

## Comments on the BAS consultation paper “Towards a Conceptual Framework”

The following represents my personal views. They cannot be taken to represent the views of my firm, Barnett Waddingham LLP.

I have structured my comments in the format of answers to the questions asked in Section 9 of the BAS consultation paper.

### Question 1 (a)

I consider that the proposed categories are an appropriate way to determine the areas of actuarial work that should be within the scope of BAS standards.

### Question 1(b)

In my view, BAS standards should cover both *valuation* and *planning* work in relation to assets and liabilities covered by Categories A and B. However, Categories A and B will usually relate to *valuation* work while Category C will normally relate to *planning* work. If BAS agree with this view, it follows that Category C should also be within the scope of BAS standards.

If Category C is left out of scope, there is a danger that any standards set are only relevant to *valuation* work. In this case, BAS could not rely on the ability of the entity commissioning work under Category C to require compliance with BAS standards as they may not be relevant.

### Question 4(a)

Whilst I agree that the proposed approach for valuing *existing assets* and at *market value* is reasonable for *valuation* work, I consider that this may not always be appropriate for *planning* work. For some *planning* purposes, expected future cashflows arising from the assets may be more relevant but the value of these cashflows may not always equate to the market value.

For example, in an asset allocation exercise, it is the expected future value achieved when the assets are sold that is relevant. However, the present value of this may be more than the current market value if credit is taken for the future equity risk premium but is then not reflected in the discount rate.

I also consider that simply allowing contingent assets to be valued in the same way as *existing assets* (i.e. at *market value*) without an impairment test is dangerous. The market value of many types of contingent asset will depend on the financial position of the party providing this asset (e.g. property) which means that the *market value* of this asset could change precisely at the point that it had to be relied on to meet benefits. Using the *market value* for contingent assets in actuarial calculations without allowing for the potential for this value to be impaired in the event of financial trouble at the party providing this asset could lead to the results of the actuarial calculations being misleading.

In my view, the value placed on a contingent asset should not be more than that expected in the event that the asset had to be relied on. For certain contingent assets whose value is not dependant on the financial viability of the party providing it, this approach could still lead to a *market value* being used. For other assets, the value applied should reflect the expected *market value* if the party providing this asset was in financial trouble.

#### **Question 4(c)**

I consider that provision of undiscounted cashflows could be useful for *planning* work. However, for *valuation* work, where the primary objective is to provide a set measure, I do not accept that the provision of undiscounted cashflows provides real value, particularly as this may entail additional costs.

#### **Question 4(d)**

It is not clear whether the assessment of the probability that assets will be sufficient to meet liabilities should be based on a prudent assessment of liabilities or a realistic one.

Such an assessment may require additional work to be carried out, particularly for *valuation* work carried out using deterministic assumptions. For the smaller insurers, this requirement could result in a disproportionate increase in the costs of an actuarial report.

There may also be situations in which information is not available to the actuary regarding the assets. An example is where the role of the actuary is restricted to the liabilities as in reserving for non-life business in the UK.

The probability that assets will be sufficient to meet liabilities depends on a range of risks but actuaries may not be best placed to assess risks other than investment and insurance risks. An assessment of this probability, based only on investment and insurance risks could be misleading.

Therefore, I consider that the requirement for all actuarial reports to include such assessments is unnecessarily onerous.

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