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The Director
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Dear Sir

TOWARDS A CONCEPTUAL FRAMEWORK: CONSULTATION PAPER.

Standard Life is grateful to be given the opportunity to comment on the above consultation paper.

Our comments are set out below according to the following structure:

1. Our answers to the BAS questions posed in Section 9 of the consultation paper.
2. Our general comments on Section 8 of the consultation paper.
3. Our specific, more detailed, comments on the consultation paper.

A key theme brought out in these comments is that it is imperative that we achieve an appropriate balance between “rules” and “principles”, especially bearing in mind the move from rule-based regulation of the industry to principle-based regulation.

Yours faithfully,

Bruce T Porteous
Head of UK FS Risk Capital Development.

1. BAS Questions Posed in Section 9 of the Consultation Paper.

9.1

1 (a). Our only reservation is over the need for both categories C and D. The definition of C, particularly, is vague. One new category covering all such work, whether within scope, or not, might be preferable.

1 (b). We are broadly comfortable with the current proposals, except as set out under 3.9 and 5.14 in the “*Specific comments*” section below.

1 (c). We agree that the non regulatory element of Category B exists in practice and support the “Comply and Explain” approach. As the profession continues to broaden and actuaries increasingly work in “non traditional” areas, the situation envisaged in Category B is likely to become more common. One specific example is of actuaries working in banking and being responsible for the annual Internal Capital Adequacy Assessment Process (“ICAAP”) work. This is an important piece of regulatory work that need not be completed by an actuary. However, if an actuary does complete the work, it is appropriate for the profession to ensure that certain standards are met, without putting undue additional burdens on actuaries, versus non-actuaries.

2 (a). We are in agreement with this approach.

2 (b). We agree with a “principle” based approach. This gives all interested parties increased flexibility and is consistent with the way that the regulatory environment is moving e.g. Solvency 2.

2 (c). We are in agreement with this approach.

3. It would be useful if several examples could be set out illustrating the process that would be followed in the event of non-compliance with the standards. These would help to flesh out practical issues and problems. See also our comment under 5.14 in the “*Specific comments*” section below.

4 (a). We are in broad agreement.

4 (b). As set out in our “*Specific comments*” below, we have a number of issues and are not generally supportive.

4 (c). As set out in our “*General comments*” and “*Specific comments*” sections below, we have reservations and comments.

4 (d). See the comment under 8.48 (d) in our *Specific comments*” section below.

9.2

We are supportive of a “principle” based Conceptual Framework but note that, as set out in certain areas of the paper, the Framework does feel more “rule” based. See our *Specific comments*” section below.

9.3

We found Sections 6 and 7 to be useful background material worthy of inclusion in the paper. The distinction drawn out between “valuation” and “planning” in Section 6 was especially useful.

2. General Comments on Section 8.

We agree that general standards for reports should be set, but feel that these should be at a broader, and less detailed, level than is proposed in the consultation paper. This will allow the standards to apply with more flexibility across the range of tasks being considered and will also result in a more appropriate blend between rules and principles.

As the range of tasks being considered are, most usually, dealt with by a series of interdependent reports prepared over a work programme cycle, the standards should acknowledge this reality and be tailored to accommodate this. This will help to minimise duplication of effort in preparing reports and will also help to keep reports concise and relevant.

Similarly, we feel that the presentation style and format of reports should not be prescribed, but should be left to the discretion of firms, provided that the report satisfies the relevant content standards. Most firms will have developed their own in house styles that they will wish to continue with.

3. Specific Comments.

3.9 – under C and D, the wording “relating to classes of assets or liabilities” feels unnecessarily restrictive. We would suggest using a broader definition that also encompasses work that may not clearly fall within the asset and liability category.

4.17 (d) – in respect of the last sentence, we feel that the creation of ongoing responsibilities to be discharged by actuaries is, in fact, not that unusual. Common examples are life insurance policies, schemes of demutualisation and Part VII transfers.

5.14 – under the 3rd bullet, the wording “save for any specific areas which the BAS decides to include in this way.” feels too vague. It would help if the BAS could provide more context and details here.

6.25 – under the 2nd bullet point, it should be acknowledged and stated that asset mix may also impact capital (economic or regulatory) requirements. For example, more risky, higher earning, assets may often result in higher capital requirements.

6.30 – it is worth noting that Solvency 2, or other future EU Directives relating to pensions, are likely to require a solvency requirement for pension funds.

7.18 – Another possible conclusion, following on from the last sentence, is that the ESG is “wrong”.

8.12 – the “best estimate” label is qualitative, rather than quantitative.

8.17 – we feel that the impact of the loss of new business falls more widely e.g. it will affect projected ICAs, for example.

8.22 – risk mitigation can often take other, more direct, forms besides management action e.g. the explicit use of derivatives to hedge market risk etc.

8.24 (a), (b), (c), (e), (f). 8.26, 8.27 – these standards feel more “rule” based than “principle” based and we therefore do not support these. For example, under (c), it does not feel appropriate for a “principle” based standard to set out the detail of how firms should comply with regulations, which are themselves “principle” based.

8.37 to 8.41 – we are not convinced that showing the total undiscounted cash flow adds enough value to require its disclosure in every situation and do not agree with this proposal.

8.48 (c) – this standard sets out that uncertainty in results should be quantified using, essentially, statistical approaches. Based on our own experiences, sensitivity testing using deterministic scenarios can also be very effective in practice. We feel, therefore, that a more flexible approach which allows the most appropriate method to be used for the task under consideration is preferred.

8.48 (d) – we are concerned that, whenever a firm estimates the value of liabilities, an additional calculation is mandated. The firm may not wish to perform this calculation, in all cases, if it is of the view that the calculation is not useful. The calculation is complex and will be expensive to carry out, especially if an accurate value is required to a high degree of confidence. Also, as a liability estimate might often be based on, or close to, an “expected value” under the statistical distribution being considered, the required probability should always be relatively “large”. This information may, therefore, be of limited usefulness. It may be more useful if firms were to calculate, on a non mandatory basis, the amount of capital that is required to ensure that the liability is met at a high confidence level i.e. an economic capital type calculation, as envisaged under the Solvency 2 internal model framework.