

3 Robert Street Telephone: 020 7543 5600  
London Facsimile: 020 7543 5700  
WC2N 6RL www.cipfa.org.uk

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

By email to [basapril07@frc.org.uk](mailto:basapril07@frc.org.uk)

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Dear Nigel Bankhead

**BOARD FOR ACTUARIAL STANDARDS  
PRELIMINARY CONSULTATION PAPER TOWARDS A CONCEPTUAL FRAMEWORK**

CIPFA is pleased to present its comments on the above paper.

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has a formal role in the accounting standards setting process for a significant part of the economy, namely local government.

CIPFA has a significant interest in the work of actuaries in respect of the role they play in providing information which is used in financial statements: an important example is information relating to the assets and liabilities of pension funds. We are also interested in other actuarial advice which informs the decisions made by government and other bodies.

Our response is also informed by

- consultations on financial reporting in the areas of pensions, insurance, and contingent liabilities, and the development of a revised conceptual framework for financial reporting by the International Accounting Standards Board
- discussion of drafting and other improvements which are expected to be made to International Standards on Auditing, relating to auditors' consideration of the work of experts.

We are hopeful that the formation of the Board for Actuarial Standards and the development of actuarial standards will have a variety of benefits including more transparency to those who are not trained in actuarial practice. In particular we hope that there will be advantages arising from communication between BAS and the other operating bodies of the Financial Reporting Council, in particular the Accounting Standards Board and the Auditing Practices Board.

In general it appears to us that this paper provides a helpful basis for the development of a conceptual framework. Responses to the specific questions posed in the discussion paper are attached in an annex.

In addition to our comments in the Annex, we would also like to make the following points:

- **Actuarial work in the public sector:** the public sector is a significant consumer of actuarial information, and we consider that it would be helpful for this work to be within the scope of any conceptual framework. Given this, it would be helpful to mention public sector issues, to balance other references framed in terms of other specialisms, for example life insurance.
- **'Market consistency'**. We agree with the Board that market based measures are an important starting point for measurement discussions, and that decisions to use alternative bases would need to be supported by sound reasoning. However, particularly in the light of recent consultations by the International Accounting Standards Board, we have concerns over the use of certain market based measures where there is no effective market, or where the likelihood of 'exit' from a situation by recourse to a market is remote. We suggest that discussions based on market consistency will need to be handled particularly carefully, especially in the context of public sector obligations which may arise for social policy reasons, or because markets are considered to have 'failed' in some sense, or because certain risks cannot be transferred to market participants.

I hope these comments are helpful.

Yours faithfully

Chris Wobschall  
Assistant Director  
Policy and Technical  
chris.wobschall@cipfa.org.uk

## Responses to specific questions

The Board would welcome 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 note that the framework for the ethical aspects of actuarial advice is being addressed by the Profession, and the Board for Actuarial Standards is to develop standards which deal with other aspects of actuarial work, to be referred to as Standard Actuarial Principles and Techniques (SAPT).

From our perspective as accountants and auditors, placing the focus of technical standards on actuarial information appears appropriate. This is an area on which additional explanation would be helpful in subsequent framework discussions, as set out below.

Some of the discussion in the preliminary paper is framed in terms of 'financial products', in a way which might suggest that the framework will primarily be concerned with actuarial information relating to products which might be purchased by individuals, and aggregates of such products. We assume that framework proposals will also apply to actuarial information about arrangements between corporate entities, such as credit guarantees made by an insurance business, and it would be helpful if this was made clearer.

We would also note that actuarial work is used to inform government policy in areas such as social security provision, which although similar in some ways to aggregates of 'financial products', would not normally be expressed in those terms.

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 that actuarial standards should be developed primarily to reflect the needs of those who rely on actuarial information, and this is an area which could be usefully expanded upon in subsequent conceptual framework discussions.

A particular area of interest from our perspective as accountants and auditors is that actuarial advice is used as the basis for published financial information, and should have due regard to the needs of third party stakeholders such as readers of financial statements. We might expect different considerations to apply to specialised confidential reports which are only used by parties with whom the actuary has a contractual arrangement.

We would also note that the public sector is a significant consumer of standard actuarial information and more specialised work relating to risks and obligations peculiar to government. It would be helpful if this was alluded to in the general descriptions of actuarial coverage, not least because the needs of government, citizens and other stakeholders may differ from those relating to 'commercial' products.

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);

Our answer to this question is influenced by consideration of similar issues relating to 'prudence' by the International Accounting Standards Board, in its project to develop a conceptual framework for financial reporting. That discussion is still ongoing, and the view expressed here is without prejudice to CIPFA's view or public responses which CIPFA may make in that discussion.

From our perspective as accountants and auditors, it appears to be conceptually sound to separately consider

- the professional care which actuaries should exercise in carrying out measurement;
- the risks attached to that measurement arising from factors which are outside the control of actuaries; and
- the attitude to risk of the users of actuarial information

We agree that users' attitudes to risk are not, in themselves, an element of measurement. However external factors such as statutory and other reporting requirements may render separation and communication of this aspect of 'prudence' more difficult. Where actuaries are required to report on a basis designed to provide some cover against a particular risk exposure (such as the failure of a pension fund to cover associated payment obligations), an element of 'prudence' reflecting the attitude to risk of regulators would seem to be built in to the measurement calculation.

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

From our perspective as accountants and auditors we expect that, taken together with an appropriately developed and regulated ethical framework, a properly implemented concept of SAPT should provide a useful means of distinguishing high quality actuarial information.

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.

From our perspective as accountants and auditors, we consider that it would be helpful to have communication requirements for particular types of actuarial information. If it is practical to develop a generic communication standard, then we expect that this would be helpful.

In the particular case of reporting on the assets and liabilities of pension schemes for the purposes of financial statements, the Accounting Standards Board and others are progressing a research project on behalf of the International Accounting Standards Board. Communication requirements for actuaries should reflect, at a minimum, significant user requirements which are identified in the IASB project on pensions.