



6 July 2007

Our ref: ICAEW Rep 57/07

Your ref:

Nigel Bankhead
Director, Actuarial Standards
Financial Reporting Council
5th Floor, Aldwych House
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London WC2B 4HN

By email to basapril07@frc.org.uk

Dear Mr Bankhead

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

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the consultation paper *Towards a Conceptual Framework* published by the Board for Actuarial Standards in April 2007.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

The ICAEW has reviewed the preliminary consultation paper issued by the Board of Actuarial Standards.

In relation to the questions posed in section 3, our responses are as follows.

- 1) We support a principles based approach to standard setting and agree that it is important under such an approach to develop a robust conceptual framework under which further layers of guidance can be hung where appropriate. However, we note that there remain areas where there are current needs for extant actuarial guidance to be updated, or for new guidance to be generated, which led to the creation of BAS. BAS might consider some of the more pressing matters in light of current thinking on the conceptual framework project.

We agree that the BAS priority at this time should be to focus on standards relating to actuarial information. At the same time, we believe that the BAS should monitor the actuarial profession's review of its Professional Conduct Standards and re-evaluate its role vis-à-vis setting ethical standards once the review has been completed.

- 2) We agree that the primary foundation on which actuarial standards are developed should be the needs of those relying on actuarial information.
- 3) We agree that prudence should not be an element of measurement and that an unbiased 'best estimate' should include the possibilities of both positive and negative variances. We note that the IASB, in its Discussion Paper 'Preliminary Views on Insurance Contracts', is considering using a building blocks approach to the measurement of insurance liabilities involving an estimate of future cash flows, discounting for the time value of money and an additional explicit risk margin (as opposed to the inclusion of prudence). Whilst we are still developing our views on the IASB's Discussion Paper, we can see merit in the use of explicit risk margins in measurement for accounting purposes, having first made an unbiased best estimate.
- 4) We agree that the concept of Standard Actuarial Principles and Techniques will be a useful means of distinguishing high quality actuarial information.
- 5) We do not agree that the BAS should develop a generic communication standard. As the paper points out, covering different requirements within a generic standard is difficult. It is evident from the guidance available to the auditing profession that reporting to users of information requires an approach appropriate to the circumstances.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely



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