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Dear Nigel.

Preliminary Consultation Paper: Towards a Conceptual Framework

Thank you for the opportunity to comment on the above named consultation document. We have made detailed comments below in relation to the specific questions you raise but also have some general remarks about the document more widely.

General Comments

In general terms we are very supportive of your approach and welcome the fact that you are exploring publicly these complex issues. That said we did find the document a little academic in nature, and at times difficult to follow, particularly some of the more philosophical discussions. We suspect that end users, such as trustees in the case of occupational pensions, may also struggle to make sense of what this means for them. You emphasise the importance of the end user in this process and if that is to be made a reality, you may need to think slightly differently about how you present material in any subsequent consultation documents; and, of course, how the standards themselves are presented.

It is important to us that the standards reinforce the importance of using assumptions which are realistic and reflect the circumstances of the scheme, and the trustees' attitude to risk within the constraints of the legislation. Information should aid the decision making process and while recognising that there are limitations (particularly in terms of risk measurement) these should all be made clear to the recipient of the information.

In your section on neutrality of measurement a distinction is drawn between variability and uncertainty and we are not sure that this is completely valid. Is it not simply that based on our observations we feel more confident about predicting future variability in

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some areas than in others (such as mortality for example). Nor are we convinced that the link with the concept of randomness and probability is quite as sound as presented. We also note that BAS is not inclined to set a standard for decision making, and this looks fine for the most part. However, under the scheme funding legislation actuaries sometimes are placed into the role of decision maker (if scheme rules give the actuary the power to set contributions).

Specific Questions

Question: should the BAS priority be to focus on standards that relate to actuarial information, over other issues discussed ?

Response: This seems sensible to us. It's worth noting, however, that our legislation refers to trustees obtaining advice from the actuary before making decisions as to the methods and assumptions to be used in calculating technical provisions. That said this reference to advice is probably not all it seems. The auditor is categorised as an advisor, yet for the best part provides information. Most of what the actuary does, in the context of pensions, will in fact be to present information to trustees to enable them to make the judgemental decisions. The actuary is unlikely to advise on prudence in the normally accepted sense of saying "this is what I think you should do". We think SAPT compliant information will generally be enough for trustees under Part 3 in view of the principle of decision usefulness.

Given this, there is no great rush from our point of view to devise the standard for advice, but one in due course would be helpful.

Question: should the needs of those who rely on actuarial information be the primary foundation on which actuarial standards are developed?

Response: We believe firmly that this should be the case. It is absolutely critical that the end users' needs are reflected in the standards and that any information supplied to them must be reliable, useful and clear. It must help them in their decision making process, and be presented in such a way that aids not hinders decision making. But needs should be interpreted in line with legislative or regulatory requirements. Trustees, for example, may not be able fully to articulate their needs in advance.

We fully support the concept of decision usefulness but as ever the devil will be in the detail. What is regarded as useful to one may not be to another. Often the distinction is how well and clearly technical results are explained and presented. A standard here will have a key role to play.

Question: should prudence be regarded as decision makers' attitude to risk and is not an element of measurement?

Response: Broadly we agree that it should. Prudence in our context is about judgment, not about measurement, but this has to be set against the legislative framework in which both trustees and actuaries operate. Where trustees have to make decisions based on information provided by actuaries, the provider needs to have an eye to that decision to ensure that the information provided is fit and adequate for purpose.

Question: will the concept of SAPT provide a useful means of distinguishing high quality actuarial information?

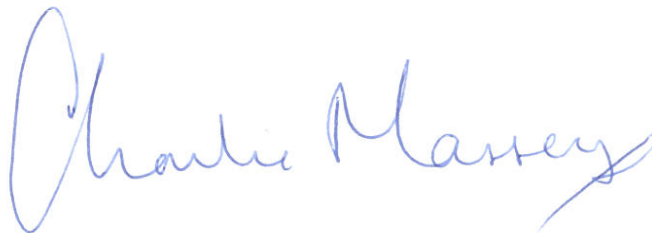
Response: Yes, we believe that the concept of SAPT will be useful. It will be very helpful that end users can be assured that information they receive has been prepared in line with a standard. This should mean that information should be reliable, material, relevant, useful, objective and clear. In addition it seems to us to have all the right principles incorporated within it to be appropriate for trustees of DB schemes.

Question: Should BAS develop a generic communication standard (as recommended by Morris) 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?

Response: We agree that it would be helpful to have standard reports. We recognise that these may take a while to produce so a generic standard in the meantime would be beneficial. In relation to the six Morris items, the first two seem to have universal applicability but we are a little unsure about the others as they will depend on the precise issue being reported.

We hope these comments are helpful.

Yours faithfully



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