

## **Towards a conceptual framework: consultation paper**

Here are the main points that I would like to make (which are my own views and not necessarily those of BBS) re. the paper:

### **Category Definitions**

At the meeting of the Bristol Actuarial Society I raised a query about Codes of Practice, and in particular those issued by the Pensions Regulator, which start by saying:

“Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account.”

My interpretation of the categorisation is that if a Code of Practice requires a group of Trustees to commission a report from their actuary (but this report is not mandated in the underlying legislation) it would be considered Category C and not within Scope. My view is that such a report should be considered Category A as, in effect, once the Trustees have decided to commission the report they have acted as though the Code of Practice were in effect the law.

I have looked through the Code of Practice Number 3 on Scheme Funding and this describes many situations where the Trustees are required to request a report but in all of the instances that I can find, it is also reflected in the underlying legislation. This issue may not, therefore, be a live one but could become so (either if I've not looked through thoroughly, or other Codes introduce “requirements” on Trustees that fall outside the underlying regulations).

My view is that work undertaken by an actuary under such codes should be A or B, as relevant.

### **Generic Reporting Standards**

My view is that the nature of each actuarial report is so different that introducing generic standards is impractical. The particular case raised yesterday related to the process for undertaking a Statutory valuation for the purposes of the SFO (which would also usually incorporate a Section 179 (PPF) valuation and a buy-out valuation). The process that we would typically go through would be to:

1. Issue a discussion document on what might be considered a suitable range of assumptions (but taking little account of scheme and employer covenant issues);
2. Meet with the Trustees to discuss the risks to their scheme, the strength of their employer's covenant (and if necessary, arrange for a report on the strength of the employer's covenant to be prepared by a suitable firm of accountants);
3. Undertake some provisional calculations using the Trustees' preferred set of assumptions and issue a brief report setting out key results;

4. Help the Trustees draft a proposal on assumptions for the Trustees to issue to the employer, giving an indication of the funding position and contribution requirement;
5. Assist (as required the Trustees) in the negotiation;
6. Prepare updated figures, based on the negotiated assumptions;
7. Repeat steps 4, 5, 6 until assumptions and recovery period agreed;
8. Undertake formal calculations and issue report.

The law requires the trustees to take advice from their actuary and negotiate with the employer and, therefore, I would categorise the work as follows:

1. A
2. B? (a non-actuarial colleague or accountant could possibly do this)
3. C/D (this is purely computational and is a step not required by law)
4. C/D (not required by law)
5. C/D (not required by law)
6. C/D (not required by law)
7. Not applicable
8. A

One could easily argue that some of 3,4,5,6 could be reclassified A or B, but if we look at 1 and 8 which clearly are Category A.

In relation to 1: We can easily report on “nature and objective”, but in relation to “data”, “assumptions” “cash flows” and “risks” none are relevant.

In relation to 8: We can easily report on “nature and objective”, “data”, probably in relation to “cash flows”, but I do not feel that commentary on “assumptions” and “risks” are necessarily relevant given the primarily computational nature of the report. As discussed last night, to a certain extent the commentary on the “assumptions” is part of the confidential discussions and in any event it is the trustees/employer who set the assumptions and not the actuary. Dealing with the specific requirements for “assumptions”, “cash flows” and “risks” for this report:

8.36a – disclosing material assumptions is straightforward.

8.36b – the justification would simply be “as instructed by trustees”. I do not feel that it would always be appropriate to issue any further explanation on the choice of assumptions as this should be dealt with earlier in the process and may detract from the primarily functional nature of this report and could, to some extent, be confidential (i.e. it could weaken the Trustees hand in future negotiations).

8.36c – not applicable.

8.37 – undiscounted figures can easily be reported (but I’m not convinced that this is relevant in this statutory report).

8.38 and 8.39 – an aside. I note that “liabilities” is used in the examples in the accountancy style (i.e. undiscounted) rather than the actuarial style (i.e. discounted) but it is not a term defined in the report. This may need to be tightened up.

8.42a – Should be ok.

8.42b – as per 8.36b, I don’t think this would always be appropriate at this stage.

8.42c – should be ok.

8.42d – probably not relevant?

8.42e – possible, but I believe stepping far beyond the purpose of the report, and, therefore, potentially wasteful in terms of client costs.

8.48a – no problem

8.48b – no problem

8.48c – possible, but again overstepping the requirement of this report

8.48d – possible, but again overstepping the requirement of this report and in many instances costs would be far too significant. The Board should recognise that this requires very sophisticated mortality, and economic modelling (with catastrophe modelling) which is beyond the expertise of most actuaries (who would be reliant on models produced by expert teams within their business). I would estimate that this work would double the costs of most reports for small to medium sized schemes.

What I might expect to see is an obligation to comment on the suitability of assumptions that I am instructed to use, but this doesn't appear in the mandatory standard.

Whilst most of the detail above is irrelevant, I think it does illustrate the point that every report and process is different and made up of steps that are hard to categorise. As such, the Generic Reporting Standard doesn't work, in my view, and the reporting requirements should be set out explicitly in each standard. In this instance there will probably be a "SFO Standard" and this could cover the reporting requirements throughout the process and look at the process as a whole, rather than impose requirements on each individual report.

Perhaps one solution may be for the Generic Reporting Standard to have a list of items, with suitable explanation as to how they should be applied, and that each topic-specific standard should refer to which items in the Reporting Standard are required?

I hope this makes sense

Kind Regards

Paul

---

**Paul Bowden FIA**  
**BBS Consultants & Actuaries LLP**

Pannell House, 6/7 Litfield Place, Clifton, Bristol, BS8 3LX

Direct Tel: 0117 9064670

Main Tel: 0117 9064660

Fax: 0117 9064689

BowdenP@bbs-actuaries.co.uk

[www.bbs-actuaries.co.uk](http://www.bbs-actuaries.co.uk)