



Actuaries & Consultants

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6th July 2007

Paul Seymour  
Chairman, Board for Actuarial Standards  
Financial Reporting Council  
5th Floor  
Aldwych House  
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London  
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Dear Paul

**Towards a conceptual framework  
Lane Clark & Peacock LLP (“LCP”) response**

We are pleased to submit our response to the above consultation document.

LCP is a leading firm of consulting actuaries in the UK with 71 partners and principals and a team of more than 250 employees, based in London and Winchester. The firm has some 80 qualified actuaries providing actuarial advice, including employee benefits, investment, insurance and risk management related advice.

We would like to be in a position to be able to offer you our support for what you are seeking to achieve. Unfortunately, we have had difficulty in understanding the paper and this has not been helped by the undefined terminology that has been used. Furthermore, as the paper does not seek to apply the proposals to “real-world” existing guidance, we have not been able to assess the potential implications of your proposals as they would apply to the various areas of practice with which we are concerned. Therefore, with apologies, you may find that some of our comments reflect our inability to comprehend the paper. In preparing the full consultation document, we would ask you to bear in mind that effort you spend in making the document clear and concise will increase the ability for actuaries to engage in this important process, and ultimately should produce a better framework.

Subject to this, our responses to your five specific questions are set out in the appendix to this letter.

Separately, we have concerns that, given the ambition of your conceptual framework project, during the time inevitably to be taken, you will not be able to devote sufficient resources to keeping existing guidance, passed to you in many cases over a year ago by the actuarial profession, up to date. We would like to use the opportunity of this consultation to bring this matter to your attention.

We note that one of your objectives is to amend existing standards where appropriate and to address urgent issues promptly. Particularly in relation to the pension field, where the development of much of the technical guidance has gone hand in hand with legislative developments, it is most important

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All partners are members of Lane Clark & Peacock LLP.

A list of members' names is available for inspection at 30 Old Burlington Street, London W1S 3NN, the firm's principal place of business and registered office. The firm is regulated by the Institute of Actuaries in respect of a range of investment business activities.

Main offices in London, Winchester and the Channel Islands, and subsidiaries in Belgium and Switzerland.

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that you are able to respond quickly when an existing guidance note becomes dated. In so doing you should not underestimate, as I am sure you do not, the effort needed to amend, consult, finalise and issue guidance. There are three examples that we would like to bring to your attention – all in the pensions field:

- Guidance Note 9 – where we have concerns as to the extent to which this standard applies to actuaries advising scheme sponsors on matters to do with scheme funding. The standard is written very much as applying to Part-3 trustee advice situations. There is, in our view, a clear risk of under-compliance in other situations given it is not obvious how to interpret the standard in those other situations. This is of material significance to pensions actuaries and is not something that can be left until after the development of a conceptual framework.
- Guidance Note 11 – where we are concerned that you may not be in a position to respond sufficiently quickly to guidance changes that must be in force by 5th April 2008. These will have to be settled many months beforehand in order to give actuarial firms time to react to their new role of certifying the trustees' basis, given the legislative environment where members have a statutory right to a cash equivalent at any time. There is also the need for all this to be in place before administrators and systems can take account of changes.

In passing we did not understand why in Appendix 5 of your paper you give a qualified no as to whether transfer values is a matter suitable for a BAS standard.

Please note that this was drafted before the issue, today, of the DWP's consultation on transfer values, which we have yet to assimilate.

- Guidance Note 19 – in whose topic area the Department for Work and Pensions will shortly commence a consultation which could have implications for the wording of the standard.

We also note that the paper does not contain, as an aim and objective, a requirement to respond to enquiries, in particular from actuarial practitioners, where they have difficulties of interpretation of a standard that you have produced or have substantially amended from that which you have inherited. We suggest that this is an essential part of a feedback loop that will equip you to produce better standards.

I trust that these initial comments have been of assistance and we look forward to examining your full consultation paper when it is issued in the autumn.

Yours sincerely

{Sent as an attachment to an e-mail on 6th July 2007 at 16:57}

Fiona J Morrison FIA  
*Partner*

Copy to: **basapril07@frc.org.uk**

## **1. Your priorities**

We understand where you are coming from in your desire to categorise the potential for standard setting into actuarial information, actuarial advice and ethical conduct, but as the paper did not provide examples of how this sub-division is to be achieved in practice, we find it hard to comment on the feasibility or otherwise of the proposal.

We can see, in theory at least, the division between standard setting in relation to actuarial information and actuarial advice – which should be your responsibility – and standard setting in relation to ethical matters which remains with the actuarial profession. However, it is not clear to us how such a division will be achieved in practice. It could be that the profession will see a need to move beyond ethical guidance in generic areas to ethical guidance in specific areas of practice and if this is the case, there will be a great need for joined up thinking.

We are not clear how the division between actuarial information and actuarial advice is to be achieved, since advice to the entity, particularly in the pension sphere, is often a necessary requirement before information can be produced.

## **2. Focus on which your standards are to be constructed**

We understand you intend that for the future, standards produced by yourself will address the needs of the users of actuarial information and the receivers of actuarial advice, whereas standards developed by the actuarial profession will be directed at the behaviour of individual actuaries.

It would have been of assistance to our understanding if you could have stated clearly the benefits this will bring given the potential for upheaval in getting there.

We have some difficulty in understanding how the various parties are to be regulated or influenced under this new approach to standard setting.

It would have been helpful to focus our minds if you had taken a particular standard and given a reasonably detailed indication of how it could change. We would expect that an exercise to analyse the specific impact on a sample of existing standards would be done by you before the consultation exercise, so that you have a clear understanding of the potential impact of what you are proposed. It would be very useful if some or all of that analysis could be shared with the profession and we would suggest that that form part of the supporting material for the consultation.

## **3. Prudence**

We agree that prudence should be regarded as decision makers' attitude to risk and is not an element of measurement. We have a slight concern when you say that you envisage developing standards for measurement and communication of different levels of prudence, when in the pension scheme funding context it is the trustees that determine prudence, subject to the requirements of the European Pensions Directive as interpreted by the Pensions Regulator.

**4. Standard actuarial principles and techniques**

We hope that the concept of standard actuarial principles and techniques will provide a useful means of distinguishing high quality actuarial information. However, we have had difficulty in understanding what precisely you intend.

We feel that you have missed an opportunity to flesh out what is meant by your principles in their application to specific practice areas. Consequently, it is not clear to us that you can or should develop the same framework to apply to all areas of actuarial practice. Could it be that your conceptual framework has been over-influenced by the life office sector and the very different role that the FSA has in regulating providers to that which the Pensions Regulator has in influencing pension scheme trustee behaviour?

Could your apparent intention to focus on output rather than process hold dangers for those actuaries operating in a consulting environment (and their clients) where judgment is key?

**5. Communication**

We too are uncertain of the value of your devoting resources to developing a generic communication standard, despite it being recommended by the Morris Review. The danger with developing a generic standard is that it may not be apparent how this could be applied in specific practice areas. Therefore, we are tempted to agree with your contention that there is more value to be gained in setting communication requirements within each standard. However, we ask that you are not too prescriptive in this regard.