



BOARD FOR ACTUARIAL STANDARDS

**Minutes of the meeting of the Board for Actuarial Standards
held on 11 June 2007 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

Paul Seymour	Chair
Nigel Bankhead	Director
Mike Arnold	
David Blackwood	
Lawrence Churchill	
Harold Clarke	
Christopher Daws	
Steve Haberman	
Dianne Hayter	
Julian Lowe	
Jerome Nollet	
Tom Ross	
Sir Derek Wanless	
Martin Weale	

Observers

Peter Askins	DWP
Sue Lewis	HMT
Sue Rivas	TPR
Paul Sharma	FSA

In Attendance

Anna Colban	Secretary to the Board
Paul Kennedy	Head of Actuarial Oversight, POB
Derek Pike	Project Director, BAS
Louise Pryor	Project Director, BAS

Apologies for absence were received from Jim Kehoe. The Chairman welcomed Sue Lewis, Head of Savings and Investments at the Treasury.

1 MINUTES OF THE LAST MEETING

1.1 The Minutes of the meeting held on 14 May 2007 were agreed.

2 MATTERS ARISING AND ACTION LIST

2.1 It was agreed that the discussion on mortality would be moved up the agenda and take place after the discussion on value.

3 VALUE

3.1 The Board considered and discussed the paper on Value prepared by Mr Bankhead and Mr Pike. The Board noted the view of the Chairman of



the Value Working Group that the paper was a helpful but interim step. Its content did not describe completely the competing philosophies discussed by the Value Working Group, in particular there was a question about whether the concept that value was 'context specific' was a philosophy in its own right and suggested the mathematical/context specific philosophy proposed in the paper was a newly developed idea. He suggested that once the Board were happy with the value output, the paper should be sent back to the Value Working Group for validation.

Different Philosophies

- 3.2 The paper proposed two alternative philosophies on value, as follows;
 - That value represents worth and is synonymous with market value; or
 - That value is the result of a calculation and is context specific;
- 3.3 The Board was asked to decide whether both philosophies should be advanced in the autumn consultation paper.
- 3.4 It was suggested that 'context specific' was a characteristic of both philosophies and that a market consistent approach would not work in all cases.
- 3.5 The Board requested worked examples of these philosophies as an aid to understanding, showing the different consequences of these different possible assumptions or philosophies.
- 3.6 The Board noted that a market consistent approach would mean there would be one value. It was suggested that in the pensions context there are currently multiple calculations of a pension scheme's liabilities.
- 3.7 It was suggested that it was difficult to have a debate about value without at the same time having a debate about risk and that the whole picture needed to be integrated. The Board needed to work to bring value, forecasting and risk together.
- 3.8 It was suggested that stakeholders would always have their own views of what value is and that the clients of actuaries will often want to use a calculation of value that is not market consistent.
- 3.9 Mr Bankhead suggested that output based standards for public reporting should:
 - i) enable consistent comparison; and
 - ii) act as a basis for people to understand the components of the calculation and its input assumptions.
- 3.10 It was suggested that if the BAS was setting technical standards for actuaries it should do the following:
 - Tell people how to do calculations in quite a precise way; and
 - Take a role in saying what it thinks is appropriate.



- 3.11 The Board questioned whether the two philosophies were mutually exclusive and agreed there may be more than just the two philosophies in the paper.
- 3.12 A further approach was suggested. The calculations underlying what the Value Working Group was looking at all use discounted value components and this might be used as a starting point. There were some context specific elements and some market consistent elements to them. It would not always be possible to use market consistent values; context specific values would have to be used in many circumstances, for example because of regulatory requirements. It was noted, however, that this may not satisfy those who wanted a more consistent approach to value. Where there was freedom for the BAS to act, the Board must decide whether it wanted a context specific or a market consistent approach.
- 3.13 The Board agreed that this was a controversial area and that there were numerous alternative views of 'value'. For credibility, the BAS needed to say what it believed in and why it believed in it. The Board decided that numerous philosophies on value should be exposed in the autumn consultation paper but that the two philosophies advanced in the Value paper currently before the Board were not competing and in fact could be complementary.

Component Based Structure

- 3.14 The Board considered and discussed the component based structure of value outlined on page 4 of the paper. The Director explained that the component based structure is the method of calculating value that derives from valuing cash flows. The proposed structure consisted of five components and he suggested that it could be used for either philosophy. There was some doubt about whether risk capital cost should be included, but it had been decided to leave it in for the time being.
- 3.15 It was suggested that the components were the starting point and encapsulated all the approaches to value that an actuary might encounter. The next step would be to look at each of the components and think of the different philosophical approaches to them bearing in mind both the context specific and market consistent philosophies, which were not competing.
- 3.16 There was strong endorsement from the Chairman of the Value Working Group and other Board Members for the component based structure.
- 3.17 A technical standard would tell an actuary how to allow for each component; by using this as a framework for building up the questions that should be asked and by answering them, a standard would be developed. It also brings in risk and forecasting.



- 3.18 It was agreed that Mr Churchill, Mr Bankhead and Mr Daws would take comments from today and capture them on paper with input from Mr Arnold and Mr Weale.
- 3.19 The Board noted that TPR staff had found the discussion on value and risk in the preliminary consultation paper difficult to follow. The Board noted the plea to bear the end user in mind, to take a step back and get non-experts to review the drafting of the autumn consultation paper to make sure it was accessible to a wider audience.
- 3.20 It was emphasised that when preparing examples BAS staff should justify the use of 'value' where it did not represent a market value.
- 3.21 The Board agreed to have a longer meeting in September, from 1.30pm to 6pm, to allow for detailed discussion on the key topics of risk, forecasting and Mr Churchill's further output on value.

Alternative Views on Components

- 3.22 The Board considered and discussed what could be included in each of the five components based on the table on pages 7 and 8 of the Value paper. The Board decided that the various alternative views on each of the components listed in the 'context specific' column in the table should be covered in the autumn consultation paper.

Context Constraints

- 3.23 The Board considered and discussed the context constraints described in chapter 6 of the Value paper. The Board was asked to decide whether the four risks listed in the paper – state stability risk, taxation risk, legal risk and entity risk – should be excluded or included as standard in actuarial reports. The Board agreed that as a general principle, all four should be treated as context specific and that it should be clearly spelt out how each risk had been treated. The Board postponed further discussion on the issue until its consideration of the Risk paper in July.
- 3.24 It was suggested that these risks would generally be excluded unless there was a specific reason to include them.

4 MORTALITY

- 4.1 The Board considered and discussed the email correspondence dated 11 June 2007 from Nick Dumbreck. The Chairman drew attention to the fact that the statement would not include the final paragraph of Mr Dumbreck's email.
- 4.2 There was strong support for a full regulatory impact assessment (RIA) exploring the impact of changing the behaviour of actuaries in relation to mortality. It was accepted that even if the Profession issued guidance that did not amount to a formal standard, any resulting change in actuaries' behaviour could have a huge impact. It was noted that the RIA could be done in parallel with the development of the standard.
- 4.3 It was suggested that due process was crucial but that mortality needed to be tackled quickly. There was strong agreement that it must not be



delayed until 2008. The BAS must move more quickly but it must move on the basis of the evidence. It must also bear in mind that HMT had a number of concerns and that the issue was a price sensitive one.

- 4.4 The Board noted that the CMI intended to issue a paper on the subject, of which staff had a confidential draft. Adair Turner had also done a lot of work in his role with the Pensions Commission and much other evidence already existed. The Board requested a summary and TPR agreed to see if a summary was available.
- 4.5 Both TPR and FSA indicated that they were ready to offer help to the BAS in the form of staff resources.
- 4.6 Dr Pryor explained that the library was a spreadsheet containing different methodologies for calculating mortality improvements, including the cohorts. The methodologies would be able to be applied to any base table.
- 4.7 The Chairman advised the Board that Mr Dumbreck was well aware that the BAS wished to see final wording before the Profession issued and published the guidance.
- 4.8 The Board agreed that the Mortality Review Group agreed at the May meeting (Mr Bankhead, Mr Pike, Dr Haberman, Mr Churchill, Mr Ross and Sir Derek Wanless) would agree a response to the Profession's press release and, if necessary, circulate it to Board members between now and the next Board meeting for comments and approval.

Sue Lewis left the meeting at this point.

5 CONCEPTUAL FRAMEWORK AND AUTUMN CONSULTATION PAPER

- 5.1 The Board considered and discussed the paper prepared by Mr Bankhead and Mr Pike on the autumn consultation paper. The Board was asked to make decisions about the objectives for the paper, the structure of the paper and the style or appearance of the paper.
- 5.2 The Chairman suggested that the audience was wide and ranged from pension trustees with a fairly low level of understanding to highly sophisticated and expert non-executive directors.
- 5.3 There was strong endorsement for appendix 6, the draft standard risk report, which was felt to be very helpful. It was agreed that the Risk Working Group should continue working to further develop this.
- 5.4 In relation to the objectives of the paper, there was strong support for the proposal at 1b that the paper should provide intellectual leadership and expose the merits of the different philosophies.
- 5.5 In relation to the structure of the paper, there was strong support for the suggestion at 2a that the paper should include an executive summary.



- 5.6 In relation to the appearance of the paper, some Board Members expressed a preference for the structure and style of appendix 3 over appendix 4.
- 5.7 The Board noted the need for the paper to be written or edited into plain English that was accessible to a wider audience.
- 5.8 It was suggested that the ultimate objective of the autumn discussion paper must be to have a serious consultation with a broad group of stakeholders about whether the Board had got its thinking right.

6 PROJECT PLAN

- 6.1 The Board considered and discussed the paper prepared by Dr Pryor setting out a project plan for the BAS' work programme. The Board was asked to approve the timetable for Board decisions from June to November 2007, the scope and objectives for the forecasting component, the timetable for the forecasting component and the timetable for the preparation of the consultation.
- 6.2 The Board was extremely concerned at the clear need for significantly greater resources. The Chairman advised the Board that he believed he had agreement from the FRC for an additional full time person.
- 6.3 The Board felt that Board Members would have to continue being heavily involved in the working groups until such time as more staff resources were forthcoming.
- 6.4 The Board endorsed the timetable for Board discussions and decisions from June to November 2007. The Director emphasised the Board must reach decisions in accordance with the proposed timetable in order to meet its November objectives. If decisions were deferred, they would back up and cause delay to the project.
- 6.5 The Board agreed that if the key constraint was resources it could agree to the remainder of the plan and the questions put to it with the proviso that more resource must be made available.
- 6.6 The Board noted that there was no contingency built into the plan. A contingency of 30% was usual. There were bound to be external interventions that would interfere with progress and that must be allowed for in the project plan.

7 PUBLIC INTEREST

- 7.1 The Board considered and discussed the memorandum dated 5 June 2007 prepared by the Chairman and the paper dated 4 June 2007 prepared by the Director regarding the public interest.



- 7.2 The Board agreed that the autumn consultation paper should not specifically address the question of the public interest.

8 WORKING GROUPS

Stakeholder Working Group

- 8.1 The Board took note that the Stakeholder Report had been submitted for typesetting.

Risk Working Group

- 8.2 The Board noted that due to resource constraints (quantity not quality) the draft chapter on risk was not quite ready. The Group met earlier today and its discussions would be reflected in the draft stage two output.
- 8.3 The Chairman of the Risk Working Group proposed that the list of concepts and principles developed by the Group should be submitted to the Board as it had been agreed that the Board would approve Working Group publications.
- 8.4 The Board noted that the stage two output would be finished by the Risk Working Group and the final output would be submitted to the Board for approval. The Risk Working Group was continuing to work on risk modelling techniques and principles.
- 8.5 The Board noted that the POB may want to review the draft chapter and any proposed publication by the Risk Working Group in due course.
- 8.6 The Chairman of the Risk Working Group reminded the Board that the members of the Risk Working Group were a useful additional and expert resource at the Board's disposal.

9 ACTIVITY REPORT

- 9.1 The Board took note of the staff activity report.
- 9.2 Under Members' activity, Mr Arnold informed the Board that he had attended CILA (?) where there had been some scepticism about the Board. External stakeholders were wondering when the Board would begin issuing standards.

10 AOB

- 10.1 The Board considered the note prepared by the Director in relation to the amendment of GN11, GN19 and TM1. The Board agreed that staff should make changes along the lines proposed.

The Observers and Staff left the meeting at this point. The Director and Secretary remained in the meeting.



11 BOARD PERFORMANCE REVIEW

- 11.1 The Chairman thanked Mr Daws for collating the responses to the performance questionnaire which had been circulated at the previous meeting. He confirmed that a list of attendances was available. He advised the Board that there was further work to be done on individual assessments and succession planning. Individual appraisals would begin at the end of 2007, after the autumn consultation paper was issued.
- 11.2 The Chairman noted the suggestion the BAS should have a senior independent director (SID). This would be a pragmatic move in line with broader corporate governance principles. The Board agreed that the Chairman would discuss the idea of a SID with the FRC Nominations Committee.
- 11.3 The Board noted that Mr Boyle and Sir Christopher Hogg had received a copy of the performance review in their Board packs.

12 NEXT MEETING

Monday 9 July 2007, 1:30 p.m.