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L Toward a conceptual framework-
Aon Consulting Response

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Dear Nigel

Towards a Conceptual Framework - Consultation Paper

On behalf of the actuarial practice at Aon Consulting, I am writing in response to the discussion document issued by the BAS in November 2007. We welcome the opportunity to respond to the consultation and are pleased that you are continuing to consult regularly on this issue.

Overall we welcome the progress that has been made towards a practical framework for setting actuarial standards by the Board. We have commented on the proposed direction of the framework, but consider that it would be necessary for the Board to test the framework against a number of actual standards in the different actuarial fields before finalising the framework. There is much detail contained in the consultation document and translating that into a practical standard will require detailed consideration.

Turning to your specific questions:

1 Following the terminology of Section 3, the BAS has determined that Category A should fall within the scope of BAS standards and that Category E should fall outside. In that context:

a) Do respondents consider the five categories drawn up by the BAS (defined in paragraph 3.9) provide a meaningful way to determine which areas of work should be within scope and which should not?

We agree that these categories do provide a sensible allocation of different work types. However, as noted below, in the pensions field there may be cases where similar work can fall into different categories and this may require some further thoughts on the issue of proportionality and materiality.

b) Which, if any, of Categories B, C and D do respondents consider should be within the scope of the framework?

We would suggest that initially category B work should be included in the framework. Further extension of the scope can be considered once the framework is seen to be working well for categories A and B.

c) The BAS would also welcome feedback, and real examples, indicating whether the non-regulatory element of Category B exists in practice or illustrating any concerns that the definitions are wrongly capturing or omitting areas of work.

There are a number of areas in the pensions field to consider, arising from the varied nature of formal actuarial requests. For example, advice on commutation factors could be required from an actuary under the Trust Deed and Rules (so fall to be under category A); alternatively the Trustees may not be required to seek actuarial advice but may decide in practice to request advice in which case it is likely to fall under category C. Would Trustees expect a different level of advice to be provided? (Of course in practice actuaries may choose to adopt the same approach in both cases). Similarly, pension accounting standards differ in

whether actuarial advice is required or suggested and the interaction between accounting and actuarial standards should be made clear. We would suggest that the framework is tested against the process for providing advice to Trustees in the scheme specific funding environment, rather than a specific single piece of advice. It would be useful to clarify the various elements (eg advice on assumptions, recovery periods, provision of advice in connection with summary funding statements) and how they fall between the categories

2 The BAS has set out proposals regarding the objectives and characteristics of standards in Section 4. Do respondents agree with them, specifically the proposals:

a) to introduce some generic standards, to provide coherence and consistency across areas of work, in addition to topic-specific standards as is the case now;

We agree with this as long as the principles are tested to ensure that they have practical applicability.

b) that standards be principle-based, rather than rule-based; respondents are asked to identify any advantages or disadvantages that they consider may flow from this approach; and

We agree with this.

c) that standards address outputs and responsibilities, as now, with output-based standards focusing on the users of actuarial services and their needs as decision makers?

We agree with this, but need to make sure that the required outputs for decision makers are clearly understood and achievable. It is also the case that users of actuarial services are varied with different needs and this will need to be taken into account in any output based standards. In particular, consideration will be needed to the level of materiality required, as different users may require or be willing to commission a level of detail or advice that is not required or afforded by less well resourced users of actuarial services.

3 Do respondents foresee any practical issues or problems that they consider should be addressed in relation to the enforceability of standards, as set out in Section 5, in order to ensure the efficient functioning of the enforceability proposals?

In general the approach of comply or comply and explain should work in practice, as long as it is clear to which areas of work the standards apply. The area of actuaries working as part of a multi-disciplinary team is less clear and perhaps a solution would be to address the standards to those specific elements of a particular report have been attributed to a named actuary.

4 Do respondents agree with the proposals in section 8 for:

a) the general principles set out in paragraph 8.2;

The distinction between valuations and planning is helpful. On the issue of assets, there are instances (eg the valuation of insured pension liabilities in a scheme funding valuation) where consistent valuation between the assets and liabilities (eg on a technical provisions or accounting basis) would be more relevant than the market value or "value in exchange".

b) the quantification principles set out in paragraphs 8.3-8.30;

These seem to be appropriate.

c) the generic reporting standard set out in paragraphs 8.31-8.55?

The general approach is supportive of best advice, but we would question if this should apply in all cases of advice, as the advice may be disproportionately involved for a relatively small piece of advice.

It would be helpful to have guidance on how this standard would apply when advice is given over a series of reports or letters, rather than a final report (eg for scheme funding). We do not believe that the undiscounted cash flow information in paragraph 8.37 is useful for the majority of cases or would aid understanding. Asset

cash flows are out of scope, and it is not clear why liability cash flows are considered helpful if cash flows from asset (the market value of which is by definition a discount amount) are not considered useful.

d) the proposal set out in paragraph 8.48(d) for actuarial quantification of liabilities to include an assessment of the probability that the assets held by the entity at the valuation date will be sufficient to meet those liabilities; respondents are asked to focus, in particular, on:

- **any practical problems in assessing the probabilities which the proposal calls for; and**
- **any limitations on the usefulness of the information if one or more of the probabilities has to be omitted from the assessment.**

We disagree that this is useful or aids understanding in the vast majority of cases or be seen as value for money advice. The answer will depend on a large number of additional assumptions over very long time horizons, which will require substantially greater advice, with vastly different answers arising from different actuaries.

A final comment is that much consideration will be needed into the practical application of new standards, the conversion from existing guidance notes and communication of material in a generic standard, specific topics and other material.

As an example, the recent changes to GN11 and GN9 do not seem to have been publicised by the BAS. The GN11 change was publicised by the Pensions Board of the Profession. I am not aware of any publicity of the GN9 change. It is not appropriate that changes are made to mandatory requirements, where failure to comply could result in disciplinary action being taken. Whilst the changes thus far have been relatively minor, we would expect changes to the actuarial standards framework to be widely publicised, eg through the existing FRC email subscription route, which seems to be used for other FRC publications covering actuarial and non-actuarial issues.

We would be pleased to discuss any of these matters in more detail.

Yours sincerely



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