

The Directors
Board for Actuarial Standards
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3 September 2010

Dear Sirs

Exposure Draft: Transformations TAS

PricewaterhouseCoopers LLP ("PwC") is pleased to have the opportunity to comment on the Transformations TAS Exposure Draft, which follows on from the original consultation paper. We fully support The Board for Actuarial Standards ("BAS") in its goal to raise standards across the profession. There are a number of areas, however, where we have some concerns over the drafting of the standard and how it would apply in practice.

Specific details of these areas are provided in the appendix to this letter, however we summarise the main aspects below.

1. We are aware of, and commend, the desire to increase the reliance that users of actuarial information can place on it. However, we are concerned that the focus on reporting for transformations within the TAS may lead to reports becoming overly lengthy and confusing for policy holders. Such reports would leave users unable to gather clear and relevant information and thus would fail to meet their initial objective.
2. We are concerned over the definition of materiality, in relation to this particular TAS. It states that "matters are material if they could, individually or collectively, influence decisions to be taken by users of the related actuarial information". Where reports are used by beneficiaries (e.g. members of a pensions scheme, with profits policyholders or policyholders affected by a Part VII transfer) one is likely to find remarkably low, if not zero, levels of materiality. As such any matter whatsoever could be considered material and any attempt to cover all 'material' matters would conflict with the TAS-R requirements (e.g. D.4.12) for clarity as the report would be unfeasibly long, quite likely containing projections for every possible policyholder. We would instead suggest the definition of materiality be amended to reference "material numbers of beneficiaries" or something similar.
3. There is a need for greater clarity as to what is and what is not covered by the standard, particularly in relation to Part VII transfers and schemes of arrangement. For Part VII transfers independent expert's reports are clearly covered. However it is unclear as to what other Part VII related work is covered (e.g. a company report for an independent expert to use, a company report addressed to the board but copied to an independent expert). On schemes of arrangement the TAS is again not clear as to what is covered. There is some clarification in the analysis of responses (2.34 – 2.35) but this is not included in the final standard.

4. We remain unsure as to the necessity of this TAS. The majority of what is included is already encouraged in the other TASs and although we agree with the aim to increase the reliance that users of actuarial information can place upon it we feel this could be better achieved by increased application of, and possibly small amendments to, the other TASs.

The Appendix to this letter provides our additional comments on certain sections of the standard.

Please contact me or Esmee Robinson on 020 7212 3342 if you would like to discuss this further.

Yours sincerely,

Gregory Overton,
Director

APPENDIX: Comments on the Transformations Technical Actuarial Standard Exposure Draft

1. A.1.2 / B.2.1 (Definition of user)

There needs to be clarification as to whether the ‘user’ of reports definition includes beneficiaries. In a Part VII transfer the independent expert’s report is primarily used by the court and then made available to policy holders who wish to see it. As such it is commonly drafted at a reasonably high level in order to be accessible and understandable to lay readers including the court and policy holders. It is our concern that an attempt to produce more detailed reports, one that beneficiaries can rely on for any changes material to their policies, would result in the reports becoming neither accessible nor understandable.

2. B.1.3 / B.1.4

PwC believe that only excluding work that is not “proportionate to the ... benefits that users would be expected to obtain from the work” would result in overly lengthy and detailed reports.

3. B.2.1 (Definition of beneficiary)

PwC are concerned that this definition is too focused on members of pension schemes and holders of life insurance policies.

4. B.2.1 (Definition of method)

PwC are concerned with the statement that two different methods of calculating the same asset or liability measure should produce similar results. This is not always the case. We would however expect any differences to be explained and the most appropriate method selected.

5. D.4.1 / D.4.2

It would not be normal practice to report on material changes to cash flows to beneficiaries resulting from a transformation if policy holders are not materially adversely affected. Additionally, if there were a material reduction in the likelihood of payment being made this may result in the transfer being unable to proceed.

6. D.4.3 / D.4.4

PwC see no benefit in listing and discussing all the risks that are unaffected by the transformation. The value is in highlighting those material risks which are impacted. We feel it may be appropriate to focus the standard’s wording on setting out the impact on material risks that are affected by the transfer.

7. D.4.7

PwC note the reference to schemes of arrangement despite section C not making it clear whether schemes of arrangement are covered by the standard.

8. D.4.10.

PwC are aware that it may not be appropriate for reports to include the detailed implications of adopting alternative assumptions. It may be sufficient for the independent expert to comment that alternative assumptions don’t impact the conclusion.