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Dear Paul

We welcome the opportunity to respond to the Consultation by the Board for Actuarial Standards (BAS) on the Exposure Draft: Reporting Actuarial Information.

Our concern continues to be that from what we have seen so far, BAS has a mindset that actuarial work is delivered in long formal reports that relate to the periodic review of the high level financial management of the relevant institution, and is drafting standards appropriate to such reports. We suspect that this mindset reflects the scope of ASB and APB, which is restricted to the preparation and audit of annual formal financial statements by relevant entities, and does not cover the wider work that accountants perform. BAS standards however are expected to cover a much wider range of actuarial work, for much of which extensive disclosures are not appropriate.

As noted in our response regarding the Conceptual Framework ED, the strategic goal set out in paragraph 1.1 of the Conceptual Framework ED (and referred to in paragraph 4.1 of the Reporting ED) implies that an entity should only be able to get a gold-plated report from an actuary, or nothing at all (but would be able to get a less comprehensive piece of work from a non-actuary). This doesn't reflect reality. Clients often want a "quick and dirty" answer, without all the bells and whistles required for it to be "complete". For example, a manager might ask: "If I was to ask you to advise on the impact of doing X, what might the ballpark impact be". Clearly, the full requirements should apply to the formal report if subsequently commissioned. They are not required for the initial scoping discussion intended only for the purpose of considering whether it is worth commissioning the work.

In theory, generic standards are an attractive concept. In practice, we still do not believe that it is practical to draft generic standards that apply appropriately across the board to the very wide range of actuarial work. The initial consultation paper and now the exposure draft of a standard on Reporting Actuarial Information have increased rather than assuaged our concerns.

In part, our concerns are heightened because we do not know the scope of (in particular) the proposed defined benefit pension TAS. If this is restricted to the periodic funding valuation process, and specified statutory documents and certificates, the approach taken in the Reporting ED may be acceptable. However, if the pension TAS applies to essentially all advice that relates in any way to the funding of a defined benefit pension scheme (as suggested by the Structure ED), the approach taken in the Reporting ED will require over-engineering of often trivial pieces of advice. We therefore believe that:

- If the scope of specific TASs and therefore the generic Reporting TAS is restricted to a narrow list of specific tasks, the increase in costs from complying with the Reporting TAS may be limited;

- But if the scope extends wider, perhaps including essentially all advice that relates in any way to the funding of a defined benefit pension scheme (as suggested by the Structure ED), there will be a massive and completely unjustified increase in costs, with little or no benefit to users.

We note the comments in the Analysis of the Responses to the Consultation that respondents had not provided real evidence to substantiate the assertion that the Reporting TAS would require inappropriate extra material. It is not appropriate to try to throw the onus for proof onto respondents in this way. The absence of evidence is an inevitable consequence of the order in which BAS is producing the draft TASs. Until it is clear from draft specific TASs what work will be in scope for specific TASs and therefore covered by the generic TAS, it is impossible to identify concrete examples.

We note in this context that “report” is defined very widely, and will apply to any information or advice delivered in permanent form (electronic or hard copy). Again, this suggests that the Reporting TAS is intended to apply very widely, but we believe its requirements are unduly onerous if applied this widely.

Further, “report” defined in this way means that the Reporting TAS will apply to:

- Copies of any notes of meetings or telephone conversations that are provided by an actuary – even though the TAS will not apply to the advice delivered orally in the first place – making it impossible to provide such notes (unless the original advice delivered orally was so lengthy as to comply with the Reporting TAS which is highly unlikely ever to be true);
- Presentation material (e.g. copies of slides) that are provided to aid understanding rather than as the formal vehicle containing the information or advice.

We therefore believe that “report” has been drafted far too widely.

We welcome the inclusion of the section on Compound and Repeat Information, which is helpful and appears workable. We note however the comments in the Appendix to the Analysis of the Responses to the Consultation that respondents who were concerned over how the proposals would apply to compound advice processes and repeat reports had not read correctly what BAS proposed on these. We do not accept BAS’s reaction on this point. Whilst BAS may intend a more proportionate approach, as now set out in the section on Compound and Repeat Information, the words in the original consultation paper on the Reporting Standard cannot naturally be interpreted in the way that BAS claim. We believe that, without the section on Compound and Repeat Information, it would still be impossible to read the Reporting ED as permitting the approach set out in that section, and would therefore warn BAS that it is important that this section (or its equivalent) remains in the final TAS.

We also note that:

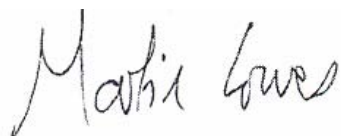
- The draft seems very long – particularly for a standard that is intended to be principles based – we wonder if it would be possible for BAS to set an example of good communication practice by aiming at a shorter more focused document;
- The first two pages are essentially preamble – again we wonder whether good practice would be to place background material out of the way in an appendix.

Subject to the above (major) concerns, we were broadly content with the detailed drafting of the ED. However:

- There does not appear to be any compulsory technical content in section 5 (we wonder whether section 5 meets the intention set out in 5.1 of the Conceptual Framework ED that TASs must be complied with actuaries and will not contain just recommendations);

- In that section we do not agree with the statement that users' expectations can be managed by stating which TASs have been complied with (few users will have heard of TASs; still less will they know what they relate to or what they require);
- We also do not think that it is helpful to reinforce in formal guidance the notion that actuarial reports have been hard to understand;
- Similarly, there is no compulsory technical content in section 6 and may perhaps be seen as "teaching grandmother to suck eggs" (again, we wonder whether the content meets the intention set out in 5.1 of the Conceptual Framework ED). Is the "encouragement" in 6.6 and 7.16 a requirement or not?
- We note that actuarial reports are often intended for decision making by one audience (for example pension plan trustees) but are required by legislation to be made available ("shown") to others (for example plan members). We suggest that 6.1 should be clarified to make it clear that it is the technical proficiency of the addressed decision makers, not the technical proficiency of all others who may have access, which the report writer must consider;
- In 7.8 "rationale" might be better than "justification" (given the degree of uncertainty, there can be little "justification" for the assumed future improvement in mortality rates);
- 7.13 is a clear example of inappropriate level of detail in what purports to be principles-based guidance;
- The final word in 7.31 should be "quantification";
- We believe that 7.39 goes too far: for example we do not believe that it would be appropriate for each "report" on funding a defined benefit pension plan to include a comprehensive summary of research on past and expected future rates of improvement in mortality rates which is what a literal reading of this paragraph would require (this is just one of many examples we could give).

Yours sincerely



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CPC/ML/JES/BAS Reporting ED Response  
Enclosure