



8 January 2010

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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London, WC2B 4HN

Subject: Consultation paper: Actuarial Information Used For Accounts And Other Financial Documents

Dear Sir

Mercer Limited is a global leader for HR and related financial advice and services. In the UK, our client base includes employers and trustees providing occupational pension schemes to employees in all sectors of industry; we provide pensions advice and services to companies in the FTSE100 but we also have a large proportion of clients that are employers classed as "Small to Medium sized Enterprises", or trustees of pension schemes with sponsoring employers in this class.

We welcome the opportunity to respond to the consultation paper for the accounts TAS published by the Board for Actuarial Standards (BAS).

As our business involves advising companies (and trustees) on pension arrangements, we will comment from this perspective.

The appendix to this letter sets out our answers to the specific questions asked in the document. Our overall view, however, is that there is no need for a separate TAS. In our opinion, the key principles of actuarial work used for accounting information are essentially the same as those used for all other actuarial work. Furthermore, we do not think that there is much advantage in trying to cover all different areas of actuarial work for accounts (i.e. pensions, insurance etc) within a single TAS, as there is, generally speaking, little overlap between them (other than the generic principles which can be set out more appropriately in the generic TASs).



MERCER



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We would be happy to meet with you to discuss any of the points raised or answer any questions you have on our response.

Yours faithfully

[By email]

Robert Hollows



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Appendix

Consultation paper: accounts – Section 10 – invitation to comment

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)

On balance, our view is that there is no need for a separate TAS. Our reasoning for this is that the key principles of actuarial work used for accounting information are basically the same as those for all other actuarial work. These essentially relate to:

- understanding the purpose of the calculations;
- understanding the requirements of the users of the results;
- collection and verification of adequate data;
- use of accurate, clearly explainable models;
- use of appropriate assumptions, with clear explanation of their derivation, where they sit within the range of possible assumptions and limitation on their applicability;
- identification of key risks and sensitivities;
- and clear reporting of all these issues.

i.e. the material covered by the generic TASs and the proposed pensions TAS (we imagine that similar comments would be appropriate for other areas of actuarial work such as insurance).

Hence, in our opinion, it would be more appropriate to expand, where necessary, the generic TASs and / or the pensions TAS to cover the small number of issues which are perhaps more pertinent to accounting work than for other types of actuarial work. We are thinking here, in particular, of:

- the fact that most accounting work is based on approximate rolling forward of earlier accurate valuations – hence understanding materiality can be a key issue;
- the timescales for reporting results are often very tight (and hence the need for approximate methods rather than full valuations).



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We do not see that there is much advantage in trying to cover all different areas of actuarial work for accounts (i.e. pensions, insurance etc) within a single TAS, as there is, generally speaking, little overlap between them (other than the generic principles which can be set out in the generic TASs).

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?

As set out in question 1, we do not believe that there is a need for a new, specific TAS in this area, and that the issues can be better picked up in the generic TASs and / or the pensions TAS.

One particular point that we would make is that the actuary is directly responsible for the advice given to his / her client, which will generally be the sponsoring employer of a pension scheme in this instance. However the actuary is not responsible for the ultimate way in which the client chooses to present the information required for their accounts (or whatever other purpose). We believe that this distinction should be clearly made.

In particular, the fact that the actuary cannot therefore be responsible for the subsequent content of the accounts/other financial documents causes some problems with the intentions set out in paragraphs 2.2 to 2.7.

The key point here is that while the actuary can be responsible for ensuring that paragraph 2.7(a) is met, the actuary cannot “ensure” that paragraph 2.7(b) is also met. (It is of course recognised that the actuary may be able to influence the outcome under 2.7(b).) The purpose of the TAS should be amended to reflect this.

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.

If there must be a separate accounts TAS, yes.



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If there is an accounts TAS, it should clarify what is meant by actuarial information. Currently this term is not defined. In the absence of a definition it appears to us that “actuarial information” does not always need to be provided by an actuary. We believe that the scope of the TAS should be restricted to actuarial information that must be, or in practice mostly is, provided by an actuary.

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)

If there is to be separate accounts TAS, yes. See our response to Q3 regarding the definition and scope of actuarial information, which also applies here.

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)

See our response to Q3 regarding the definition and scope of actuarial information, which also applies here.

If there to be a separate accounts TAS, yes, generally we agree that this should be in scope. However it should be recognised that at outset some work may not be intended to be made public, and then later the commissioning entity chooses to make it so. An actuary may not always be aware if work is to be made publicly available and generally has no control over the information once it has been provided to his/her client. There should be no retrospective application of the TAS providing that the actuary sought an indication from his/her client as to whether the work would be made public, was advised that it was not intended to be, then acted accordingly.

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)

See our response to Q3 regarding the definition and scope of actuarial information, which also applies here.

Whilst such information may only be used internally, it may still form the basis of important decisions by management. Hence we believe, if there is to be a separate accounts TAS, that it should be included in the scope, albeit the principle of proportionality may be more relevant given the status of the users in this instance.



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

No.

However, one important potential anomaly in our opinion is the provision of accounting disclosures required for overseas companies – many of our clients have US or other foreign parent companies and hence we are often required to produce accounting disclosures under US or international GAAP for (ultimately) non-UK purposes. The proposal is for this type of work to be outside the scope, because the BAS's authority is restricted to work required by UK legislation or regulation. This leaves a clear anomaly as there is, currently, no other guidance covering such work, albeit that the principles are largely the same as they are for UK accounting work.

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)

No, and the data issues for accounting can (and should) be covered sufficiently by TAS D.

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?

With the exception of the aspect commented on below, these seem reasonable. However we would argue that they apply to all actuarial work, not just for accounts, and we believe that they would be covered, at least to some extent, by the pensions TAS.

We believe that it should be possible to state that no view on assumptions is being offered, where an actuary has been engaged simply to perform calculations (and where another actuary has been engaged to comment on the appropriateness of assumptions).

10. Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS? (section 6)

No.



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11. Do respondents have any comments on the proposed principle regarding materiality levels for accounting purposes in paragraph 7.4?

It is appropriate for such a principle to be included. However materiality is almost never uniquely pinned down. In the absence of guidance from the auditor or client (which is often not provided) it is not clear how materiality would be ascertained by the actuary. Currently the principle is too ambiguous as different “users” could have significantly different ideas of what is “material”.

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)

As mentioned in Q1, the key issues which differentiate accounting work from a lot of other actuarial work are the tight timescales and hence the use of more approximate methods. However there is nothing which cannot (and should not) be covered by TAS R and TAS M.

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

The principle in 8.4 is a reasonable one, but we would again argue that it is not unique to accounting work.

We do not agree with the assertion in the first sentence of paragraph 8.6 and do not see how this principle contributes to the stated purpose of this TAS. In our opinion it would be disproportionate and does not contribute to the Reliability Objective.

14. Are there any other principles on reporting which respondents believe should be in the accounts TAS? (section 8)

No.

15. Do respondents have any views on whether 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)

Again, we are not convinced that this is a purely accounting-related issue. The key issue flowing from this is that more approximate methods may need to be used, and the



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implications of this should be clearly explained. However this is a wider professionalism issue and we do not see that this is best addressed via an accounts, or any other, TAS.

16. Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9?

GN36 contains some useful guidance for actuaries on how some of the principles of FRS17 should be interpreted. We appreciate that the BAS's intention is to move to a principles-based approach to supervision, and hence not to give more detailed guidance on how particular areas of regulation should be interpreted. However, this could be an area where the BAS could consider providing some guidance (and extending it to other accounting standards), as there is a clear void in this area at the moment.