

Board for Actuarial Standards Financial Reporting Council 5 th Floor, Aldwych House 71-91 Aldwych London WC2B 4HN	Date: 23 July 2008 Direct line: 020 7951 8254 Direct fax: 020 7951 0184 Email: tsimmons@uk.ey.com
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By post and email: basreporting@frc.org.uk

Dear Sirs

**The Board for Actuarial Standards ("the BAS") Exposure Draft
- Reporting Actuarial Information**

Ernst & Young LLP welcomes the opportunity to comment on the BAS's Exposure Draft paper entitled "*Reporting Actuarial Information*" (the "ED"), *Technical Actuarial Standard R* dated April 2008.

Our interest

As the BAS will be aware, Ernst & Young is one of the largest global professional services organisations and we provide a wide range of actuarial, audit, accounting, tax, corporate finance and other business advisory services. Our interest is consistent with that stated in previous letters to BAS.

Overview

Overall, we consider that the Exposure Draft ('ED') is well written and covers many of the key issues relating to the reporting of actuarial information. The following is our high level observations of the ED:

- ▶ From our reading of the ED, it is written with a particular focus on pensions and less emphasis on other significant areas of actuarial work such as life insurance, health and general insurance. The BAS will be aware that the reporting of actuarial information is required across all areas of actuarial work and that the focus of such reports may differ greatly from one practice area to another. As a generic standard, the TAS needs to take into account all areas of actuarial work. As it stands, it does not.

To emphasise the point, due to the apparent Pensions bias of the current ED, it is very hard to work out what the TAS means for specific reports commonly produced in the General Insurance and Life practice areas. The judgement (and therefore subjectivity) required to understand what the current TAS would mean are such that the value of the TAS is significantly reduced.

We consider that a principles based approach (based on the core principles) rather than the current prescriptive approach would address this issue.



Response to specific questions

The BAS has invited comments on four key questions. Our response to those questions is shown below.

1: the definition of a “report” (Part II: Section 2 and paragraph 3.1)

We consider that, in the proposed definition of what constitutes a “report”, BAS could better clarify what it considers to be *information*. The word *information* (used throughout the ED) could be inferred to take a wide range of different meanings, ranging from what might be considered material actuarial advice (such as a full actuarial valuation report) to minor comments on a insignificant issues (such as initial thoughts in an email). Under usual circumstances, we would consider that the former might reasonably lead to a material decision being made (and so should fall under this TAS) whilst the latter would generally not do so. We note that the word *information* has been defined in previous consultation papers but we would appreciate clarification from the BAS with regards to this TAS.

The BAS notes that a “report for record” would not be subject to the TAS so long as it is the judgment of the *report writer* that the report is not relied upon. The application of such judgment is, by its nature subjective and that such judgments and associated expectations may change over time. The BAS should consider how this might be addressed.

2: the approach to “compound” and “repeat” information (Section 8)

Where a decision has been taken based on a series of staged actuarial advice it is often useful to have a final consolidating report (though we note the BAS does not encourage this). Potentially, we could envisage circumstances in which a decision could have been taken based on actuarial advice provided at different time periods which the user may not be capable of bringing together. We ask the BAS to consider the practicalities associated with monitoring compliance with the TAS where information is combined in a staged manner.

Regarding “repeat” information, we welcome the approach proposed in this ED.

3: the text of the exposure draft as a means of implementing the policy decisions outlined in Part I of this [the Exposure Draft] document;

From our reading of the ED, it is fairly prescriptive and could encourage a “tick box” approach to complying with the TAS. We are supportive of the four core principles in the ED and urge the BAS to consider making compliance with the TAS dependant on the core principles only. The subsequent sections of the ED should serve as guidance to clarify the core principles, making clear that the additional guidance does not cover all situations and reliance should be placed on the core principles if in doubt. This would make the TAS principles based (and generically applicable) rather than prescriptive.

4: the BAS’s assessment that the proposals are free from any (material) costs, whilst generating benefits to users of actuarial information (see Paragraph 29 of the Feedback section of this paper).

We agree with the wording in the ED that there should be a balance struck between the payer and user of the actuarial advice. We also agree that the TAS should have a proportionate cost of compliance. In our opinion, the ED is broadly free from any (material) costs and will generate benefits to users of actuarial information.

We would wish that, when the final standard is issued, there is issued at the same time (or as part of the standard) a restatement of what work is in scope and what outside (as per paragraph 3.9 of the November 2007 document and paragraph F36 of that of March 2008).

Conclusion

We are grateful to the BAS for publishing the ED and for the analysis it has put forward.

We hope that you have found our comments helpful. We look forward to the final publication of the Technical Actuarial Standards by the BAS, which will hopefully take into account the comments we have made in this letter.

If you or your colleagues would like to discuss any of the points raised in this letter, please contact me to discuss further.

For and on behalf of Ernst and Young

A handwritten signature in black ink, appearing to read 'Terry Simmons'.

Terry Simmons
Partner
Pensions Advisory