

27 August 2010

The Director
Board for Actuarial Standards
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Via email to bastransformations@frc.org.uk

Dear Louise,

BAS Exposure Draft: Transformations

The Actuarial Profession response to Exposure Draft: Transformations is the result of separate contributions from interested practice areas and from cross-practice meetings which included a meeting on 5 August where members of the Profession benefited from a very helpful discussion with BAS officials.

The different practice executive committees (PECs) involved in looking at this TAS all question the need for a separate BAS standard for transformations and doubt if the proposed Transformations TAS adds significant value to the BAS library. This position was articulated in our initial response to the consultations and subsequent analysis has only reinforced this. Transformations matters are different in nature in the insurance and pensions areas in that insurance focuses on security and pensions on cash-flows.

The different PECs arrive at their agreement for different reasons: The life PEC believes that the relevant parts of Transformations TAS are sufficiently covered under FSA SUP 18 rules. The pensions PEC believes that the users of actuarial advice in the pensions field are very different from the users in the insurance field and this should be the key criterion on deciding the structure of TASs. The general insurance PEC does feel that Part VII transfers need guidance but of a technical nature for practitioners and that the proposed Transformations TAS does not fulfil this need.

Bringing these views together, we are not persuaded by the arguments set out in paragraphs 2.3 to 2.19 in favour of a need for a separate Transformations TAS. In particular, we do not accept the point in 2.10 and in 2.13 that the defining feature of transformations is their focus on the impact on beneficiaries. Most, if not all, actuarial work has some impact on the rights or obligations on pensions members or policyholders and the Actuaries' Code places a high priority on considering this impact. Accordingly, we do not believe that the impact on beneficiaries of transformations is a sufficiently distinguishing feature to warrant a separate TAS.

Further we find the argument in paragraphs 2.17 and 2.18 misses the point. Regardless of what arguments have been made by respondents, it is clearly the case that users will benefit from having fewer TASs. Moreover, a TAS that focuses on pension users and a TAS that focuses on insurance users will be much more convenient for those two separate groups of users.

Notwithstanding the comments above, we appreciate the urgency which the BAS places on issuing the TASs by the end of 2010 and that there would therefore be restricted time to incorporate Transformations TAS material into the relevant generic and practice-specific TASs. If, in the event, the timing proves impossible, we strongly urge the BAS to perform the restructuring of the TAS into the component parts at the earliest opportunity available to revise the BAS standards.

In addition, we would like to make the following general comments on the Exposure Draft: Transformations.

1. The Exposure Draft: Transformations is too 'high level'. This significantly limits its ability to be useful to users in the very specific technical areas that it covers. We agree that there are some principles that cover all of the types of work covered. However the Transformations TAS will only be of genuine value to users if it grounds general principles in the different contexts of the relevant practice areas and thereby seeks to articulate practice-specific principles that apply to different types of work.
2. We would restate the points made in response to the Insurance and Pensions Exposure Drafts regarding the difficulties presented by the current definitions used for "actuarial work" and "materiality".
3. We continue to be concerned that the definition of "users" is too broad. The definition should distinguish between those to whom the report is addressed (where a contractual relationship and a duty of care might exist) and those for whom the report is provided for information only (for example, where the report is a public document). For example, there will be instances where the actuary's advice may be viewed by other parties but not be a public document, eg M&A activity. We do not consider that the scope should imply a duty of care on the actuary to other parties in such circumstances.
4. The scope for insurance in paragraphs C.1.9 to C.1.12 appears too broad and much broader than for pensions work (C.1.5 to C.1.7). For insurance, it appears to capture work carried out in preparation for or in consideration of the transformation. We think these should properly be covered by the Insurance TAS and that the scope here is restricted to "fairness opinion" work.
5. This TAS appears to cover two types of work: work considering the impact of changes to benefits/cashflows and work considering changes to security. Sometimes the scope of work of the actuary will only address one of these, sometimes both. We think that the TAS needs to articulate the differences arising from the two types of work, and how the principles apply. For example: the actuary's primary role in most pensions applications is concerned with benefit/cashflow changes; non-life Part VII transfers are generally about security; whilst some life transformations will operate in the nexus of security and benefit changes.
6. Type of opinion is discussed in paras D.4.12 to D.4.17. We think this is too important an issue to be relegated to the end of the standard (and confusingly under a heading of "assumptions"). When conducting work like this, it is of primary importance to identify and communicate what sort of opinion is being given. We would envisage that users will be

supportive of a TAS setting out the principles that are to be followed here, raising for example the following questions:

- a. Does the opinion refer to all policyholders covered, or just most or no material groups (eg disadvantaged groups)?
- b. Does the opinion employ a one-way or a two-way test, given that it is often not necessary to think about those who have been advantaged by the transformation (some of the suggestions in D.4.13 may be inappropriate in this light)?

Further, detailed points will be provided to you separately.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us. Should you wish to do so, please contact Martin Hewitt, Pensions Practice Manager on 020 7632 2185 or via martin.hewitt@actuaries.org.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Masters', written in a cursive style.

Nigel Masters
for the Management Board