St Clement's House, 27-28 Clement's Lane, London EC4N 7AE
Tel: +44 (0)20 3207 9380 Fax: +44 (0)20 3207 9134 EMail: acahelp@aca.org.uk
Web: www.aca.org.uk

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The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

basaccounts@frc.org.uk

Association of Consulting Actuaries response to Accounts TAS Consultation Papers

Introduction

This paper is submitted on behalf of the Association of Consulting Actuaries. We appreciate the opportunity to comment on consultation paper for the proposed accounts TAS.

About the ACA

Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the vast majority of members of defined benefit pension schemes.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

Key points

Our detailed responses to the questions raised by the BAS are set out in the Appendix to this letter. Our key points are summarised below.

- Many if not all of the proposed requirements of the accounts TAS could be (and perhaps should be) adequately covered by the pensions TAS and the insurance TAS. It is not clear what is special or different about actuarial work carried out for financial accounts compared with actuarial work carried out for other purposes to require separate guidance.
- With regards to the scope, if there is to be an accounts TAS we note that under your Scope and Authority, the TAS cannot cover work performed under those accounting standards for pensions that are not recognised in the UK. So, for example, it cannot apply to work performed for US GAAP.
- The accounts TAS should avoid conflicts with the audit profession, in particular, use of the term "materiality" in the accounts TAS could lead to confusion given the use of the term by the audit profession.

- The accounts TAS should not extend an actuary's duty of care beyond that required to his or her client. In particular, actuarial firms are generally clear that auditors should not place reliance on the actuary's work and the auditor should independently confirm that the results and disclosures prepared by the actuary are appropriate.

Signed on behalf of the ACA

Simon Robinson FIA
Chairman
ACA Accounting Committee
+44 (0)20 7939 4958
simon.robinson@hewitt.com

Appendix

Question 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.

We are not clear there are benefits of a separate "accounts TAS" as many of the suggested requirements could be (and should be) adequately covered by TAS-M, TAS-R, the pensions TAS or the insurance TAS.

Indeed, we are not clear that provision of actuarial information used for accounts is sufficiently different from provision of actuarial information for other purposes. Thus, we do not see the need for separate and distinct professional guidance. Any professional guidance proposed for accounts could equally be applied to other areas of actuarial reporting and vice versa, except where different approaches may be specified for pension schemes by either funding regimes or accounting standards.

Further, the requirements around actuarial reporting for insurance liabilities and pension liabilities are quite different and these differences may be better addressed by the respective pensions and insurance TASs.

Question 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 worded, 2.7 causes us some difficulties. In particular, 2.7b suggests that third parties who are not our clients can rely on our work. However, our reports are generally provided to our clients for their benefit and third parties should not believe they can rely on this information without completing their own investigations. For example, actuarial consultancies are generally very clear that auditors can NOT rely on the actuary's work and to suggest otherwise imposes a duty of care on the actuary to an entity other than their client.

We also would prefer 2.7a to clarify that any additional information provided over and above that required by the accounting standards is not disproportionate and onerous given the relative size of the pension scheme to the sponsoring company.

We suggest 2.7 is reworded along the following lines:

"2.7 We therefore propose that the purpose of the accounts TAS should be to assist the achievement of the Reliability Objective by ensuring that in relation to actuarial work within its scope:

a) directors and others with responsibility for preparing accounts and other financial documents are provided with appropriate actuarial information, (including*, where appropriate,* information on risk and uncertainty, cash flows and long term effects *of [what]*) to enable them to prepare those documents with confidence; ~~and~~

b) ~~investors, auditors and other readers of accounts and other financial documents can rely on and understand actuarial calculations used in those documents~~"

Question 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 rules (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.

The accounts TAS needs to clarify what is meant by actuarial information. For example, we would suggest that work completed by actuaries which is for the purposes of financial reporting but is not typical actuarial work is excluded (e.g. work performed by actuaries with management responsibilities)?

The TAS should clarify that "in scope" actuarial information is as defined in paragraphs 4.10-4.33. Any work not explicitly in scope should, by default, be out of scope.

We note that the BAS's Scope and Authority means that actuarial information provided under non-UK accounting standards (e.g. US GAAP) is outside your remit for the Accounts TAS. Some may question the logic of this – for example, UK actuaries may provide actuarial information for the purposes of US GAAP to their client, the UK subsidiary of a US parent. This subsidiary then passes the information to its parent. In practice, however, we would expect actuaries to apply the same level of standards and professionalism for such US GAAP work as they would for FRS 17 and IAS 19.

Question 4:

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

We are comfortable with this on the basis that, as professionals, we would expect any such preliminary advice to be provided at the same levels of quality as the final advice.

Question 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 within the scope of the accounts TAS? (paragraph 4.30)

We have a difficulty with this requirement because it is too wide and potentially covers all actuarial work, including funding work.

The preparers of actuarial information have no control over the information once it is passed to the client. An actuary may not always be aware if work is to be made publicly available. For example, budgeting information is explicitly out-of-scope but the client's management team may well share this with investors. The actuary may not even be aware that this information has been shared more widely.

Similarly, an approximate update of the funding position and an illustration of likely future company contributions to a defined benefit pension scheme could be made available informally to investors and thus fall within this scope.

Question 6:

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

Yes. See answer to Q5 for reasoning.

Question 7:

Is there any other work which respondents believe should be within the scope of the accounts TAS?

No, although we note that the BAS's Scope and Authority means that actuarial information provided for non-UK accounting standards (e.g. US GAAP) will not be subject to the same requirements as for UK accounting standards.

Question 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?

No. TAS-D and TAS-R should cover this sufficiently and there are no data issues which are specific to the provision of actuarial information used for accounts.

Question 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?

6.6: We are comfortable with the principles in paragraph 6.6 subject to the clarification provided in 6.3 of the meaning of "selection". However, we note that, with accounting standards for pensions, responsibility for selecting (in the more general sense) assumptions lies with the company directors and not with the actuary. Thus, the use of "select" could lead to confusion and use of a different word might be more appropriate.

6.9: We are not comfortable with the principles in paragraph 6.9. For example, a company may choose not to follow the actuary's advice. Further, it is increasingly common for the calculations to be carried out by a different actuary or firm of actuaries from that which provides the advice on assumptions (though we note the comments in 6.4). Also, for convenience, it is typical for an immaterial pension scheme to use the same assumptions as a material pension scheme operated by the same employer. It is the role of the auditor to police the assumptions, not the actuary

6.10: This is quite an onerous (and thus potentially costly) requirement and we believe it should be clarified to be clear that use of evidence should be relevant, material and proportional.

6.13: We are comfortable with this although, given it just follows the principles proposed for the pensions and insurance TASs, this again indicates that there is no pressing need for a separate accounts TAS.

6.17: Although we understand the reasoning behind this proposal, we believe the accounting standards should override any accounts TAS. That is, if the accounting standard allows assumptions to be a best estimate in aggregate, and the client wishes to use such assumptions, then the actuary should be able to provide results on such a basis.

Question 10:

Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS?

The key principle is that accounting standards should override the requirements of any accounts TAS and the actuary should be familiar with the requirements of the accounting standard in question.

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

We are comfortable with the requirements of 7.4, but believe this should be a wider requirement of the accounts TAS rather than solely in the modelling section. For example, it should also apply to selection of assumptions.

The wording in 7.4 is preferable to that in 3.2. The wording in 3.2 risks a conflict with materiality as defined by the auditor.

However, materiality is rarely a clearly defined amount. Auditors may be reluctant to provide information about materiality issues (for moral hazard reasons) and different materiality levels can apply for different purposes, and to individual items or in aggregate. It is not reasonable to expect the actuary to ask a question to which he or she is unlikely to receive a response.

In the absence of clarification from the client or the auditor, it is not clear how an actuary would be able to ascertain materiality, particularly when providing pensions results which are just a small part of overall accounts.

Perhaps it would be more reasonable for the accounts TAS to require a discussion about estimation error (although we understand this is already expected to be covered by TAS-M).

Question 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?*

No. There is nothing specific for the accounts TAS which could not be covered (and should be covered) by TAS-M and TAS-R

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

8.4: We do not believe 8.4 is appropriate for a number of reasons. For example, an actuary might simply provide results based on the assumptions advice provided by a different actuary. Further, accounting standards generally prescribe methodology for setting all assumptions (e.g. as best estimates) so it is not clear which assumptions would be covered by 8.4.

It is also difficult for an actuary to comment on a range of possible assumptions as, in many cases, that possible range is very uncertain. At present, for example, different actuarial firms appear to be recommending quite different discount rate assumptions and audit firms also appear to have differing views on appropriate ranges for discount rates.

8.6: We do not believe that 8.6 is appropriate as we do not see a good reason in requiring an explanation of differences in financial assumptions selected for different purposes at different dates. However, it may be reasonable to require explanation of differences in the most significant non-financial assumptions (such as mortality and commutation).

Further, it is increasingly common for different actuaries (perhaps even from different firms) to provide accounting advice and funding advice. So it is possible that the actuary providing the accounting advice would not be aware of the reasoning behind selection of assumptions for Scheme Funding purposes.

The requirement in 8.6 would also introduce additional costs for clients who don't want or need such a comparison, particularly for those clients who already find prohibitive the costs or obtaining FRS 17 and IAS 19 results.

Question 14: *Are there any other principles on reporting which respondents believe should be in the accounts TAS?*

No.

Question 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)*

We believe it is appropriate for actuaries to provide such an indication to their clients. However, this is a wider professionalism issue which is not restricted to providing accounting results and so we do not believe it is necessary to address in the accounts TAS.

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

No. In our view, most actuaries would already comply with the requirements of an accounts TAS as a matter of best practice.

Produced by:
Association of Consulting Actuaries
St Clement's House
27-28 Clement's Lane
London EC4N 7AE
Tel: 020 3207 9380
Fax: 020 3207 9134
Web: www.aca.org.uk
Email: acahelp@aca.org.uk

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