



BOARD FOR ACTUARIAL STANDARDS

**ACTUARIAL INFORMATION USED FOR ACCOUNTS AND OTHER
FINANCIAL DOCUMENTS: ANALYSIS OF RESPONSES TO
CONSULTATION PAPER**

MARCH 2010

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1 INTRODUCTION

CONSULTATION AND RESPONSES

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹. In October 2009, it published a consultation paper on a Specific Technical Actuarial Standard (Specific TAS)² on actuarial information used for accounts and other financial documents.
- 1.2 The consultation period ended on 8 January 2010 and a total of 31 public responses³ were received (see Appendix B). The proposals were also considered by the FRC's Actuarial Stakeholder Interests Working Group. We thank all those who responded to the consultation.
- 1.3 In section 2 we summarise the comments that we received in answer to the specific questions posed in the consultation paper and describe our response to them.

CONCLUSIONS

- 1.4 We are proposing that:
- we will not issue a separate TAS for actuarial information used in accounts and other financial documents; and
 - some of the work that we proposed should be covered by an accounts TAS will be covered by the Specific TASs on Insurance and Pensions.

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in governance and corporate reporting.

² Generic TASs apply to all work specified in the Schedule to the BAS's *Scope & Authority of Technical Standards*. Specific TASs are limited to a specific, defined context.

³ The responses are available at <http://www.frc.org.uk/bas/publications/pub2200.html>.

2 RESPONSES TO CONSULTATION QUESTIONS

INTRODUCTION

- 2.1 In this section we summarise the comments that we received in answer to the specific questions that were posed in the consultation paper, and our reactions to them. We have included these questions in boxes with the same numbering as in the consultation paper.

SEPARATE TAS

- | | |
|---|--|
| 1 | Should there be a separate TAS for actuarial information used for accounts and other financial documents? Respondents are asked to consider the benefits to the users of actuarial information (including the preparers of accounts and auditors) and to practitioners complying with BAS standards. (paragraphs 1.17 to 1.20) |
|---|--|
- 2.2 Most respondents thought that there should not be a separate TAS for actuarial information used for accounts and other financial documents. Many of them were concerned that the rationale for a separate TAS was not strong enough, and that there was insufficient content to merit a separate standard. We received similar responses to related questions posed in our Pensions and Insurance consultations.
- 2.3 Respondents also thought that most of the proposed principles were the same as those which would apply to other areas of actuarial work and that a separate accounts TAS would lead to unnecessary duplication and overlap with the Pensions and Insurance TASs.
- 2.4 We agree, and have decided not to issue a separate Specific TAS for actuarial information used for accounts and other financial documents. Some work concerning information for accounts will be within the scope of the Specific TASs on Insurance and Pensions.
- 2.5 Although we have decided not to proceed with the accounts TAS, the responses to the remaining questions in the consultation paper will help us in drafting other TASs.

PURPOSE

- | | |
|---|--|
| 2 | Will the proposed purpose of the TAS on actuarial information used for accounts and other financial documents that is set out in paragraph 2.7 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility? |
|---|--|
- 2.6 Respondents provided useful comments on the purpose proposed in the consultation paper. There were concerns about the second part of the purpose which related to investors, auditors and other readers of accounts and other financial documents being able to rely on and understand actuarial calculations used in those documents. Respondents pointed out that the

provider of actuarial information had little control over the information ultimately presented in those documents.

SCOPE

3 Do respondents agree that the proposed scope of the accounts TAS should be the provision of actuarial information for the preparers or auditors of any accounts or related financial documents which are required by statute or other regulations (including stock exchange listing rules) but excluding those produced solely for the use of regulators? (paragraph 4.6) If respondents believe that the scope should be different they should set out their preferred approach with reasons.

2.7 Respondents generally supported the proposed scope of the TAS.

2.8 Some practitioners suggested that we should clarify the definition of actuarial information which is used within our standards and our *Scope & Authority*. We do not intend to define actuarial information. We consider that actuaries and users of actuarial information can use their judgement to identify what is actuarial information.

2.9 We are proposing to include some work concerning information for accounts within the scope of the Pensions TAS, as set out in the exposure draft issued in February 2010⁴. In brief, the work that we are proposing should be within scope is that concerning pension schemes or directors' pension arrangements provided to support the preparation or audit of accounts.

2.10 We will shortly be issuing an exposure draft of the Insurance TAS, and are considering the work concerning information for accounts that will be within its proposed scope.

4 Do respondents agree that provision of actuarial information for preliminary statements of annual results should be in the scope of the accounts TAS? (paragraph 4.27)

2.11 Most respondents agreed that the provision of actuarial information for preliminary statements of annual results should be within the scope of a proposed accounts TAS.

5 Do respondents agree that provision of actuarial information for material which is made publicly available, but which is not required by any formal rules or regulations, should be in the scope of the accounts TAS? (paragraph 4.30)

2.12 There were mixed responses on the question of inclusion of actuarial information for material which is made publicly available but which is not required by rules or regulation. Although some respondents agreed with the proposal others felt it would make the scope too wide. Some of the latter pointed out that a recipient of actuarial information might use it in preparing publicly available information even though this might not have been intended when the actuarial information was requested.

⁴ <http://www.frc.org.uk/bas/publications/pub2233.html>.

6 Do respondents agree that provision of actuarial information for internal budgeting exercises for management should not be in the scope of the accounts TAS? (paragraph 4.35)

2.13 Respondents generally agreed that provision of actuarial information for internal budgeting exercises for management should not be within the scope of the accounts TAS.

7 Is there any other work which respondents believe should be within the scope of the accounts TAS? (section 4)

2.14 No respondents identified any other work that we consider should be within the scope of an accounts standard.

DATA

8 Are there any data issues specific to accounts and other financial documents which respondents believe should be covered by principles in the accounts TAS? (section 5)

2.15 No respondents identified any significant data issues which should be covered in an accounts TAS.

ASSUMPTIONS

9 Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, and in particular on the principles proposed in paragraphs 6.6, 6.9, 6.10, 6.13 and 6.17?

Purpose

2.16 Paragraph 6.6 of the consultation paper proposed a principle that assumptions should take account of the purpose of the calculations for which they will be used. Nearly all respondents supported the proposed principle. We propose a similar principle in the exposure draft of the Pensions TAS, and are likely to do the same in the exposure draft of the Insurance TAS.

Appropriateness of assumptions

2.17 Paragraph 6.9 of the consultation paper proposed a principle that the aggregate report should include an indication of the fitness for purpose of assumptions used in any calculations. There were mixed views on this principle. Those who disagreed with the principle commented that the selection and approval of assumptions was often the responsibility of the directors. They further commented that it is the auditor and not actuaries who should determine fitness for purpose.

2.18 Some respondents noted that there are situations in which different actuaries advise on the assumptions to be used for pensions work and perform the calculations. It was suggested that the person responsible for performing the calculations should make it clear whether they provided advice on the assumptions used.

Evidence base

2.19 Paragraph 6.10 of the consultation paper proposed a principle concerning the information which should be taken into account when selecting assumptions.

Several respondents expressed concerns that this principle might be too onerous if it required all available information to be taken into account. We propose a similar principle (which does not require the use of all available information) in the exposure draft of the Pensions TAS, and are likely to do the same in the exposure draft of the Insurance TAS.

Consistency

2.20 Paragraph 6.13 of the consultation paper proposed a principle concerning the selection of mortality assumptions. Respondents generally agreed with the proposed principle. We propose a similar principle in the exposure draft of the Pensions TAS, and are likely to do the same in the exposure draft of the Insurance TAS.

10	Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS? (section 6)
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2.21 No respondents identified any other significant issues concerning assumptions which should be covered in an accounts TAS.

MODELLING AND CALCULATIONS

11	Do respondents have any comments on the proposed principle regarding materiality levels for accounting purposes in paragraph 7.4?
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2.22 Paragraph 7.4 of the consultation paper proposed principles about materiality levels for accounting purposes. Of the principles that were proposed in the consultation paper, these were the ones most specific to actuarial information for accounts and other financial documents.

2.23 In the exposure draft of the Pensions TAS we propose principles on seeking and using information on materiality levels for accounting purposes. We are likely to do the same in the exposure draft of the Insurance TAS.

12	Are there any specific issues relating to modelling and calculation work for actuarial information provided for accounts and other financial documents which respondents believe should be covered by principles in the accounts TAS? (section 7)
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2.24 No respondents identified any other significant modelling issues which should be covered in an accounts TAS.

REPORTING

13	Do respondents have any comments on the proposed principles on reporting in paragraphs 8.4 and 8.6?
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Range

2.25 Paragraph 8.4 of the consultation paper proposed a principle concerning the inclusion of an indication of where, within a range of possible assumptions, a particular chosen or recommended assumption lies.

2.26 Some respondents identified problems of practicality and subjectivity in determining where an assumption lies in a possible range. We propose not to include similar principles in the Pensions or Insurance TASs.

Comparison with Scheme Funding

- 2.27 Paragraph 8.6 of the consultation paper proposed a principle applicable to defined benefit schemes concerning the comparison of assumptions used for accounting purposes with the assumptions used for scheme funding.
- 2.28 Respondents were generally opposed to this principle. We propose not to include a similar principle in the Pensions TAS.

14	Are there any other principles on reporting which respondents believe should be in the accounts TAS? (section 8)
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- 2.29 No respondents identified any other significant reporting issues which should be covered in an accounts TAS.

15	Do respondents have any views on whether the accounts TAS should require the user to be given an indication of the time constraints for actuarial work in relation to reporting pension costs for company accounts? (paragraph 9.6)
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- 2.30 This question was prompted by a similar provision in GN36 (*Accounting for Retirement Benefits under FRS 17*). Most respondents thought that this was a professional or ethical matter and should not be addressed as part of an accounts TAS. We are not proposing to include a similar requirement in the Pensions TAS.

TRANSITION ISSUES

16	Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9?
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- 2.31 Few respondents commented on the proposed transition from the adopted guidance notes (GNs). Some pension practitioners expressed concern over the loss of the detailed guidance in GN36 (*Accounting for Retirement Benefits under FRS17*).

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