

From: [Paul Thornton](#)
To: [basnovember07:](#)
Subject: Comments on Consultation Paper
Date: 01 February 2008 10:39:18

I commented on the earlier consultation paper and would also like to comment on the November paper. I hope you will excuse this being a day over your deadline, and being submitted by email.

First some general comments.

Overall, I think the paper provides a good analysis of the context for actuarial standards and a suitable conceptual framework. It is a considerable improvement on the earlier paper.

The exposition in Sections 6 and 7 of the differences between insurance and pensions work and the way in which risk and uncertainty is dealt with is refreshingly balanced.

The "valuation" terminology in use in many pension scheme trust deeds dates back to an earlier era of deterministic calculations when the actuary decided the assumptions, and updated terminology is now needed for the unambiguous drafting of actuarial standards.

My comments on the issues identified are as follows:

Issue 1

I think the proposed categorisation makes sense, and also the proposal that only categories A and B are covered initially. This categorisation is a good starting point but the issue may need to be revisited in the light of experience. For example the UK approach needs to be consistent as far as possible with the way in which actuarial standards develop internationally, and cooperation with the International Actuarial Association should be continued.

Issue 2

I agree with the proposed objectives and characteristics of standards in Section 4 and support the principles-based philosophy. Consideration should be given to an Interpretations Committee to facilitate the process of adjusting the standards in the light of experience.

Issue 3

I support the approach of comply-and-explain for Category B standards.

Issue 4

In general I support the proposals in Section 8.

Item (d) will however require additional work in many instances, or at least revised presentation of results, and sufficient time will need to be allowed for

debate and discussion of best practice and subsequent implementation. At present the approach of different actuarial consulting firms to presentation of probabilities is probably a source of competitive advantage so there may be commercial interests at stake.

I am not convinced of the value of disclosing the sum of projected future liability cash flows without disclosing alongside the corresponding sum of expected future investment receipts. An undiscounted sum of future liabilities is a somewhat meaningless economic concept, whereas a comparative figure might conceivably be of some use. Furthermore the discounting process itself reduces the relative significance of the furthest projected and hence most uncertain cash flows.

The use of subject-specific committees as suggested in Sections 8.27 and 8.28 needs great care. A consensus arrived at by a large number of actuaries thinking independently will have greater intellectual validity than the views of a small committee, however carefully chosen.

In Section 8.29, the temptation to gold-plate European legislation must be resisted. The wording of European directives may well reflect a conscious political compromise using words capable of flexible interpretation.

I hope these comments are helpful and would be pleased to discuss them further as desired.

Paul Thornton