

Paul Greenwood BSc FIA

30th January 2008

The Director
The Board for Actuarial Standards
Aldwych House
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London
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Dear Sir

Subject Consultation – “Towards a Conceptual Framework”

I am one of the three Actuaries at Foresight Trustees Ltd, an independent trustee company and I am writing to set out our response to the consultation paper. Below I set out our answers to some of the specific questions asked in the consultation paper.

However, I have a general point regarding the alleged distinction between actuarial output as a “valuation” figure and actuarial output as information supplied so that a planning decision can be made. I actually see this distinction as a red herring for the “standards process”. Ultimately, statutory valuation figures are used by regulators and others for their own planning and decision processes. Irrespective of whoever is making a planning decision and the position of the decision away from the supply of actuarial information, the user is entitled to high quality actuarial information and the distinction between “valuation” or “planning information” should not have any impact on standards.

Yours Sincerely

Paul M Greenwood BSc FIA
Director

Question 1: Categories within the scope of the framework

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?

Yes, as long as the work of Actuaries i.e. figures for accounting for pension cost disclosures are judged to fall within category A

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

In order to protect the reputation of the profession there is a case for “comply or explain” standards being issued for specific items of work falling under Categories B to D, if BAS thought the reputation of the profession were at risk. It would be then up to the user to decide whether he ultimately chooses the protection offered by a standard, even though that standard is not followed. At least the user would have the option.

Question 2: Proposals regarding the objectives and characteristics of standards in Section 4

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;

Yes

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

In general yes, but experience may reveal some risks cannot be controlled by principle based standards.

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?

Yes

Question 3: Practical issues or problems in relation to the enforceability of standards

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?

I think a case can be made for retaining the possibility of issuing “comply or explain” standards for work in category A. When new or emerging techniques are involved, an initial “comply or explain” standard could be a good start of the process of evolution towards a mandatory standard in the long term.

Question 4: Proposals set out in Section 8

Do respondents agree with the proposals in section 8 for:

a) the general principles set out in paragraph 8.2;

Yes, apart from 8.2 3). Much of the profession's work is now about controlling risk. It just so happens that, where the FSA is the regulator, it has passed this responsibility to the directors and/or managers of the entity. The conferral of that responsibility on others is no justification for any Actuary involved in the management of risk being exempted from compliance with BAS technical standards. Mismanagement of risk, involving an Actuary not obliged to comply with the BAS Standards, could be to the detriment of the reputation of the profession.

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

Yes

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

Care needs to be taken about defining the "document", to which the generic reporting standard is applied. It should not be applied to each individual document containing actuarial advice, but to all of the documents supplied before the user arrives at the time to make a decision. For example, the process for Scheme Specific Funding requires a lot of information, and experience has shown that trustees understand the position better if the picture is built up steadily. It would be unfortunate if a requirement intended to aid good communication were, in the event, to destroy the quality of that communication.

In discussion about this consultation document, I have heard it argued by some that the generic standard should not apply to documents that are confidential. I would argue against a reduced level of scrutiny for confidential documents. Instead, I could argue a strong case for higher standards to be applied to confidential (and potentially more important) documents.

No reason is supplied for considering the compulsory disclosure of the sum of undiscounted cash flows. I can see that those users interested in matching would like an estimate of each year's undiscounted expected cash flow, but the sum of those undiscounted cash flows (without annual amounts) is not useful. The benefit needs to justify the cost if either is to be compulsory.

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.**

Some pension consultancies have recently commenced to supply an estimate of the probability of the scheme being in deficit at the next valuation. Clients appear to welcome this. However, there are questions about:

- whether trustees understand the assumptions behind the particular model used, and
- how complicated the description and caveats should be

Much work will have to be done on clarity of explanation, if this is to be a compulsory feature.