



## BAS Exposure Draft: Transformations

Comments from Xafinity Consulting

August 2010

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# 1. Introduction to Xafinity Consulting

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- 1.1 This response to the Board for Actuarial Standards June 2010 Exposure Draft: Transformations has been produced by Xafinity Consulting's Actuarial Practice Committee, the members of which are Fellows of the Institute and Faculty of Actuaries.
- 1.2 Xafinity Consulting Limited employs in total 39 Actuaries – of whom 26 are Scheme Actuaries – out of a total of more than 370 staff. It provides a range of employee benefits consulting, actuarial and administration services to pension scheme trustees and sponsoring employers.
- 1.3 Our area of expertise is pensions therefore in responding to this consultation we have not considered at all any aspects relating solely to “insurance transformations”.
- 1.4 Xafinity Consulting Limited is part of the Xafinity Group, which also includes Hazell Carr, Xafinity Paymaster and Xafinity Claybrook. The Group now employs over 1,300 people throughout its offices in the UK.

## 2. Responses to the consultation paper

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### Justification for a separate Transformation TAS

- 2.1 We are disappointed that, despite previous comments from respondents, BAS is still proposing a separate Transformations TAS. We strongly believe that it would be preferable for the aspects to instead be covered separately within the Pensions and Insurance TASs as appropriate.
- 2.2 We note too that paragraph 2.12 of the paper states that BAS is (also) “proposing to include work for transformations within the scope of the Pensions and Insurance TASs”. Paragraph 2.22 similarly states that “all work within the proposed scope is also within the scope of the Pensions or Insurance TASs”. In our view, it would be unhelpful if both the Pensions TAS and a Transformations TAS had to be separately considered by an actuary when carrying out actuarial work associated with a “pension transformation”. For example, actuarial work in relation to the winding-up of a scheme is explicitly covered within both the draft Pensions TAS and the draft Transformations TAS, with a certain amount of duplicated wording. This is liable to cause confusion amongst actuaries and “users”! See also our comments below on C.1.5 and C.1.8 of the Exposure Draft.
- 2.3 There is also the point that some of the principles of the exposure draft may be more (or only?) relevant for one type of transaction; for example, if there were instead a separate “transformations” section within the Pensions TAS would any of the current text within section D have disappeared? If so, the existence of spurious text may also lead to some confusion.
- 2.4 One of the BAS arguments for a separate Transformations TAS is given in paragraph 2.18. This states that BAS standards are intended for the benefit of “users”, rather than the convenience of actuaries. It is certainly right that BAS standards should be aimed at achieving the BAS’s Reliability Objective, which is based on the needs of the users of actuarial advice. However, from a pensions’ perspective, we believe few - if any - users will actually read the BAS standards. In fact, we believe that making BAS standards easier for practitioners to understand and use will benefit users of actuarial advice: this points to bringing the pension transformation aspects solely within the Pensions TAS. Similar considerations are likely to apply to insurance transformations.
- 2.5 We are surprised – and somewhat perturbed - to see (paragraph 2.20) administrative convenience for BAS cited as a reason for a separate Transformations TAS. This has nothing to do with achieving the Reliability Objective. If at all, the convenience of actuaries having to use the BAS standards should significantly outweigh any drafting convenience for BAS.

## 2. Responses to the consultation paper

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### Other comments

- 2.6 We have concerns about BAS's comments in paragraph 2.27 of the paper relating to "materiality". In our view, given the BAS's definition of "materiality", if something falls outside the definition – and is therefore not "material" – this should not be open to challenge. If BAS perceives a problem here, surely the answer is to correct or improve the definition itself?

### Comments on the Exposure Draft text

#### B.2.1: Definition of "pension transformation"

- 2.7 As drafted, this would catch any changes in benefit terms without the consent of all scheme members, even if the changes only affected a sub-group of the membership. Is this intended? Should the definition instead read along the lines of: "A change in the terms underlying the benefits of some or all of the members of a pension scheme, without the consent of those affected members"? This will then tie in with the wording in C.1.5 (and C.1.6), where it is clear that "consents" refers to "those [affected] members".

#### B.2.1: Definition of "governing body"

- 2.8 The definition is too vague as it could be taken to include the sponsoring employer, for example if the scheme rules give certain powers to the employer, such as pension commutation terms. We presume the intention is that, for trust-based schemes, this is meant to relate solely to the trustees - we understand that a change along these lines is already envisaged for the corresponding definition in the Pensions TAS. See also the next comment.

#### B.2.1: Definition of "pension scheme"

- 2.9 Currently this definition includes a personal pension scheme. Is this intended, or are pension transformations only meant to relate to occupational pension schemes? If personal pension schemes are to be within scope, this may have implications for the definition of "governing body".

#### B.2.1

- 2.10 A number of items are defined that do not appear elsewhere in the rest of the Transformations TAS. This causes confusion. They should therefore be deleted. (An example is the very first definition, namely "actuarial factor"!)

#### C.1.5 and C.1.8

- 2.11 It is not clear from the text whether the scope is limited to actuarial work for the governing body of the transferring scheme, or also covers actuarial work for the governing body of the receiving scheme. The corresponding wording within the draft Pensions TAS applies to both schemes. This is a clear example of potential confusion caused by covering the same areas within separate TASs (and where inconsistent wording is used).

## 2. Responses to the consultation paper

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### D.4.2

- 2.12 We have concerns about the third bullet point, regarding “changes to the likelihood of the payment being made as expected”. In the context of a pension transformation, this would involve an assessment of employer covenant, which would not typically be within an actuary’s skills set.

### D.4.12 - D.4.17

- 2.13 These are currently under the heading “Range of assumptions” but have nothing to do with this topic!