

Director
Actuarial Standards
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

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Direct Line: 020 7951 3254
e-mail: jbabiak@uk.ey.com

By e-mail: basapril07@frc.org.uk

Dear Sirs

**Board for Actuarial Standards (“the BAS”), Preliminary Consultation Paper
Towards a Conceptual Framework**

INTRODUCTION

Ernst & Young LLP welcomes the opportunity to comment on the BAS’s Preliminary Consultation Paper *Towards a Conceptual Framework* (“the Consultation Paper”).

We recognise that the Financial Reporting Council (“FRC”)¹ has a very important role to play in improving corporate governance and the quality of financial reporting, both of which contribute to the maintenance and improvement of confidence in the capital markets. In the short time that the FRC’s regime has been operating, it has been recognised globally as an effective model and has made significant progress in many areas. Given the importance of actuarial information to the capital markets, the BAS is an integral part of that regime and we fully support its work.

As the BAS will be aware, Ernst & Young LLP is one of the largest professional services firms in the UK. We provide a wide range of audit, accounting, tax, corporate finance and other business advisory services, including actuarial services. All of our activities are supervised by the Institute of Chartered Accountants in England & Wales, with further supervision over certain parts of our business by the FRC itself, the Financial Services Authority and other regulators. Our interests in this Consultation Paper are threefold:

- There are over 100 members of the actuarial profession (including both actuaries and trainees) working in our firm.
- As a firm we have extensive dealings with actuaries, both in relation to pension matters and other long-term liabilities such as environmental exposures, in our work as auditors and in a

¹ References in this letter to the FRC include its Operating Bodies where relevant.

whole range of advisory services. Increasingly, actuarial matters are more and more critical to our opinions.

- As a large business contributing to a pension fund for its people, Ernst & Young LLP is itself a user of actuarial information.

The Consultation Paper provides a good analysis of the principles on which to form the basis of the BAS's project to set standards for the actuarial profession. We are supportive of most of the points which the Consultation Paper makes.

OUR RESPONSE

General Comment

In setting actuarial standards, we support a principles-based approach, which limits the use of rules to those necessary to implement the principles effectively². This approach is more durable to our quickly changing marketplace and encourages best practice rather than minimum compliance. We also firmly believe such a regime is vital if the actuarial profession is to continue to attract and retain the best talent.

Specific Points

The BAS has asked for views on whether:

1. ***The BAS priority should be to focus on standards that relate to actuarial information, over the other issues discussed (section 1.2)***

We believe that focusing on actuarial information is a sensible first step. Approaching this in stages will make the exercise of producing standards for the actuarial profession more manageable.

Clear ethical standards are also vital. The Institute of Actuaries in England and the Faculty of Actuaries in Scotland (together "the Institutes") will continue to have a role in overseeing professional issues for actuaries, and ethical standards are an inherent part of this. These standards apply to all members in all their work; not just work which would be deemed as actuarial. Because of this, the Institutes should, in our view, remain responsible for setting and maintaining ethical standards.

The letters "FIA" and "FFA" are often accepted as a recognised label of quality. People who prepare actuarial information or who give actuarial advice, and who are not members of one of the Institutes, may not adhere to the same technical guidance and ethical standards. It is therefore important for users of actuarial information to be aware of this distinction. Added to this, the disciplinary procedures as set by the Institutes are closely linked with the ethical standards.

It would be helpful if the Standard Actuarial Principles and Techniques ("SAPT") could very clearly define "actuarial information". Besides value, risk and the forecast of future conditions, actuaries also work on policy wording, discounted cash flow statements, defining or providing

² References in this letter to "principles-based" should be deemed accordingly.

information to management and other issues³. This could make the Consultation Paper's distinction between "actuarial advice" and "actuarial information" difficult to understand, both to actuaries and the users of "actuarial information" or "actuarial advice". Therefore a clear distinction between the two needs to be drawn.

The Consultation Paper also questions whether value, risk and forecast of future conditions are separate issues or facets of the same issue. Based on current practice, our view is that these issues are separate but closely linked.

Finally, it would be helpful if the BAS would confirm whether it intends use the technical Guidance Notes, which the BAS adopted from the actuarial profession, as the basis for drafting SAPT or whether it is inclined to draft SAPT without reference to existing guidance. The former would be our preference.

2. *The needs of those who rely on actuarial information should be the primary foundation on which actuarial standards are developed as discussed (section 1.4.1)*

We agree. However, it needs to be recognised that there are potentially many different users of actuarial information who each may have different needs. Examples include financial institutions, individuals, preparers of accounts, auditors, valuers and organisations like the Pensions Ombudsman.

In considering and setting standards, it is important to understand that there are many different kinds of user. However, we are not suggesting that there should be different standards applying to actuarial information prepared for different users. Consistent with the FRC's preference for a principle-based regime, which we support, the relevant standards need to do no more than require the actuary to have in mind the needs of the user(s) for whom the actuarial information is prepared.

At this point, it is also important to clarify the meaning of "rely" in this context to ensure that any standards do not inadvertently extend an actuary's duty of care beyond that currently established at common law.

The definition of "actuarial information" proposed in section 1.5 of the Consultation Paper refers to information which is "relied on by any user". Similarly, section 1.7.6 of the Consultation Paper suggests, in the context of "decision usefulness", that the SAPT need to provide a framework so that a "third party" (i.e. someone other than the actuary's contractual client) can establish whether the actuarial information is fit for purpose.

An actuary should only be expected to provide actuarial information which takes into account the needs of the particular user for whom the information is prepared. In most, but not all cases, this will be the actuary's contractual client. The actuary should not be required to have the needs of all potential users of the actuarial information in question because this would be impractical. A requirement of this nature would also tend to suggest that the actuary owes a duty to users beyond the particular user for whom the information was prepared. This is not a position that we would support. We therefore encourage the BAS to ensure that the position is made clear in the SAPT.

³ It is also worth noting that people of many disciplines, not just actuaries, rightfully prepare the same or similar information.

Given the focus on the needs of those who rely on actuarial information, we believe that there would be great benefit if, in formulating the SAPT, the BAS drafts them so that they are clear and concise, using plain language wherever possible. This will maximise the possibility that those who rely on actuarial information may readily understand the SAPT.

3. Prudence should be regarded as decision-makers' attitude to risk (evidenced by the risks they accept or avoid) and is not an element of measurement, as discussed (section 1.4.12 et seq)

We agree. We would also like to point out that, an auditor's historic use of the term "prudence" differs from that understood and applied by an actuary. Given the FRC's other responsibilities; we encourage the BAS to make its use and definition clear in any SAPT.

4. The concept of SAPT will provide a useful means of distinguishing high quality actuarial information (section 1.7)

We agree, providing the SAPT are principles based.

In our experience, the content of "actuarial information" is determined by the scope set out in our client contracts. The nature of the actuarial information requested by the client may depend on a number of different factors such as confidentiality, sophistication of the client, cost, time or the client's objectives. The SAPT needs to provide for this flexibility.

5. The BAS should develop a generic communication standard (as recommended by Morris – see sections 1.7.8 and A1.14) as well as detailing specific communication requirements and standard reports in each SAPT standard. If so, which of the six items from the Morris listing are applicable to every report containing actuarial information?

In theory, this suggestion is reasonable. However, in our view it will be almost impossible to standardise a reporting format that will be fit for purpose in all circumstances. We therefore have concerns about how this aim will be implemented in practice without having to create many different communication standards and prescriptive rules. Prescriptive rules, in turn, risk creating a box-ticking attitude towards the preparation of actuarial communications which will encourage minimum compliance rather than principles-based best practice. This, in our view, would be to the detriment of the quality of the actuarial information, at the expense of decision usefulness.

OTHER COMMENTS

Role for the BAS in setting standards for decision-making

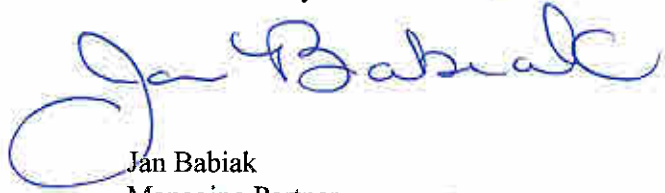
At paragraph 1.6.2 of the Consultation Paper, the BAS says that it does not currently see a role for it in setting standards for decision making. We agree with this analysis and the points made in the rest of the paragraph. Aside from the fact that users of actuarial information are likely to include non-actuaries, it is very difficult for us to see, even conceptually, how standards in this area would work.

CONCLUSION

We are grateful to BAS for publishing the Consultation Paper and for the analysis it has put forward. We hope that you have found our comments helpful. We look forward to the full consultation in the autumn.

If you would find it useful, relevant members of our firm are available to discuss further any of the points we have raised.

Yours faithfully



Jan Babiak
Managing Partner
Regulatory & Public Policy