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Our Ref: CDS/CJG

12<sup>th</sup> December 2007

Dear Dianne

Thank you for your letter of 10 December and for the attached Consultation document. My comments are:-

There is recognition that the accountancy profession's approach to standard setting provides a model with some similarities. Sadly, the decision seems to have been taken that the Board for Actuarial Standards should turn it back upon this model and generate one of its own from scratch.

The logic of this decision seems to be based the propositions that:

- a) accountants primarily prepare "financial reports" (annual profit and loss and balance sheet) and that other accountancy work is unrelated.
- b) there is no equivalent to the annual financial accounts in the actuarial world but many other actuarial tasks need standardisation.

I have grave doubts about the validity of this distinction. As far as my profession is concerned, although less than half our work relates to the production of annual accounts to which standard setting applies directly, the effect of those standards permeates through almost everything else we do. Tax work, for example, depends heavily upon the annual accounts, and business advice concerned with the maximisation of profits is necessarily influenced by the way that standards dictate how those profits are measured.

With regard to the actuarial profession, I have no doubt that a relatively small proportion of work is directly related to the current valuation of liabilities for annual regulatory returns for insurance companies and pension schemes. However, I would expect standards applicable to those matters to filter through to most other sorts of actuarial work. Almost all of those are concerned with the future estimation of assets, liabilities and profits. For example, someone evaluating a new product for an insurance company would have to have regard for how liabilities and profits would be measured for reporting purposes. Certainly, the actuarial profession has a greater role in future planning, which would justify some specific standards, but I doubt that it justifies a totally different approach.

I would not suggest that the accountancy profession has done everything right in its approach to standard-setting, nor that the requirements of the two professions are the same. However, I think it is fair to say that as regards the setting of standards, the accountants have been treading this path for upwards of twenty years, whereas the actuaries have barely started. The Consultation Paper suggests a determination to re-invent the wheel.

Purely from a practical point of view, I would have thought it would be sensible to co-opt on to your Board somebody with experience of standard setting in another profession. Accountancy is the obvious example but there may be others. He or she should at least be able to point out the slipperier sections of the path ahead.

Finally, you still seem to be a very long way from addressing the main cultural problem which the actuarial profession suffers from, as evidenced by Equitable Life. That is the profession-wide positive rejection of peer review. I do not think you will make any impression upon this until the Standards Board starts to establish its own credibility by setting sensible practical standards, by means of which the attitude that "the appointed actuary is always right" can be attacked. There is a long way to go and you seem to me to be taking a very round about route. I wish you the best of luck.

Best wishes for Christmas and the New Year.

Kind regards

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized initial 'A' followed by a smaller, less distinct signature.