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Email to basreporting@frc.org.uk
The Director
Board for Actuarial Standards
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Dear Sir

Exposure Draft: Reporting Actuarial Information

I am writing on behalf of the Association of Consulting Actuaries, in response to the Board for Actuarial Standards' consultation on the generic TAS, Reporting Actuarial Information.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body of consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

In summary, we support the direction that the BAS has taken following the earlier consultation, as summarised in the conclusions to the analysis of responses, in particular the emphasis on proportionality. We continue to support the principles based approach, but we believe that the standard itself could be re-ordered to be more accessible to a writer of actuarial reports, have greater impact and deliver better outcomes to the user of an actuarial report.

Our comments on the specific questions asked by the consultation can be found in Appendix A to this letter along with some specific comments and suggestions.

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We hope that you find our comments of assistance.

Yours sincerely

Charles Young
Chairman
Pension Schemes Committee
Association of Consulting Actuaries

Appendix A – questions

1 The definition of report

We welcome the restriction of report to permanent written material, though it is a little difficult to consider this question in isolation of the scope of work which will be included in the generic standard.

2 The approach to compound or repeat information

We agree with the approach to compound information and welcome the recognition that there may be educational or other earlier stages in providing advice prior to making a final decision (even though some provisional decisions may be required only for scoping the initial range of results to be produced, for later fuller discussion).

We agree with your proposal that repeat calculations need not require a full accompanying report, but believe that in some cases it is not necessary to continue to explicitly refer to a pre-existing communication, as this should be understood. For example, if a cash equivalent transfer value is requested, it would be understood that this is in accordance with the pension scheme's transfer value assumptions (which would be subject to a separate review mechanism).

The other area that is not explicitly covered by compound or repeat work, but is similar, is where work is requested which is related to another item of work, but is not part of the same advice or a repeat of earlier work. For example, it is common for a pension scheme to review its transfer value basis shortly after a funding valuation is completed, which would usually contain a report with a substantial amount of information on relevant assumptions. As you are no doubt aware, the requirement for assumptions for technical provisions is to be prudent, whereas the requirement for (minimum) transfer values is to be best estimate. We would believe that it would usually be sufficient for the report on transfer value assumptions to cross refer to the earlier report, but explain the separate requirements, and resulting implications for appropriate assumptions without repeating the full analysis that led to decisions on the assumptions for funding. .

3 The text of the exposure draft as a means of implementing the policy decisions outlined in Part I of this document

We agree that the purpose of the report should be that users can place a high reliance on the four items set out in the FRC's strategic goals, namely relevance, transparency, completeness and comprehensibility. Indeed, these could have formed the four principles themselves.

We consider that the manner in which the draft has been set out may obscure the messages that are in the Exposure Draft, as it moves in different sections between principles, requirements, good practice, suggestions, and cautions, and back again. There are also some specific points of detail (eg 7.13). This does not assist gaining familiarity with either the principles or the underlying message. For example, section 6 deals with complexity of communication (not one of the four principles), 6.1 is a requirement, 6.3 is best practice, 6.4 is a requirement, 6.5 is a caution, 6.6 is a suggestion, 6.7 is a caution.

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We suggest that the information (after the introductions) be represented in a more logical form that aids retention of the key messages. For example, a cascade approach would assist the writer of reports in focusing on the main areas each time. The current approach reads more akin to the output of a mind map, rather than a practical standard that can be followed relatively easily in practice. This is not to say that we wish for a tick box/ check list mentality, but being clear about objectives and purpose, with more of a task focus would enable report writers to give thought to the structure of a report and then concentrate on delivering the best outcome to the actuarial user (using the suggestions in the standard). This is particularly the case as the writer may also need to be familiar with other guidance and standards when compiling the report. A suggested cascade approach is set out in the next paragraph.

The strategic goals are important to bear in mind as the underlying purpose and rightly appear early in the standard. The first three of the four principles include amplification of these four goals, while the fourth sets out the welcome principle of proportionality and so build on the purpose. These could be followed by a statement of the expected requirements and elements in a report (eg that it includes the purpose, description, calculations, risks, data etc). This would then be followed by the suggestions for best practice, and cautions and more generic material.

We note that in some areas the Exposure Draft strays away from a principles based approach and into suggestions/training, eg instead of the writer being asked to consider carefully where best to place material to suit the reader, in 6.3 and 7.6 contain specific suggestions on where more complex material should be presented.

We have set out some additional detailed comments below.

4 The BAS's assessment that the proposals are free from any (material) costs, whilst generating benefits to users of actuarial information

The BAS has not provided any reasoning for the stated view. In our view, unless the standard does not lead to a change in behaviour and content of reports, it is difficult to see how there can be no change in costs. It is difficult to provide any further comment in the absence of the specific areas that will fall under the Reporting Standard. However we provide one example below.

Our other specific comments on the Exposure Draft are set out below.

Along with the other definitions, it may be helpful to define the term actuarial information to avoid doubt.

In 7.9, the test set out is that all material assumptions are disclosed if the results are not materially different. However, materiality is defined in 3.1 as influencing the decisions taken. There are some minor assumptions which if changed could have a small difference on the results (eg changing the resulting pension contribution rate by 0.1% of salaries, higher or lower). This would then have an influence on the results. We would expect that this would fall back to the proportionality test, but this appears to be defined as to the amount of benefit to the user relative to the cost of the advice, not to the relative to the size of user (in this case the pension scheme). This would seem to require a much more detailed (and so higher cost report) then would currently be viewed as necessary.

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The distinction between types of judgement in 7.11 is not immediately obvious (if it is not influenced by personal opinion, is it really a judgement or just consensus?) and perhaps an example would help illustrate this.

In 7.17, we think that the reference to risks should be ones relevant to the advice being provided, rather than all risks an entity is facing. For example, advising a Company on pension funding should not require a full discussion of the wider business risks it faces. Similarly, the requirements in d) and e) may be difficult to obtain or quantify. Similarly, in advising a set of Trustees, it is usually assumed that a Company is an ongoing entity with a view on the covenant as provided by the Trustees, along with an illustration of the wind up position in the event of company failure, rather than trying to quantify whether this risk is relatively more concerning than the equity market or price inflation risk at that particular point in time. We would suggest that comments on risk mitigation are restricted to those measures that have been put in place (rather than whether they have been put in place) and which are relevant to the discussion on assumptions, eg which have led to a reduction in financial significance now accorded to an assumption.

The standard uses different language in different places which may lead to confusion as to whether a different emphasis is intended eg “can be expected” is used in 7.23 whereas “should” is used in 7.30. Are these intended to be the same? If so, we would prefer the use of “should” throughout.

In 7.31, we note that funding valuations often include results on a number of different measures and we would not consider it necessary to individually reconcile each separate basis, if the reasons for the change were reasonably reconciled by the funding results, and reference made to this fact.

If there are to be TASs on wider areas than funding in the pension area, eg pension fund accounting, we would need to consider the Exposure Draft in the light of these areas.

Finally, we note that the Exposure Draft of Scope & Authority suggested that exposure drafts would invite respondents to indicate their views on the time needed to prepare for implementation for implementation of each TAS. Although this has not been requested in the exposure draft, we note that specific TASs are not proposed to be in place until 2010 and so that would provide sufficient time for preparation, although given the reporting TAS is due to be published in Q3 2008, we would suggest that it would need to be reviewed again in light of the final proposals for areas covered by specific actuarial standards that would fall to also governed by this generic standard.

Produced by:

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