

Direct line:

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Your reference:

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18 July 2008

The Director  
Board for Actuarial Standards  
5<sup>th</sup> Floor, Aldwych House  
71 – 91 Aldwych  
London  
WC2B 4HN

Dear Sir/Madam

## **Exposure Draft: Reporting Actuarial Information**

Thank you for the opportunity to comment on this exposure draft. This response has been prepared by the Benefits Practice of Watson Wyatt and therefore primarily reflects pensions-related issues. Watson Wyatt is a global consulting firm with particular strength in the area of UK pensions. We advise over half of the 100 largest corporate pension schemes, and the firm as a whole employs over 300 qualified actuaries in the UK.

By way of response to the four specific points in your “Invitation to Comment”:

### **Definition of report**

We agree with the principle of restricting the standard to written reports, as defined in 3.1. But given that this definition does not correspond with one which would typically be found in a dictionary (where a ‘spoken account’ would also be included), we do not think that the opening sentence and a half of 3.1 is appropriate.

The boundary between the ‘spoken’ and the ‘written’ is not always clear cut, however. A talk without any slides or handouts would not fall under the BAS’ ‘report’ definition, nor would a Powerpoint presentation where no handouts were provided and the slides were not sent on to the client electronically. But what about a Powerpoint presentation where a copy of the slides is provided? The slides are not purporting to be any sort of written report – merely a tool for the listener. It would not be a good thing if presenters felt unable to provide such tools for fear of contravening this standard.

### **Compound and repeat information**

We are in full agreement with the underlying principles of ensuring that the right information has been provided prior to any ‘decision’ being required by the client and, subject to that constraint, of measuring compliance against the standard by reference to the totality of information provided, where that information is provided in stages. However, it needs to be appreciated that information given for one decision might often be relevant to subsequent decisions and this is likely to give rise to some duplication (it not always being possible or the best presentational approach to refer back to the earlier

document). The need to filter out the obsolete (no longer relevant) parts of that earlier advice whilst retaining the material that remains relevant will also mean that it will not generally be possible simply to 'copy across'. In A.10 you describe a process under which individual assumptions for a scheme funding basis are chosen in stages – in practice, because of the need to assess prudence on an 'overall' basis, these decisions are frequently going to be interdependent.

### **The text of the exposure draft**

Please see the comments on a section-by-section basis appended below.

An important general comment is that, although this is a mandatory standard, it contains a large number of phrases which read much more like 'best practice guidance' – "best stated" (5.2), "will be expected"(6.1), "likely to suit" (6.3), and "would not normally" or "will normally" (section 7, several places) are some examples. We would interpret the underlying principle as being "it is mandatory to have a good reason as to why you have chosen not to do something or to do it a different way, with the 'strength' of the reason being dependent on the 'strength' of the expression used in the standard" (so, for example, "will normally" would require a stronger justification than "likely to suit"). However, it would be preferable if this understanding could be explicitly confirmed somewhere by the BAS (or, if our understanding is wrong, it is even more important to us that the BAS explains what it should be!).

Further to this point, the 'enforceability' section of the recent exposure draft of the Conceptual Framework and the 'compliance' section of that for the 'Scope & Authority' document both seemed clear that all material departures from standards would be subject to strict disclosure requirements, so it is obviously very important that actuaries know what is and what is not a 'departure' (requiring such disclosure) when the standard uses words (like those above) which to varying extents appear to fall short of outright compulsion. If there is insufficient clarity as to whether or not an actuary is in fact deviating from the requirements of a standard, there is a risk that some circumstances could arise in which it is difficult to find an actuary who is willing to advise.

### **Costs and benefits**

Presumably, the BAS' view that the standard will lead to an improvement in reporting reflects a belief that actuaries' behaviour will be changed and appears to reflect an expectation that more comprehensive information will be provided (at least by some actuaries). On the face of it, it is difficult to see how this would be achieved at zero cost, unless the BAS expects that the new 'better' information will essentially replace a similar amount of unnecessary or unhelpful information. If this is the case, the BAS has not provided any indication as to those aspects of information which are currently normally provided (perhaps with a view to compliance with an existing standard such as GN9) but which it envisages should or need not be provided in future.

It is almost inevitable that, with a mandatory standard, users will tend towards 'over-compliance', through a desire to err on the safe side. Such behaviour would, rightly or wrongly, be encouraged by text such as that in paragraph 7.2: "there is a presumption in favour of including all the information identified below...". Paragraph 8 of the "Analysis of Responses" can be read as implying a view that inclusion of excess information could be as 'non-compliant' as the exclusion of necessary information, but we do not believe that a principle like this could be fully incorporated in a mandatory standard because it is unreasonable for users to be 'caught between a rock and a hard place' in this way. (This is similar to a

comment we made on the 'Scope & Authority' exposure draft, about the apparently mandatory requirement to depart from the standard in some, albeit very rare, circumstances.)

As the BAS has acknowledged, 'more information' can impede rather than enhance understanding and prescriptive standards can be counterproductive. The wording of the standard must therefore ensure that actuaries are confident that they can use their professional judgement to decide on the level of information provided, without undue fear of being 'investigated' because someone else thought that something else was required by the standard.

We would be very happy to meet with you to discuss any of the points raised in this response. If you want to take up this offer, please get in touch.

Yours faithfully

G P Everness

Senior Consultant

## Exposure Draft: Reporting Actuarial Information

2.2: The scope of the phrase “the intended users” is not made clear. A Scheme Actuary provides advice on scheme funding to his client, the scheme trustees. Subsequent readers of that advice, and arguably therefore potential users of it, include the employer, the members, the Pensions Regulator and a prospective purchaser of the company. However, it is debatable whether these readers should be regarded as ‘intended users’, not least bearing in mind the fact that the advice will generally include a caveat to the effect that it is not intended to be relied upon by anyone other than the trustees. The traditional ‘report of record’ at the end of a valuation process will generally come after the trustees have made all the relevant decisions, but not necessarily before any decisions (affected by the report) are made by members who access it under the Disclosure Regulations or by the Pensions Regulator. The answer to the question as to whether these non-clients are classed as “intended users” is then vital to the question of whether or not the record must comply with the standard. (NB: There is no requirement under the legislation for a valuation report at anything like the level of detail currently required by GN9, and prospectively applied by this standard if it is deemed to apply in full, so that the provision in paragraph 2.2 does not help us decide.)

3.4: We would say that the terms ‘valuation’ and ‘planning’ are *described*, rather than *defined*, in the Conceptual Framework. We understand that some refinement of these descriptions is being considered, including the significance of the word ‘provisional’ under ‘planning’, and presumably the final version of this standard will reflect any adjustments made to the Framework.

6.1-6.5: In our comments on 2.2 above, we raised the question of the scope of “intended users”. A similar question arises here. We believe that the presentation of a report on funding advice to the trustees should be driven solely by their needs (and technical proficiency) and should not be driven by the possibly very different needs/proficiency of members (or others) who might choose to read the report. (That is not to say that such people should never be borne in mind when drafting the report, but it is to stress that their needs should be subservient to those of the client.)

6.2: The comments about “the needs of readers at higher levels of proficiency” beg some questions. Giving extra information which is potentially helpful to half of a trustee board but beyond the understanding of the other half could be seen as problematic where all those trustees have the same responsibility in relation to a decision. In this context, the comments would probably be better expressed in terms of the needs of the client (the trustee body) as a whole, which is that where some of the trustees have a capacity for a greater level of detail and understanding which will help the decision-making of the whole body, that extra capacity needs to be appropriately utilised by the actuary in presenting his advice.

6.4 & 6.5: These are laudable aims, which we would expect actuaries to agree with and support, but (in line with our earlier comments about ‘best practice guidelines’) we have concerns about how they could or would be enforced.

7.3: While we agree that, in the case of valuations for Pension Protection Fund purposes, there is nothing to be gained by describing the assumptions and modelling (etc.) in detail, there is still a strong case for complying with the reporting standard’s requirements in relation to data (see, for example, 4.1b) and 7.7). There is a decision for trustees to take as to whether or not, in light of any data qualifications identified, the data should first be clarified or cleansed before the results are deemed final.

7.13: It is first important for the report to be clear whether ‘best estimate’ is being taken reflecting a median, mode or mean approach.

7.17 & 7.18: In our view, the scope of the requirements here would be clearer for readers if the definition of “risks” in the first sentence of 7.18 were not separated so much from the basic statement of the standard’s requirement in 7.17.

7.17e): This is clearly derived from the Morris report recommendation. However, we question why the word “appetite” has been added to the word “capacity” used by Morris. Whilst “capacity” can be difficult to ascertain, it is at least objectively measurable, whereas “appetite” is not.

7.23 & 7.24: We do not understand the distinction that is being drawn between (a), (b) and (c) of 7.17, and (d) and (e) of 7.17, in terms of which do or do not need to be included in every report.

7.28: We agree with this, but would go further to say that sometimes the same figure can be used for both ‘valuation’ and ‘planning’ – we consider technical provisions for scheme funding purposes to be one such example.

7.30-7.33: While we accept that a comparison and reconciliation will frequently be appropriate, we do not agree that this is by any means always the case. Sometimes, for example, the earlier calculation will relate to fundamentally different circumstances and any comparison (other, perhaps, than to confirm this point if needed for the avoidance of doubt) is pointless, and a reconciliation more so. We are concerned that the wording here (a straight “should”, not even “would normally”) gives insufficient scope for the actuary to judge whether or not such a comparison and/or reconciliation contributes to ‘decision usefulness’; in the ‘reconciliation’ case, 7.32 merely allows the level of detail to be appropriately adjusted and would not appear to permit a view that in some circumstances no reconciliation at all need be provided.

7.37: The wording here appears to use the words “advice” and “recommendations” interchangeably, whereas our understanding (in particular in relation to the Scheme Funding Regulations) is that “recommendations” means something more than “advice”.

7.38: From discussions we were involved in during the production of this exposure draft, we understand that the final sentence here is seeking to clarify that the requirements do not apply to, for example, the probabilities underlying a table used for mortality assumptions. This distinction might be clearer to all readers if an example like this is spelt out.

8.3: This brings home the point that, with the definition of ‘report’ in 3.1, the standard does not apply if all the advice/information is given orally. This point is unlikely to be an issue in relation to the main types of work to be covered by BAS standards (‘Reserved’ and ‘Required’), but could be an issue where the standard extends to other work, such as pensions advice to employers (which, based on the ‘Structure’ consultation paper, appears to be the intention), creating a possible incentive to avoid putting advice in writing.