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Our ref gs

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By e-mail: basaccounts@frc.org.uk

Dear Louise

Consultation Paper – Actuarial information used for accounts and other financial documents

Following the above Consultation Paper, issued in September 2009, we are pleased to enclose our response. This represents the views of the actuarial practices within our UK firm, having consulted with our accounting colleagues.

We appreciate that there is a fine balance to be struck in this proposed standard, between mandating appropriate actuarial standards which support the accounting standards, and gold-plating the accounting standards in a way that should be included in these standards themselves. We would encourage you to maintain your dialogue with your colleagues in the ASB, to ensure that the best balance is struck.

With this in mind, we would recommend that for this proposed standard in particular the needs of users of actuarial information should be a prime concern of the BAS. If it would help you in this, we would be pleased to try to facilitate such a dialogue for you, with some of our clients.

If you have any questions regarding our response, please contact Gordon Sharp, whose details are at the top of this letter.

Yours sincerely

Alastair McLeish
Partner

Tim Roff
Partner

QUESTIONS**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)**

- The TAS introduces few additional principles in addition to the content of the Generic TASs. Excluding the generic principles (Purpose and General Concepts); the principles required for any TAS (Scope) and the principles that could apply to any work (Assumptions), the TAS proposes only 3 Accounts-specific principles. These (if adopted) could easily fit into the existing TASs.
- A stand-alone TAS will make it easier for interested non-actuarial parties to understand it more readily. However, this is a limited argument as the intention of the TAS is to ensure the reliability of the results of actuarial work – not necessarily for the users of results to understand the TAS itself. Further, the data principles are already contained in TAS D.
- We see arguments for both views. If it is possible to condense the proposed principles down to a small number of accounting-specific principles, then short additional stand-alone sections in TAS I and TAS P would be preferable.

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?

- The purpose proposes that directors should be provided with "information on risk and uncertainty, cash flows, and long term effects" when being given actuarial information for accounts.
 - It is unclear what this is likely to involve. For example will quantitative information be necessary, and if so will it require significantly more modelling than is currently required (so adding to users' costs)?
 - Can the actuary rely on actuarial information from other work that may not be subject to the TAS to satisfy this requirement?
 - We believe that the TAS should not materially mandate anything that is not already in the relevant accounting standards (accepting that accounting disclosures along these lines are likely to be increased in future).
 - Regarding paragraph 2.5, we would note that it is for company management, not auditors, to have confidence that rigorous checks have been carried out on actuarial information. Auditors will establish the rigour of any checks themselves.
- The purpose currently requires that users of accounts "can rely on and understand actuarial calculations used in those documents"
 - It is not realistic to expect each and every user of accounts to "understand the actuarial calculations". Further, this is not in line with the BAS's reliability objective, which is about reliance on actuarial information, as opposed to understanding actuarial calculations.

- 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.**
- We agree with this proposed scope, but we would ask that ‘actuarial information’ be defined carefully..
 - Regarding materiality (paragraph 3.2) we would point out that there is specific guidance on materiality in IFRS which should be taken into account in this standard.
- 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)**
- We agree with this proposed scope.
- 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)**
- We agree with this proposed scope.
- 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)**
- We agree that this should be excluded from scope.
- 7) **Is there any other work which respondents believe should be within the scope of the accounts TAS? (section 4)**
- No. However we would recommend that paragraph 4.32 is clarified, to distinguish between the obligations of an actuary working for a firm which provides information to an audit firm (whether that be to an actuary or an accountant working for the audit firm) and the responsibilities of an actuary working for an audit firm providing information to an internal colleague.
- 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 – we agree that the requirements of TAS D are sufficient, and that no further principles are required for accounts purposes.
- 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?**
- Generally, we believe there is scope for an Assumption specific TAS as most of these principles could apply to any actuarial work. Further, the principles repeat what is in draft TAS M.

- Para 6.6. We agree that the selection of assumptions should take account of the purpose of the calculations for which they will be used
- Para 6.9 states that the actuary should give "an indication of the fitness for purpose of the assumptions used in any calculation".
 - This seems potentially extremely onerous for actuaries. In particular, "fitness for purpose" is not defined and so is likely to prove to be a contentious concept. It is the auditor's role to assess whether or not the assumptions are ultimately fit for purpose, with a view to their impact on the accounts as a whole.
 - Rather than this contentious concept, if it is decided to go down this route, then reference to the accounting standards (e.g. paragraph 74 of IAS 19, which states that actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative) would be a more logical route.
- Para 6.10 talks about selection of assumptions taking account of all available information as at effective date of the calculation.
 - It is not clear what this means – for example, a persistency investigation to set a lapse assumption may have been done six months prior to the reporting date. Technically at the effective date more (unprocessed) information will be available, so would ignoring this be in contravention of the TAS? Clarity on what "available information" means in this context is therefore required.
 - We would recommend that "all available information" should be "all material available information".
- Para 6.13. We believe that the TAS should also require a comment on future changes to mortality rates rather than remain silent in this area. This could be along the lines of "Assumptions concerning future changes to mortality rates are not necessarily specific to the entity in question".
- Para 6.17 requires that one assumption cannot be changed to compensate for the shortcomings of another.
 - In principle we agree with this. However, it may not always be possible to apply in practice. For example, it is generally accepted actuarial practice that when a net premium valuation is used to value conventional with-profits business, the discount rate is reduced to allow for future reversionary bonuses. We would suggest that the wording in the principle is changed to allow for cases where the calculation is in line with generally accepted actuarial practice.

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

- No.

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

- Consideration may need to be given for, eg, quarterly accounts, which may use some approximations compared to annual accounts, due to the tighter timescales which apply. Consideration should also be given to IFRS guidance on materiality.

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)

- No – these should all be covered in TAS M.

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

- Para 8.4 states that actuaries must give an indication of where an assumption sits in the range if there is a range of possible assumptions.
 - This may not always be practical, as often there is no clear definition of a range – although it is of interest to many users. So we would view this as a good practice item, rather than one to mandate (unless a range can also be mandated).
 - However, would this not sit better (if anywhere) in a TAS dedicated to assumptions, as it could apply to all assumption-setting?
- Para 8.6 states that, where practical, the assumptions used for pensions accounting should be compared with those used for scheme funding, and explanation of differences given.
 - Users who are interested in this will ask for such information anyway. Otherwise, although we would view it as best practice, it is likely to be seen by some users as giving rise to unwarranted extra costs. In some cases there may be practical difficulties, e.g. where different actuarial firms are responsible for scheme funding advice, and accounting information advice.

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)

- Whilst we would view this as good client-care practice, we do not think that it is an appropriate subject for a TAS.

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

- No.