator have not considered necessary. Moreover, the proposed detailed list of rules for such reports sits uncomfortably in a standard which is supposed to be setting principles that will be applied in a targeted and proportionate way to help specified users make identifiable decisions, and thereby arguably undermines the overall purpose of the TAS.
- **Principles or rules?:** Although the TASs are expressed as ‘principles-based’, in practice they contain a lot of ‘rules’ (even though there may be flexibility in how many of those rules can be satisfied). We agree with statements that the BAS has made to the effect that “actuaries are responsible professionals who are capable of exercising judgement”, and would have hoped to see this view reflected in standards which (like the Actuaries’ Code) are much less prescriptive.

After a slow start, the BAS has, commendably, achieved significant momentum in the development of its new standards. We are therefore now in a phase in which a series of new requirements is coming into force apace. Accordingly, we believe that there is a good case, having finalised the generic TASs, for 'taking stock' for a while before implementing subject-specific TASs such as this one, so that some assessment of the success (or otherwise) of the first set of TASs can be made before the second set starts to be added. This implies delaying the commencement date of the Pensions TAS, or at least restricting its initial scope to, say, Reserved Work.

If you would like to discuss any of the contents of this response, please get in touch.

Yours Sincerely

Graham Everness

Senior Consultant

**Exposure Draft: Pensions – response to specific questions***1 Schemes not subject to Part 3 of the Pensions Act 2004*

We agree with the general principle that defined benefit schemes that are not subject to the Pensions Act 2004 'scheme funding' provisions should nevertheless still be subject under the TAS to analogous provisions to those for the 'Part 3' schemes. We would also suggest that the BAS considers making it clear to what extent 'target benefit' defined contribution schemes should similarly be subject to these requirements.

*2 Definition of governing body*

The only comment we would make here is that it is not clear who the "governing body" for personal pension schemes (which are included in the proposed definition of "pension schemes") should be assumed to be.

*3 Commencement date*

As we have commented in various consultations, we think that a commencement date which in practice catches work that was done before the TAS was published should wherever possible be avoided, as it results in the revisiting of old work for the sole purpose of checking compliance. We make that point once again here, with the batch of March/April 2010 funding valuations (which in general will not be finalised until the second quarter of 2011) in mind. On this occasion we make the point with the added force of having had actual experience of this no-added-value cost in relation to the introduction of TAS R.

Also, as indicated in the covering letter to this response, we believe that a good case can be made for deferring the introduction of Specific TASs until the three Generic TASs have had an opportunity to bed down and some measurement has been carried out of how effective they are proving to be.

*4 Transition from adopted GNs*

The biggest concern here is GN28, without which the Reference Scheme Test as currently provided for in legislation would be unworkable. We assume that the BAS is by now well-advanced in discussions on this matter with the DWP and others, and would suggest that it would be a good idea for the proposals that are emerging from those discussions to be exposed for consultation as soon as possible.

The BAS correctly identifies various other issues which would arise on disapplication, but in general does not identify corresponding 'solutions'. Most notable among these are the loss of a number of important provisions under GN16 (we would specifically mention paragraphs 2.2.3, 2.2.4, 2.2.5, 3.3 and 3.4). We trust that such issues will be adequately addressed with appropriate solutions identified and implemented by April.

*5 Impact assessment*

While agreeing that it is very difficult to quantify expected costs and benefits, we believe that it is essential to good regulation that this is done. We therefore welcome the fact that the BAS is now making some attempt to do this, albeit only in relation to the transitional (and not also the ongoing) costs. We think that the one-off cost estimate of 5-10% of normal annual actuarial costs is not an unreasonable estimate, but would not consider this to be an immaterial amount (which would almost certainly look worse if it were expressed in £ terms). We would also strongly question the conclusion at the end of 6.13 that this is a cost which could readily be borne by practitioners – considering the concerns that many companies have expressed at being expected to add a phased 3% of part of their payroll to their total costs (to pay for 'personal accounts'), it will be apparent that an immediate addition to an actuarial firm's total costs of 5% is potentially much more difficult to absorb (even if it were to be only for three years, say).

One particular area where we think a more specific impact assessment would be desirable before going ahead is the Scheme Funding report, where it seems to us that there is a danger that significant additional costs will be placed on all schemes, with a 'benefit' (in terms of increased availability of information) being enjoyed by a relatively small number of 'stakeholders'.

In paragraph 6.7, several anticipated benefits of the TAS are mentioned. To a large extent, however, the changes mentioned have (with the exception of the point about cash flows) already been taking place since the introduction of the Pensions Act 2004, with its increased focus on the role of trustees in the scheme funding process.

We cannot see, as implied by paragraph 6.9, that the disappearance of the detailed guidance on solvency calculations will reduce costs. Indeed, to any extent to which some actuaries might have regarded (whether or not justifiably) the approach set out in 3.5.10 of GN9 as a 'safe harbour', its disappearance could instead increase costs. In addition, the proposed TAS would be expected to increase the work needed in relation to the solvency estimate through the new requirements under E.3.7 and E.3.6.

In addition to the solvency-related matters mentioned above and to the requirement to carry out general checks of compliance, the following provisions might also be expected to add to costs for scheme funding work:

- the requirement to show a neutral estimate of liabilities
- the need to provide all relevant information to the users before decisions are taken, and then to have to provide full information in the final Scheme Funding report (in a different form)
- the requirement to show how a scheme has mitigated its risks (E.5.10)
- the requirement to include cash flows (E.5.8)
- the additional requirements around discretionary benefits and practices (D.2.20 and D.2.22) and benefits over which another party has control or influence (D.3.1)
- the requirements relating to the impact of overriding legislation (D.3.5 and D.3.6)
- the requirement to compare assumptions with those used for transfer values (E.6.2)

Accordingly, we consider it likely that there will be an ongoing (and not just one-off) increase in costs of up to 10% arising from introduction of the TASs as proposed, and it is inevitable that this will be reflected in the ultimate cost borne by users.

We would suggest that it would be a worthwhile exercise, in progressing from the Exposure Draft to the final version, for the BAS to go through the TAS looking at each separate requirement and formally checking that the benefits are expected to outweigh the costs.

## *6 Text of the draft*

C.1: The concept of "actuarial work" is used in several places in setting out the scope of the TAS. This phrase is not defined, and while it is true to say that for many items of work there will be significant agreement as to whether or not they are "actuarial" there will be plenty of highly-debateable cases – including those where the user's view differs from that of the actuary. If (as paragraph 4.14 of the document accompanying the Exposure Draft indicates) it is the BAS' view that the actuary needs to exercise judgement in determining what is 'in' and 'out' of scope, this should be explicitly stated in the TAS (see comment on D.1.3 below) and the BAS will also need to accept that the TAS has in practice become 'voluntary' rather than 'mandatory' for any work which is not unambiguously in scope.

C.1.5: It is not clear to what extent (if any) an actuary's input to a 'Trustee Knowledge & Understanding' session on scheme funding falls within scope. Our understanding is that the BAS does not intend it to fall within scope, but this example helps illustrate the ambiguity in this area.

C.1.7: Paragraph 2.28 of the accompanying document confirms the proposal in the earlier consultation paper that the TAS should not, initially at least, cover "investment work". However, it is not clear that C.1.7 as drafted reflects this stated intent, as most investment strategy analyses undertaken by our actuaries in the Investment team would involve some projection of funding levels and/or contributions. The question then arises as to whether this work is "actuarial work" – on the one hand it does exhibit

some of the characteristics of such work but on the other hand it is by no means invariably done by actuaries (which is in itself a strong argument for leaving it out of scope). Specifically, on the subject of asset-liability modelling (ALM), the consultation paper had indicated that this would not be in scope, but C.1.7 certainly appears to encompass ALM work, both in relation to funding advice and in relation to investment strategy. We are unsure whether we are interpreting the EXD too widely or interpreting the earlier paper too narrowly, or whether the BAS has changed its position on this.

C.1.9 & C.1.13: We are happy that scheme modifications and bulk transfers are included within the scope of the Pensions TAS, regarding this as preferable to having them covered by a separate (Transformations) TAS. We would however repeat the comment made in our response to the consultation paper on Transformations, that if there is to be a separate TAS the separate TAS should cover *all* the requirements relating to such exercises, and they should not be split between the Pensions and Transformations TASs. Apart from anything else, requiring this work to be subject to two Specific TASs would exacerbate the serious evolving problem that we have described under 'General point' at the end of this response.

C.1.15: Winding up calculations are a particularly good example of an area where dividing lines between 'actuarial' and 'administration' work can be very blurred, causing difficulty in interpreting the scope.

C.1.17: This is a good example of an area where compliance with the TASs can easily become disproportionate (notwithstanding B.1.3 – see also the comments under 'General point' below). Arguably, actuarial factors are under an almost continuous review process, although most of the time the 'review' is a very quick assessment that a more detailed review (and possible change) does not need to be carried out. It is unclear to us how this frequent and regular 'quick rain-check' can confidently be regarded as TAS R-compliant without significant time being spent on each occasion. One way for the BAS to deal with this practical problem would be to make clear in this paragraph and/or D.4.3 that the TAS only applies where the factors are being set or formally reviewed.

C.1.22 to C.1.26: As we have commented before, the 'global' nature of a lot of accounting work creates significant anomalies as to what is in scope of the TAS and what is out of it. It would appear that, to be in scope, the actuary must be a member of the Institute or Faculty, the pension scheme must be a UK scheme, and the reporting must be into the UK. So if any of these three 'properties' is 'non-UK', the work is out of scope (in particular, this includes the case of 'UK work' being performed by non-UK actuaries). Bearing this in mind, and the fact that IAS19 has not before been subject to actuarial standards (and FRS17 only subject to 'recommended practice' guidance) with this not, as far as we are aware, having been a problem, we question whether it is sensible to bring this work into scope of the Pensions TAS at all (at least at this stage). We observe that the BAS notes in paragraph 2.26 of the document accompanying the Exposure Draft that there were different views (in responses to the earlier consultation) as to whether accounting work should be covered by BAS standards, but that no explanation was given as to why the BAS then concluded that it should be included in scope for the Exposure Draft.

C.1.22 to C.1.26 also appears to be limited to "pension schemes" (as defined), albeit that C.1.25 uses instead the term "pension arrangements". As such, we understand that the scope includes non-registered (by HMRC) pension schemes but does not include wider post-employment arrangements (including post-retirement healthcare).

D.1.3: Each TAS appears to have the same basic (boxed) principle on "judgement", but the 'amplification' principles that follow are very different. The one example given in D.1.3 of this Exposure Draft seems to us to be a strange choice of example; the examples in TAS R are much more helpful.

D.2.2: We consider that the wording here should be modified to allow for the fact that in some cases "sufficient relevant information" might not exist (e.g. withdrawal rates for a new/small scheme).

D.2.8 & D.2.9: We repeat the comment made on various occasions previously, that we believe that it would be better to re-express this as a principle which discourages the setting of assumptions in this way (unless justified) rather than as a 'rule' which outlaws it. We question the statement in D.2.9 – paragraph 84 of the Pensions Regulator's Code of Practice on Funding indicates that prudence should be assessed against assumptions taken together, and so at least to that extent the assumptions are not "unrelated". And we believe that there can be practical situations in which applying the 'rule' in D.2.8 would be

inappropriate. For example, an interim review of the transfer value basis might reveal that two of the assumptions could do with being adjusted but the net effect of making the changes would be negligible – D.2.8 would then appear to prohibit the pragmatic approach of leaving the basis unchanged (unless the ‘proportionality’ principle can be invoked to justify no action).

D.2.8 also illustrates a general issue which can arise in relation to assumptions. For example, when calculating the value of liabilities in accounting standards (such as FRS17 and IAS19) the assumptions used are the responsibility of the directors of the entity for which the financial statements are being prepared. In some cases the assumptions may, in the opinion of the actuary who is calculating the IAS19 numbers (but did not advise on the assumptions), be such that one assumption is compensating for another assumption. For example, a client may wish to set a stable long-term inflation assumption and adjust the discount rate annually to calculate the liability value, or the assumption for the expected return on assets may be set and fixed for a long period. This approach would seem to contradict the requirements of paragraph D.2.8 and it is not clear how an actuary should resolve this conflict in a situation where he has no power over the setting of the assumptions.

D.2.10: As worded, there is insufficient clarity here as to what constitutes “two similar exercises”. An accounting valuation and a funding valuation may be considered ‘similar’ in that they both place a single value on liabilities for reporting purposes, but their purposes are so fundamentally different that there is little if any merit in comparing the assumptions used. This point is acknowledged in paragraph 3.38 of the accompanying document, but is not reflected in the actual wording of the TAS. Perhaps better wording for D.2.10 would be “similar and related”, or would include a mention of “purpose”.

D.2.11: This example raises the question as to whether the BAS envisages that, at a second funding valuation, the comparison should be with the first full valuation or with the last interim annual report. We assume that the BAS is happy in such circumstances for the actuary to use his judgement as to which to choose.

D.2.16: We can see how this paragraph may be relevant when considering the discount rate used to calculate the technical provisions for a funding valuation. However, for the purpose of accounting valuations (such as FRS17) we fail to see the value in any such comparison as the liabilities are calculated on a discount rate based on corporate bonds, as required by the accounting standard, whereas the assets of the scheme are invested in line with the trustees’ statement of investment principles. A similar comment can be made about other valuations such as those for solvency or PPF purposes, so perhaps the paragraph should be moved to section E?

D.2.17: This is another example of a principle being, in our opinion, inappropriately expressed as a rule. Generally speaking, we agree that base rates of mortality and future changes should be separately identifiable. However, it is possible to use mortality tables that are based on a matrix of mortality rates by age and calendar year. It will always be possible to identify from this what the – perhaps implicit – future improvement assumptions are, but it is questionable whether it could be said that there is a “separate assumption” for these.

D.2.22 and D.2.23: It is unclear quite how much detail on the views of the employer (or other body with the relevant power) should be included under these paragraphs. Employers will want to exercise care regarding what is said, because of the scope for raising members’ expectations or for impacting on the accounting position. There is a danger that these proposed requirements will lead to a reduction in the extent to which discretionary benefits are funded for (and, ultimately, provided).

D.3.1: Arguably, data relevant to the actuarial information provided and which would need to be sought from the employer or others may extend beyond matters that affect the benefits payable. For example, affordability is relevant to consideration of a recovery plan and schedule of contributions, and investment strategy can also have wide significance (and although normally it is only the trustees who have “control” over this the employer can generally be thought to have an “influence”). We also note that there appears to be some overlap between D.3 and D.2.20 and wonder if there is scope for some re-ordering of the material to make its presentation more efficient.

D.3.5 to D.3.7: We are not sure why uncertainty caused by overriding legislation is addressed here, but not uncertainty regarding the interpretation of scheme rules. We do not particularly like the use of the

words "might need to include" in D.3.7 and would prefer something like "might usefully include (if reasonably quantifiable)". Our thinking here is that the potential impact of age and sex discrimination requirements could be very difficult to identify given the legal uncertainties that still persist.

D.4.1: The wording here should be adjusted slightly to clarify that the requirement has been met if the instructions could reasonably have been considered sufficiently clear. As currently worded, there is a risk that, the instructions having been confirmed (as will be required) by the actuary as TAS-compliant, systemic errors by a third party administrator could still be 'blamed' on the actuary even in circumstances where the administrator really should have interpreted the instructions correctly.

D.5.2 & D.5.3: It may be helpful to make explicitly clear that the word "materially" is being used here in its accounting sense, which in general is not the same as the definition for TAS purposes. We would also comment that it is not always easy to get a clear view as to what 'materiality' means in a pensions context. We assume that in D.5.3 the BAS has in mind approximations like the use of roll-forward methods from figures at an earlier date, and not any "material inaccuracies" that might be thought to arise from the nature of the actuarial calculations themselves, but would suggest that it would be helpful for the intention here to be clarified.

D.5.4: We are unsure why this paragraph appears here, under Financial Statements, rather than in a section of the TAS that has wider application.

E.3.3: We would query whether "methods" (in "funding methods") should be in bold (as a defined term). Two different funding methods do not generally give the same 'answer'; if they did, there would be no need to explain the "implications" of the different methods (as required by this paragraph). However, the definition of "method" in B.2.1 appears to indicate that they should give the same answer. (We appreciate that the distinction made in this TAS between "methods" and "measures" is not new, as it has appeared also in the generic TASs, but we have never been happy with it, and it seems to create particular problems in the scheme funding context where there is an already-established concept of a 'funding method', in for example the Pensions Regulator's Code of Practice and in the current GN26.)

E.3.7: While we have no problem with a requirement to compare the technical provisions with the solvency estimate, we do not see the value in a mandatory assumption-by-assumption comparison of the underlying bases, given that they are fundamentally different exercises.

E.4.1: Why does this mention only subsections (1)(c) and (d) of section 230, and not also subsections (1)(a) and (b)?

E.4.2: We remain opposed to the requirement to give a quantified "neutral" (or "best") estimate for comparison with the "prudent" estimate of liabilities. We understand that the BAS has decided to retain such a requirement because many users – in comments made outside the formal written responses to the earlier paper – requested it. However, the fact that there may be several advocates for the inclusion of this information does not mean that its inclusion would assist meeting the BAS' Reliability Objective. In our view, there are significant dangers in suggesting that a single comparative figure will give a reliable indication of 'degree of prudence' and we believe that if the BAS goes ahead with this proposal it is likely to result in actuaries first having to go to the expense of calculating this extra figure and explaining the assumptions and basis on which this has been done, and then to go on to explain all the reasons why the estimate is not unique (with a range of other estimates also being able to be considered 'neutral'), along with all the other factors that should be considered in assessing how the determination of the technical provisions meets the 'prudence' criteria in the legislation. A much more efficient and effective way of achieving the same end would be to replace the currently-proposed requirement with a principle for a qualitative explanation of how the basis underlying the technical provisions may be considered to address the 'prudence' requirements. In practice, this explanation might for many schemes involve some quantification, especially if the trustees do wish to define or measure prudence in this way, but it needs to be borne in mind that there is nothing in legislation to indicate that prudence needs to be (even partially) defined by reference to any 'margin' over a 'best' or 'neutral' estimate, and it is therefore inappropriate for the BAS to expand or interpret the legislation by trying to require (or even merely encourage) trustees to view 'prudence' in this way.

E.4.2 now requires a “neutral estimate”, as defined in B.2.1, to be given. The definition seems very wide, and appears to permit, for example, the actuary’s ‘estimate of solvency’ (pursuant to 7(6) of the Scheme Funding Regulations) to be regarded as “neutral” for this purpose. If intentional, we would (bearing in mind our comments above) regard this flexibility in interpretation as a ‘good’ rather than a ‘bad’ thing; however, if it is not intentional then the uncertainty in interpretation is an unsatisfactory feature of a ‘standard’. If the BAS is wedded to a similar idea to the old “best estimate” (but without wishing to imply that there is a single ‘answer’), we would suggest for this TAS a form of words that expresses the idea of recalculating the technical provisions using the same approach as before but with any deliberate margins in the assumptions being taken out, thereby using assumptions without any intentional bias one way or the other.

E.4.2 c) requires a comparison with “the relationship between the prudent and neutral estimates” at the previous valuation. Clearly, the absence of any historical requirement for a ‘neutral’ estimate would mean that in the early years of the TAS such a comparison cannot, in general, be readily made, and we feel that the TAS should acknowledge this transitional issue.

E.5: We agree that the disapplication of GN9 will significantly reduce the amount of information that is available to members under the Disclosure Regulations, even though it will not in general reduce the information that the trustees will have received. However, we regard this as a matter for the Government and/or Pensions Regulator (and not the BAS) to consider and, if necessary, take action on, with any additional disclosure requirements falling upon the trustees rather than the actuary (even if the nature of the requirements is such that the trustees would be well-advised to obtain the actuary’s input). Consequently, we do not believe that the BAS should be departing from its normal focus of regulating the information that is provided to assist user decisions, not least because it appears to accept that members and other readers of this report are not “users” under its standard definition (“those whose decisions a report is intended to assist”) and that the material it proposes to require under this section would not be suitable for decision-making. Indeed, we could argue that, in accordance with the definition of “material”, it would be possible to remain technically compliant with the TAS despite not meeting the requirements of this section, because the information is not relevant to any ‘user decisions’. Even if this argument is dismissed as being contrary to the spirit of the TAS, it still leaves the difficult question of how the important ‘materiality’ and ‘proportionality’ criteria should be applied to the long list of requirements as to content of the report (given that these criteria are built around the concepts of ‘users’ and their ‘decisions’).

E.5 seems to envisage a broadly similar amount of material in the Scheme Funding report to that currently required under GN9 – although some requirements of GN9 have been omitted, these have been offset by new or increased ones such as that in E.5.8 on cash flows (where the softening word “indication”, as used in D.2.15, is not repeated) and that in E.5.5 for a summary of benefit provisions (without, it appears, the current option of referring to other documents rather than including all the detail in this report). It is, moreover, not clear to us to what extent material prepared for the trustees earlier on in the scheme funding process can be ‘recycled’ for this report of record (in the way in which it can be for GN9), because E.5.2 is attempting to give the report a specific focus that is different from the focus of the trustee advice. Our fear is that, if the BAS goes ahead with its proposals on the Scheme Funding report, it will be imposing substantial additional costs on trustees with only a potential small benefit as regards background information for a minority of beneficiaries but no discernible benefit for the majority of them. If the BAS is going to persist with its proposal to impose requirements on the content of the Scheme Funding report, we would ask that section 5 is made *much* less prescriptive than it appears at present, with a much more focused and proportionate scheme-specific approach being allowed.

E.5, it is clear, covers an area in which the views of the BAS’ ‘stakeholders’ differ greatly. However, based on the relative lengths of the relevant discussions in the analysis accompanying the Exposure Draft, it appears that these fundamental differences of view may not have been as deeply considered by the BAS as those in the other particularly controversial area of the proposals (concerning best/neutral estimates). Accordingly, we suggest that a sensible way forward would be for the BAS to instigate a fresh, high-level review (in conjunction with the DWP and tPR) of what a ‘Scheme Funding report’ such as this might aim to achieve, which (among other things) would seek to estimate the number of members or other persons who would value the document, and why.

E.5.2 e): The proposed requirement for estimates at a date no later than three years hence seems odd – it encompasses figures at a date very shortly after the effective date (which would not appear to add much to the figures as at the effective date). We wonder if the BAS meant “no *earlier* than three years...”?

E.5.5: The requirement in the last bullet needs to allow for the fact that in practice any “material events” that have taken place between the time at which the original work was done for the trustees and the time at which this ‘report of record’ was produced will not be included (unless the BAS is expecting the position to be re-examined, after the trustees have made their decisions, solely for the purpose of this report, in which case our already grave concerns – expressed above – about added costs would become even greater).

E.5.10: The intention here is presumably to focus on funding-related risks, but the way this paragraph is currently worded (in particular the first bullet) appears to encompass a more general ‘risk register’.

E.5.11: Although the ‘post-decisions’ Scheme Funding report cannot contribute to the “aggregate report” for those decisions, an earlier draft of that final report may well be able to do so.

E.6.2: While we understand the thinking behind inclusion of this requirement, we would remark that such a comparison is not always appropriate or helpful (and therefore of assistance in meeting the Reliability Objective), especially if the two bases have been set at different dates. For example, if transfer values are adjusted over time using a market adjustment approach, then any comparison with scheme funding assumptions is likely to be confusing, unless the actuary is required to spend a considerable amount of time rolling forward the transfer value assumptions to bring them onto a consistent footing with the scheme funding assessment (or vice versa). The comparison of a single (‘aggregate’) discount rate for one calculation with differential discount rates for the other calculation might also lead to more confusion than clarification.

#### *General point*

We are very concerned at the increasingly long list of requirements, across several different TASs, that will apply to almost every piece of “actuarial work”. Taken together, TAS R, TAS D, TAS M and the Pensions TAS will impose between 50 and 100 separate requirements. Notwithstanding that the vast majority of these requirements are already being met, or can be disregarded on materiality or (subject to the paragraph below) proportionality grounds, this long list creates a significant burden in simply checking for compliance. The BAS has often said that it does not want to promote a ‘tick-box mentality’, but it seems to us that ‘compliance checklists’ are a must if we are to satisfy ourselves that we can make the statement on compliance required by 3.11 of TAS R. In our view, with so many specific requirements applying to each piece of work, the BAS is not producing genuinely ‘principles-based’ standards which are consistent with the BAS’ stated view that “actuaries are responsible professionals who are capable of exercising judgement”.

The above position becomes even worse if we are correctly interpreting paragraph 3.6 in the ‘significant considerations’ document published with TAS M, and if this comment has ‘regulatory force’ in practice. This paragraph appears to be saying that none of the above 50-100 principles can be (in effect) set aside on ‘proportionality’ grounds, if they are all ‘material’ (and it is a tough test to pass to say that a matter is not ‘material’, given the use of the phrase “could... influence” in that definition). If that is what it is saying, it would be consistent with what we (Towers Watson) were told the second time we asked the BAS about it (although not with what we were told the first time), after which we re-read the relevant section (B.1.3) of TAS R and concluded that it did not support the BAS’ interpretation. (Our reasoning here is that B.1.3 appears clearly to provide that no work needs to be done – to comply with the TAS – if that work would be disproportionate to the benefit that users would be expected to obtain from it, and that includes making no comment at all in relation to one or more of the TAS’ principles if the actuary reasonably judges that the – albeit relatively modest – cost of making even a very brief comment is still disproportionate to any user benefit from that comment in the circumstances in question.) But if the BAS’ interpretation is held to be correct, then for something like a one-off late retirement factor for a member with a small benefit we appear to be supposed to make a fleeting mention of each of potentially 50 or so principles that are not immaterial (as defined by the BAS) but in the context of the money at stake are clearly disproportionate in the sense that spending any time on them at all has a cost that has no commensurate benefit.