

Board for Actuarial Standards – Exposure draft on reporting actuarial information

This is the response from Hymans Robertson LLP to the Board of Actuarial Standards (BAS) on its exposure draft on reporting actuarial information.

Reporting Actuarial Information

Our first comment is over the length of the draft standard. The BAS is setting out to set principles-based standards which we believe is appropriate. The BAS is aware of the difficulties it faces in achieving this aim as it set out when it published the exposure draft of the conceptual framework. However, given the length of the proposed reporting standard, we feel that the balance is still weighted too heavily to rules rather than principles. We believe that many of the problems we have identified with the draft are as a result of the BAS trying to be prescriptive in certain areas but then leaving too many ambiguities. Many, if not all of these problems could be removed by the use of a genuine principles-based standard which would be no longer than two pages in length. In this regards we would commend the draft standards recently published by the actuarial profession around its new Actuaries Code. The concerns that we and others had over whether the BAS is able to deliver principles based standards were clearly justifiable.

We also find it difficult, and somewhat unfortunate, that we have been asked to give our comments on the reporting standard without knowing what it is intended to cover. The standard will apply to work specified in the schedule to the Scope and Authority document, which has a schedule but the reference is to any work covered within a specific technical actuarial standard. As these have yet to be issued for consultation, we do not know what work is meant to be covered under this reporting standard. Therefore, our comments on the reporting standard must only be taken as preliminary at this stage until such point as we know what it is to cover. We urge the BAS to keep the consultation open until such point as we know the full extent of the reporting standard. For the future it would be helpful if the BAS could order its output in a manner which would remove issues such as this.

Notwithstanding the above, much of the draft standard is sensible. It sets out the basic requirements of a report and, to a certain extent, mirrors much that is within the actuarial profession's Professional Conduct Standards. However, there is much within the standard we struggle to reconcile and we find parts of the standard contradictory. We also have some overall concerns which we address first.

1. The reporting standard covers "actuarial information". Whilst there has been some discussion in previous consultations over what is meant by "actuarial information", this term does not seem to be defined anywhere within either the draft reporting standard, nor the conceptual framework. Given that the standard covers the reporting of "actuarial information" it would seem to us only natural that a definition be given. We are of the view that the BAS should define this term to remove any ambiguity over what is meant by it.
2. We are also unclear as to what the BAS will require of actuaries in their need for "completeness". On the one hand paragraph 7.18 implies that actuaries can be given a limited scope for work; for instance, reporting on one assumption which may be of interest to a pension scheme sponsor. However, it is not clear to us whether the BAS considers a report on such a limited scope as being "complete". In 4.1 the information is only complete if it includes an indication of any uncertainty inherent within the information. By only providing advice around one assumption used for funding it could be argued that even though this is the scope of the work commissioned it is not "complete", because

there are many uncertainties within the funding of the scheme not covered by that report. As such, we ask the BAS to make it clearer within the standard that where an actuary has been given a limited scope for a piece of work that this is not deemed incomplete because the actuary has not gone outside the scope of the advice required. Without this we feel that many clients would be forced to take additional work they did not need or want. Taking our earlier example, we believe that a requirement for actuaries when operating to a limited scope to make entities aware of the interactions of risks correlated to the assumption under discussion should be adequate in this regard.

3. There is also uncertainty in our mind as to whether the valuation report used by pension scheme actuaries is to be covered under this generic standard. Paragraph 7.3 states that where a valuation is required to be carried out using methods and assumptions specified in regulations (or in some other legal document governing the valuation), and for which there is no decision to be made on receipt of the report being received, then this report does not need to comply with the generic reporting standard. A valuation report for pension scheme funding meets this criteria; it is carried out following the method and assumptions laid out in the Statement of Funding Principles – a legal document governing the valuation. On receipt of the valuation the trustees have no decision to make or, indeed, action to take, as it is then a matter of law that the sponsor pay contributions as set out in the valuation report. However, this seems contrary to paragraph 2.2 which says exceptions to the generic reporting standard can only be made if a report is sent after all the relevant decisions have been made by all the intended users. As valuation reports can be sent to members of a pension scheme on request, and these are defined as users by the BAS, this would imply that a valuation report is not exempt. We would like the BAS to clarify such ambiguities as these.

More detailed comments

We detail below our additional comments regarding some of the specific paragraphs within the draft reporting standard.

Paragraph 3.5: This is requiring actuaries to explain clearly the purpose of any underlying actuarial calculation. Whilst we agree that it is important to state the purpose of any actuarial report, we are not so sure that it is important to explain the purpose of the underlying actuarial calculations. In many documents the purpose of the report, and hence its underlying actuarial calculations, is a legislative requirement and it seems that restating the legislation would be somewhat superfluous.

Paragraph 5.2: The BAS should recognise that not every piece of actuarial information has “implications”. Many reports produced by actuaries, such as funding valuations or reports on pension scheme accounting figures, are merely reporting an answer as opposed to giving any advice. As such, there are no implications regarding the information in the report. Generally, the implications of any advice will be related to previously given advice – for instance regarding assumptions. As per our comment in 3 above, the BAS will need to decide whether actuarial information that has no implications is covered under this standard. If they are to be covered, then the wording in 5.2 needs to reflect that not all actuarial information has implications.

Paragraph 6.4 and 6.5: Whilst the principle of trying to establish whether users of actuarial information have understood its meaning is sound, we are concerned that this is contained within the draft standard. Our concern is around how the BAS intends to measure compliance with these paragraphs. The issue is one of the thresholds the BAS expects members to achieve in order to comply with these paragraphs. This will be relevant if a charge is ever brought against an actuary for failing to comply with these paragraphs. If there is no threshold and the BAS do not intend actuaries to be held to account against these principles, then they seem superfluous. If there is a threshold, the BAS need to tell actuaries what this is. What also concerns us about these two paragraphs is that many users of actuarial information have no direct contact with the report writers. For instance, an actuarial valuation report for funding purposes can be passed to all members of a pension scheme. Ensuring that each of these members understands the report and makes the right decisions off the back of it, such as staying within the scheme, will be impossible to measure.

Paragraph 7.3: As noted above we seek clarification whether the exception in this paragraph applies to a report on a funding valuation. As written this seems to be the case, although we are rather surprised that such reports would be exempted.

Paragraph 7.8: This paragraph requires a justification of all assumptions contained within a report. Paragraph 7.36 then goes on to give an exemption to this justification where an entity instructs the actuary on the method and assumption to be used. It would make far more sense to us that these two paragraphs are more clearly linked, for instance by 7.8 containing a direct reference to 7.36 for exceptions.

Paragraphs 7.8 to 7.13: We have some concerns regarding this section. The draft standard is unclear about the disclosures required around assumptions. However, we think that a lot of the subtlety over how assumptions were set has been overlooked and we think needs addressing explicitly. Our issues are as follows:

- If an actuary is using a bespoke mortality table, for instance, is it a requirement that the assumptions regarding the data behind the table, the statistical fitting techniques, etc. are disclosed to the users of that assumption? If so, do the same requirements apply to those actuaries using standard mortality tables published by the CMI, for instance? Will we have a situation whereby an actuary who derives a mortality table is required to disclose the assumptions behind the derivation of that table but an actuary from another firm using the table is not required to? If so, this would seem to be anomalous.
- Much work carried out by actuaries in deriving certain assumptions and models, such as those around economic scenario generators and mortality tables, contain an amount of intellectual property. Does the BAS intend such intellectual property to be given away through the requirements of its standard, or are firms and actuaries permitted to protect their intellectual property? Would it be acceptable to provide a high level summary of the approach in order for other providers to be satisfied with the credibility of the approach adopted?

Paragraph 7.13: As BAS is aware there are many forms of statistical “average” of which the “mean” is just one. This paragraph would benefit from recognising the variety of averages particularly as “best-estimate” is often described in terms of the median (i.e. a 50:50 outcome) rather than the mean.

Paragraph 7.17: It is unclear to us what is meant by 7.17. Is it merely aiming for actuaries to state that where there is a risk that an assumption has been made? Or is it intended that there is more quantification made between the risk and the assumption adopted? Further amplification is required here. We do not believe that 7.17e) is relevant. The relative importance of risks in relation to the other risks faced by the entity and its capacity or appetite to bear risks is an area actuaries should be required to comment upon. For instance, a pension scheme sponsor will have many other risks outside the pension scheme and it is not our business to understand all of these. Further, such entities would not necessarily want or require us to know its capacity or appetite to bear any risk. As such, we feel that this requirement is not relevant.

Paragraph 7.18: We feel that this paragraph is ambiguous. It is not clear to us how limiting a scope of a piece of work can be. For instance, a pension scheme sponsor may require some advice over one or two assumptions for its funding negotiations, but does not wish to take advice on other matters. The latter half of 7.18 implies that such work can be limited in its scope. However, the first part of 7.18 requires that the risks faced by the entity “in relation to the work commissioned from the report writer” need to be covered. Arguably, this would therefore require actuaries to comment on the other risks, and hence assumptions, to be adopted in the valuation. The question we have is over the term “in relation”. It can be argued that even if an entity wishes its work to be limited in scope, then an actuary has to extend it to ensure that the other risks “in relation” to the work are covered in the report. Further clarification is required on this point if we are to avoid actuaries being forced into going beyond the scope of the work commissioned.

Paragraph 7.25: Much work undertaken by actuaries is required under legislation. The legislation will specify the nature of any figures required within the report. As such, it seems superfluous to us for actuaries to make the differentiation between whether a figure given is a value, or the outcome of a planning, targeting or budgeting process. Repeating legislative requirements should not be the work of either actuaries or the BAS.

Paragraph 7.26: It is not clear whether it is the word “value” about which the BAS has an issue. For instance, in pension scheme funding the legislation refers to “technical provisions”. This is a clearly defined legislative term fully specified within legislation and other regulatory documentation as to what it is and what it is not. Is it the intention of the BAS to require further explanation from the actuary? Or, if actuaries use the legislative terms such as “technical provisions” and avoid the use “value” that the requirements of 7.26 fall away? Further clarity is required on this paragraph.

Paragraph 8.4: The last sentence of paragraph 8.4 causes us concern. It requires full compliance with the reporting standard for each and every assumption that an entity may set. There does not seem to be any concept of materiality or proportionality as to the level of disclosure required. For instance, in a funding valuation there are generally three or four major assumptions over which trustees will be required to take a good deal of advice and take their time in deciding what is appropriate for them. But there are also a further 10 or more assumptions which, whilst all influence in the level of technical provisions, are far less material than the major assumptions. Requiring the same level of disclosure in how each of the assumptions is set does not seem proportionate to us. We would urge the BAS to make it clearer that when statements such as those in the last sentence of 8.4 are made that they include some proportionality.

If you have any questions regarding this consultation response, please address them to Brian Nimmo whose contact details are below.

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