

The Director
Board for Actuarial Standards
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1 August 2008

Reference: RM/KC/Consultation

Dear Sirs

Technical Actuarial Standard - Reporting Actuarial Information (TAS R)

The Profession welcomes the first draft of TAS R and the opportunity to comment on it. In general terms, the Profession supports the objectives of the standard and the greater part of its content. However, we do have concerns that the important sections on 'compound' information do not go far enough to reflect actuarial practice and user requirements in practice. In particular, we consider it vital that the information required by the standard can be presented in a series of separate reports over the typical reporting cycle, which may for example be an annual or triennial cycle.

We also consider that the standard is oriented at actuarial reports which primarily describe the results of calculations. It is not clear to us how germane the standard would be if it was to be applied to the reports of, for example, the With-profits Actuary on a firm's compliance with its PPFM.

We set out our detailed comments below. In doing so, we have incorporated our responses to the four questions posed by BAS in the 'Invitation to Comment'.

Section 1

We think that it is very helpful to define the purpose of the standard by the use of a limited number of pertinent adjectives, as in 1.1 (relevance, transparency, completeness and comprehensibility). However, we observe that there appears to be an incomplete tie-in to the four core principles set

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out in 4.1. We would suggest that 'proportionate' (core principle d) is missing from 1.1. Also, that relevance and transparency significantly overlap, in that a report which contained extraneous (irrelevant) material would be lacking in transparency. We therefore suggest replacing 'transparency' with 'proportionality' in 1.1.

There may also in practice sometimes be a conflict between 'completeness' and 'proportionate'. We would suggest that, in such cases, the standard made clear that 'completeness' only meant that nothing of material relevance was to be omitted and that the inclusion of only marginally germane matters was to be discouraged.

Section 2

We wonder if the restriction of the standard to material in a permanent form is too limiting. For example, a 'Powerpoint' presentation would appear to be excluded if a permanent copy was not left with the reader but included if one was. Presentations of this nature are probably more useful in conveying key actuarial information in an understandable way than a traditional written report. Moreover, the leaving of permanent copies for later reference should be encouraged. We feel that there is a risk that, to avoid the application of the standard, some actuaries may chose to avoid leaving behind a copy of a presentation. We therefore suggest that the standard should apply to all forms of non-oral information presentations, whether left permanently with the client or not.

Also, we consider that the standard should be deemed not to have been met if any oral communications which precedes, accompanies or follows the presentation of a report covered by the standard materially puts at risk the achievement of the purpose of the standard.

We do not think that the concept of a 'report of record' in 2.2 is particularly helpful. Firstly, it will in most cases be unclear when "all the relevant decisions have been taken by all the relevant users". A triennial pension scheme funding report may be referred to by the trustees, members or regulator right up until its successor is available. The same is true of most life insurance reports (FCR, ICA, etc). In any case, it is unclear to us why the standards should not apply to such a report, given that it can, after all, be regarded as part of a compound report.

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Section 3

We have no comments on section 3 [although have commented in our response to other consultations on the intended use of the terms 'valuation' and 'planning']

Section 4

We welcome the four core principles proposed in this section, particularly the proportionality principle (d).

We think that they are simply and clearly expressed, although there may be some clarification of intent necessary in respect of principle b. For example, in the life office context the calculation of the 'peak 1' liabilities is a 'valuation' in BAS terminology whereas a Financial Condition Report (FCR) is a 'planning' exercise. The latter provides the life office management and board with indications of uncertainty whereas the former is a point value calculated in line with FSA rules (although with different degrees of discretion in the setting of the various parameters). If the whole of the reporting cycle as at a particular date is treated as a single compound report, then the FCR can be considered as satisfying principle b, even if no indication of uncertainty is given when a preceding peak 1 valuation report is presented.

That this interpretation of principle b is valid needs to be clear in either this section or in the definition of compound reports.

Section 5

We do not fully agree with the comment that "readers of a report cannot be said to have understood the information fully unless they have understood the purpose of the report...".

The primary readers of any report will be the commissioners of that report. If they do not understand the purpose of a report they have commissioned, then there is a more fundamental flaw to be addressed – that of the education and training of the commissioners themselves. We suggest, rather, that it is important that the commissioners of any report understand *how* an actuarial report has met the purpose for which it was commissioned.

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This could take the form of a statement of the purpose for which the writer understands the report to have been commissioned and a synopsis of how this purpose has been achieved.

We are also unconvinced that a statement of which actuarial standards have been complied with will be of practical assistance with achieving this objective. This is not to say that such a statement is unnecessary nor that the words themselves will not provide some reassurance to readers.

The *implications* of a piece of information can be many and varied. Some will be obvious at the date of reporting and others may only emerge much later. For example, a statement in a report that an insurer was writing liability cover for manufacturing firms which, amongst other materials, used asbestos, would probably have dramatically different reported implications today compared to fifty years ago. It is important that this requirement is not used as a lever to require actuaries to report with perfect foresight.

Section 6

We agree that reports should take into account the technical proficiency of the commissioners. We are less convinced that it is necessary directly to also take into account the proficiency of other readers.

For example, a report to a board of trustees should, in our opinion, be addressed at the level of understanding of a typical non-actuary trustee, who should be assumed to have received the minimum level of training now required of trustees and to have understood this. It would then be appropriate for the actuary to ask the trustees to confirm that they have all understood the report and to offer to provide, on request and separately from the report, either additional interpretation for a trustee who has difficulty understanding the implications of the report or additional technical information for a more technically competent trustee. These would form part of the wider compound report but not of the main report itself.

Where other people with little or no technical experience are expected to read the report (e.g. pension scheme members, insurance company policyholders), we suggest that this should *not* be

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a matter for the actuary at all but rather one for the commissioners of the report. If they consider that they are obliged to provide an explanation of the report to this wider audience, then they can commission the report writer or a third party to provide a distillate of the report. An analogous

situation would be the 'consumer friendly' principles and practices of financial management (PPFM) required to be published by with-profits life offices which summarises the full PPFM, a

document which is in practice written with the FSA as the prime audience (although also usefully sets down for the board much of what used to be termed 'actuarial discretion').

We agree with the concerns around standard format reports in 6.6 and 6.7.

Section 7

In section 7.3, we would question if any report exists which is entirely free of discretion by either the commissioners or the actuary. Even a report as described under footnote 1 to 7.3 requires discretion in the setting of longevity assumptions for example.

We agree that the items listed in 7.4 are required. However, it would make a typical life office valuation report extremely long and confound the objective of ensuring that the message was not obscured by the content. This is particularly true in the common situation where a common board exists for a number of subsidiary life or non-life insurers and meets simultaneously, receiving a number of similar format and methodology valuation or planning reports about each subsidiary. It would also become very tedious for the boards if all this information was repeated semi-annually or even more frequently, leading to the risk of overlooking of material change.

In these situations, we recommend that the standard should encourage the production of supplementary documents in which the methodologies and assumptions are stated and the reasons for their choice or recommendation are given. The main reports themselves should be limited to stating any key methodology and assumption changes from the previous report, giving the reasons for them and their financial implications. The supplementary documents would be there mainly for the record and for control purposes but would also be tabled for reference by the commissioners of the reports.

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In the situation of a group of insurance companies (or a number of pension schemes of one sponsor) pro-forma repetition should be avoided as much as possible. It is of considerably more importance that a report or series of reports avoid unnecessary repetition, presents the main messages only once and draws attention only to key differences between the individual entities. Reports on common matters such as operational or group risks may, for example, often be combined. Once again, the flexibility provided by compound reports provides a welcome relief here, provided that it can be interpreted with sufficient flexibility.

We are slightly concerned by the possible implications of the statement in 7.24 that “it is a matter of judgement whether the information [about mitigating actions against, relative importance of and entity appetite for risks] has been communicated sufficiently recently and sufficiently well for it to be omitted from the current report”. When carrying out a year-end valuation, it may not be possible for the actuary to quantitatively assess the degree of relative change in certain risks. This is work which a subsequent FCR or ICA will reveal.

We would see the inclusion of these matters as being part of the compound reporting process (see comments on Appendix A).

Para 7.13 goes into excessive detail for a high-level standard. Moreover, its footnote is highly simplistic in the context of actuaries likely to be employing complex stochastic techniques and likely to risk conveying an impression of ‘amateurism’ to non-actuarial readers. We would recommend that both are dropped.

It is not entirely clear to us what the requirements now are, if any, with regard to the inclusion of cash flows. In particular, we consider that 7.16 is too vague to form part of a technical standard.

In 7.18, it does not appear to be entirely clear to us, in the context of a report on technical provisions, what would be meant by “the risks faced by that entity in relation to the work commissioned by the report writer”.

We consider that the purpose of a report is almost always self-evident and are concerned that 7.25 (a) might actually detract from that purpose. For example, when an employer asks an actuary to recommend a funding rate for a pension scheme, this is exactly what they expect to

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receive. To try to shoe-horn it under a heading of 'planning' or 'budgeting', which may be names that the commissioning entity uses for other types of process, would not be helpful. The simple statement of the purpose of the report and the clear presentation of its findings should be sufficient. In any case, the requirement to include indications of uncertainty blur the edges between a pure 'valuation' exercise and a 'planning' one.

Section 8 (and Appendix A) – Compound Reporting

We are concerned that by referring to the staging of *reports* or *projects* (our italics) only this section and Appendix A do not appear to go as far as we consider necessary to enable a practical

implementation of the standard. This appears to be supported in A1, where the example is given of a series of reports on a formal pension scheme or life office valuation.

In practice, the totality of actuarial information necessary for management or boards is provided across the whole of a cycle. For example, in a with-profits life office, there would be two valuations in accordance with FSA rules, the annual one probably being reported on in more detail than the mid-year one. At other times of the year, although probably based on previous year-end data there would be an annual Individual Capital Assessment (ICA) and additional forward-looking reports possibly in the form of a Financial Condition Report (FCR). There would also be ongoing monitoring of the day-to-day capital adequacy of the office as well as quite a large number of actuarial reports on individual matters, especially concerning with-profits business (periodic recommendations relating to annual and terminal bonus rates, surrender value bases, investment strategy, etc).

We note that the BAS has expressed the intention to embrace all of these matters which are to be subject to technical actuarial standards in single comprehensive standards, separately for life offices and pensions schemes. It therefore seems to us to be appropriate that all matters pertaining to the management of an operation across a periodic cycle, be it annual or triennial, should be considered as one 'report' for the purposes of the proposed standard. For example, it would not be standard practice to include in a report on a formal FSA valuation much, if any, information regarding the range in which the outcome might lie (although some information about the possible effect of making different assumption choices on outcome may

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have been conveyed when advice was earlier presented to enable the board to decide on the parameters to be used). Information about the range of future outcomes for the office is more usefully presented in the form of FCRs and via the ICA. Indeed, it would be a waste of resources to explore more than superficially into the uncertainty surrounding, say, the 'peak 1' surplus if this surplus was much larger than the 'peak 2' (or even 'pillar 2') surpluses, on which management needed to focus its efforts.

We agree that spoken information should not be included in the standard (and so any information required to be given by this standard should be repeated in permanent form). However, we also consider that the standard should require that oral information should not detract from the written information, either by implying that it is somehow 'for form's sake only' or by providing materially different information which may confuse or mislead the recipients.

In 8.6, whilst we endorse a pragmatic approach to the provision of 'repeat information', it is important for the actuary to appreciate that the end recipient is likely to be different in every case. It is therefore important that enough information is included so that the work product meets this standard. This could be satisfied, for example, if a standard sheet was produced which set out the key background information to the calculation and which was sent with each individual calculation to the end recipient (or at least its availability 'signposted').

Cost Implications (Para 29 of Feedback)

The Profession is content that, if

- the work to which this standard is limited to a range of mainstream actuarial activities,
- if proportionality and materiality is applied to different work products within those ranges and,
- in particular, if the standard applies across a full reporting cycle rather than to each individual report within that cycle,

then any additional cost to report commissioning entities should be limited.

An exception might be where the quality or content of particular actuary's work across a reporting cycle is not up to the requirements of the standard, in which case the Profession would consider any additional expenditure by commissioning entities as being for the benefit of that entity.

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We hope that the foregoing is of interest to the BAS. If you require clarification on any of the aspects herein then please do not hesitate to contact me.

Yours sincerely

Richard Maconachie
Secretary
Professional Regulation Executive Committee

please reply to the Faculty, Edinburgh