ASSOCIATION OF
aca
CONSULTING ACTUARIES

Regis House, First floor, 45 King William Street, London EC4R 9AN
Tel: 020 3102 6761 Fax: 020 3102 6766
Email: david.robertson@aca.org.uk Web: www.aca.org.uk

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The Actuarial Policy team
FRC
8th Floor
125 London Wall
London EC2Y 5AS

TASReview@frc.org.uk

Dear Sir/Madam,

A NEW FRAMEWORK FOR TECHNICAL ACTUARIAL STANDARDS

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the above paper.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes as well as thousands of other smaller schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA is a full member of the International Actuarial Association.

Summary of response

We are broadly in favour of both the consolidation of the three current generic Technical Actuarial Standards (TASs) into one document (TAS100), and the extension of the scope of the TASs to all actuarial work, as long as the standards continue to permit actuaries (and, in due course, non-actuaries) to apply them in a proportionate way. We do have some concerns, however, around potential detriment to users of actuarial information arising from such issues as:

- Uncertainty over the definition of actuarial work – in particular, the implication that users may over-ride the judgements of actuaries as to whether work is actuarial or not;
- A transition proposal that is unnecessarily complex and therefore unduly costly, owing to an unspecified period where the current TAS framework applies to some actuarial work but the proposed new framework to the remainder, even where the work is fundamentally the same in nature;

- Some apparent new restrictions or additional requirements in TAS100 that we understand to be unintended consequences arising from the drafting process to date (broadly, the transfer of only the boxed text in the three current generic TASs);
- The potential difficulty in meeting the proposed new requirements to report all material judgements made and the checks and controls applied to data, set against the need to avoid obscuring material information with the immaterial; and
- The three ISAP1 principles on third-party assumptions, margins for adverse deviations and compulsory inclusion of sensitivities appear more like rules than principles and are inconsistent with the approach to the TASs to date. We believe that consistency with ISAP1 has already been achieved in respect of the latter two requirements by the draft TAS100 principles on neutrality (3.5), description of measures (5.5) and communicating material uncertainty (5.7). The requirement to identify and indicate the impact of 'unreasonable' third-party assumptions is discussed in detail in our response to the relevant consultation question.

We have some concern that, as a result of the above issues, users may conclude that there is an unnecessary compliance cost associated with getting work done by actuaries. Where there are non-actuarial alternative suppliers for the work (and the extension of scope is largely to areas where users are not compelled to use actuaries), users may choose them without having regard to quality. Until such time as alternative suppliers are also compelled to follow the TASs, this may result in a reduction or inconsistency in the quality of work users receive – non-actuaries will not have to comply with the standards, indicate where the standards would have required a different approach or further information be provided, or even mention that such standards exist.

On the following pages we provide further comment on specific questions in the consultation.

If you wish to follow up any points in this response, please in the first instance contact me at my email address below.

Yours faithfully,

Jenny Condron

Chair, ACA Professional Affairs Committee

Jenny.condron@mercer.com

Section 9, page 30 of the Consultation: "A new framework for Technical Actuarial Standards (November 2014)".

Questions:

Q3.1 Do you have any comments on the draft Framework for FRC Actuarial Standards (paragraphs 3.5 to 3.8 and Appendix A)?

The existing Scope and Authority of Technical Actuarial Standards document divides actuarial work that falls within its scope into three categories - *Required*, *Reserved* and 'all other'. This allows the FRC, and hence actuaries and their clients, to take different approaches to departures from the TASs for these different types of work. The new framework and the blanket approach to any work determined as *actuarial* do not appear to allow this flexibility - in particular, the ability for those commissioning work that is neither *Reserved* nor *Required* to instruct the actuary to depart from specified requirements of the TASs. This may lead to clients concluding that they should involve non-actuaries in order to get similar work done at lower cost, which, in turn, may mean a reduction in quality, should it be carried out by firms or individuals not subject to any quality standards. For example, much actuarial work involves membership or policyholder data. Imposing a requirement for actuaries to check that data, regardless of the willingness of the user to take responsibility for its accuracy, may be perceived by the user to have little or no value. Actuaries subject to TAS100 would at least be required to draw the user's attention to the resulting uncertainty and give an indication of the potential impact on the advice or information.

Q3.2 Do you have any comments on our proposal to withdraw and archive the existing Scope & Authority (paragraphs 3.26 to 3.29)?

Regardless of whether a distinction continues between Required, Reserved or Other actuarial work, there should be no need to retain the Scope and Authority document, once the transition is complete.

Q3.3 Do you have any comments on our proposed approach to the Significant Considerations documents (paragraphs 3.30 to 3.31)?

We agree with the approach proposed, although we disagree to some extent with the assertion these documents are now used much less. There remain particular sections of the Significant Considerations documents that continue to be very helpful, particularly to those charged with assisting colleagues on addressing TAS compliance, and for areas of work that are less commonly carried out. For actuaries that have not used the TASs to date, the adoption of TAS100 will be much more like the original introduction of the TASs in 2009 to 2011. Similarly, if the reach of TAS100 is extended to non-actuaries, the Significant Considerations documents may help them understand the thinking behind the principles. We suggest that it would be worthwhile to gather feedback from practitioners on any content of the existing documents that should be included in either TAS100, the replacement Specific TASs or further guidance.

Q4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.

In principle yes, although the assertion presumes there is currently a significant amount of actuarial work that is either being performed or communicated to a lesser standard than that imposed by TAS100. Also, TAS100 can only improve such sub-standard work to the extent that it applies to those delivering that actuarial work – initially this will only be members of the IFoA and, perhaps, non-actuaries working in teams with actuaries where their employer mandates TAS100 compliance (e.g. joint teams of actuarial and non-actuarial investment consultants).

Non-actuaries delivering actuarial work will not generally be compelled to improve the quality of it, nor indicate whether or not it complies with TAS100, nor even communicate that such actuarial standards exist. There is only likely to be any benefit to users when any relevant regulators require such work to comply with TAS100, notwithstanding any FRC encouragement for wider compliance in TAS100 itself. We assume that JFAR members will have this in mind but, as yet, there is no indication when this might happen. A long interval between actuaries adopting TAS100 and other providers of similar work might even result in some actuarial work migrating to non-actuaries because of the perception or reality of lower costs for users.

For example, ALM work currently delivered by actuaries who also have a reasonable understanding of longevity risks and the complexities of historical UK defined benefit design might instead be delivered by non-actuaries with no such experience, nor even an obligation to disclose the consequent limitations of their modelling. This may in turn result in a reduction in the overall quality of such work, so that some users of it may lose out until a level playing field is achieved. This may particularly be the case for smaller pension schemes and sponsors who will typically only wish to pay for simpler modelling. Does the FRC accept this risk as part of the greater good of extending the scope of the TASs?

It will be important that actuaries are able to determine "material" in a reasonable way and that all actuaries are able to apply broadly consistent interpretations of the requirements in order to avoid users receiving widely varying information. It would be helpful if the examples in Appendix E could cover more complex situations to help readers appreciate the FRC's expectations for interpreting the requirements.

From a practical point of view, situations can arise which are very fast-moving and users may not value some of the compliance aspects proposed by TAS100 (for example documentation requirements). This might affect users of corporate advice more than "Reserved" or "Required" work.

Q4.2 Do you agree with the proposed definition of actuarial work? If not please provide reasons and suggest an alternative approach (paragraph 4.11).

We sympathise with the authors of the exposure draft and recognise the difficulty in arriving at a definition which deals with the scenarios mentioned in 4.8, i.e. those carrying out the work avoiding compliance by representing actuarial work as not actuarial, or presenting work as actuarial when it is not clear that it is

(presumably to increase the perceived credibility of the work without the effort of actually doing anything actuarial). We have a concern that as currently drafted, the second requirement opens up a third scenario – that the user argues that they were entitled to treat the work as actuarial, because they took the way it was presented to imply that it was, **even though no one could reasonably argue that the work involved met the test in the first requirement**. This leaves user and actuary to debate that entitlement, possibly via subsequent litigation, and it is not clear to us where the burden of proof would then lie. We suggest the following amended definition:

Actuarial Work

Work

(1) which involves the exercise of judgement and where the principles and/or techniques of actuarial science are central; or

(2) which, in the context of their purpose and objectives in requesting the work, the users are reasonably entitled to treat as actuarial work, because it is presented as actuarial, whether expressly or by implication.

Where it is not otherwise clear (for example, the fulfilment of a statutory or legal responsibility), the "*context of the users' purpose and objectives in requesting the work*" should be established in advance of work commencing to avoid it being debated after the event. It is likely that most actuaries / actuarial firms are already defining the scope of any material pieces of work with their clients as part of agreeing fees, timescales etc. so this should not be difficult to achieve. We note that the final section of E.8 states "Other individuals and entities may also be required to comply with TAS 100 by the user of the work or by relevant regulators". This is the first indication that it is the user of the work who will define whether the work is to be considered actuarial work and subject to TAS 100. If this is intended then it should be explained in the definitions of actuarial work elsewhere.

Although in many cases it should be clear, it will be important to note that actuaries (or non-actuaries) are not expected to decide on behalf of the user whether the work they are delivering is actuarial work. The risk is that actuaries / non-actuaries could spend a disproportionate amount of time on this. For example: a corporate treasury department of a large multi-national company employs 30 individuals, two of whom are actuaries who joined two years ago. The two actuaries help provide financial forecasts using models established over many years and assumptions determined by an audit committee. The output is significant and used for decision-making. They are crunching numbers (in the same way as ten other members of the team) rather than providing actuarial output, although it could also be regarded as actuarial work because of the modelling techniques involved. They have no ability to influence the choice of models or to vary the established process. Are the actuaries subject to TAS100 in respect of this work? The other team members are not subject to TAS100 until such time as other Regulators adopt it (or similar quality assurance requirements are imposed). Could the users of the forecasts later claim that the addition of the actuaries to the corporate treasury team was taken by them to mean they could place extra reliance on the results?

Another example where the issues are complex is asset-liability modelling (ALM). If the model has been signed off by an actuary for TAS100, the procedures to produce the results are documented with no

judgement involved other than scenarios to be used for investment advice and opinion, then does the production of the ALM investigation need to be TAS compliant? If it does, then this is going to cost some firms significantly more than others, potentially change the profile of firms' internal teams and, if an employer has a decision between employing actuaries and non-actuaries, could lead them to choose non-actuaries to avoid the TAS compliance dilemma. This might ultimately lead to more work intended to be in scope by the FRC instead being carried out by non-actuarial firms. So we recommend that for major areas, such as ALMs, the process be mapped out and it be made clear which areas need to comply and which don't – i.e. model calibration and set up – yes; use of model for investment advice using clear procedures – no; reporting which covers the model used – in relation to the model - yes, in relation to the investment advice – no (for clarity other regulators already apply rules to the investment advice part). This might be suitable material for a specific TAS, but this in turn raises issues around the proposed transition process.

Q4.3 Do you agree with the analysis of different areas of work in Appendix E?

The examples are useful to some extent but we think it would be helpful to add some specific instructions to some of the less clear-cut examples and include a few more non-standard situations. For example, for E.16, we suggest that it be made explicit that is therefore the responsibility of the actuary performing the CRO role to exercise professional judgement to determine which of their activities meet the test of the definition of actuarial work.

In relation to other specific examples, we suggest that:

- E.20 to E.23 be reviewed for consistency with APS X2, if this has not already been done; and
- E.8 and E.24 should cover the situation where a user requests TAS100 compliance, even though the actual work involved does not meet the judgement/actuarial science test
- An example of an acceptable departure would be helpful in a situation where it is less clear cut. Some examples are suggested throughout this response.

As noted in our response to Q4.2, the examples introduce the concept that for non-actuaries it is open to the user to effectively define whether the work is actuarial, by insisting on TAS100 compliance. If this is the intention, it should be made clearer in the definition of actuarial work.

It would be useful to include examples that involve pension scheme advice to corporate clients such as scheme benefit design, employer debt or mergers/acquisitions work.

Questions in section 5:

General comments - we believe it would be useful to define "users" more tightly. The direction of travel appears to be an increasing consideration of public interest (for example, creation and scope of JFAR; recent legislation, such as the pension freedoms introduced by the 2014 Budget). However, users of actuarial work are not necessarily individual pension plan members but trustees, corporate sponsors or regulators. We note that the bracketed phrase (at the time of writing) has been removed from the existing

definition of *users*. Further, the definition of *communication* no longer links to the separate definition of aggregate report. In the existing TASs, these three definitions worked together to limit the users to those specifically making decisions (or discharging a specific statutory obligation). The simplification in TAS100 may unintentionally extend the definition of *users*, or cause confusion for those for whom TAS100 is their first exposure to the various definitions.

Actuarial work may be produced by an actuary in one location for a specific purpose that is part of a larger project. Other parts of the project may need to rely on that work; the users of the actuarial work are other colleagues until the point when a final delivery is made to a client. The principles therefore might be taken to apply separately to discrete stages of work. It would be helpful to clarify whether this is intended.

As mentioned in our response to question 4.2 another complex area is ALM. It would be relatively simple to map out the process for ALM from data collection to producing investment advice and to label each area as within TAS or not. The consultation does make it clear that internal reviews of such work are not within scope – that is welcome as it does not rule out investment professionals who are not actuaries from reviewing work. In addition Appendix E, although it provides help in some areas, would be more useful if it had clear examples of what is and isn't in scope and why. From this, firms could then more easily make a decision on whether certain work is or isn't in scope. For example, in the Investment Banking section where it says most is not currently in scope but some will be in future is not, in isolation, helpful. Examples will also aid users by enabling practitioners to interpret and apply TAS100 more consistently across firms. If there is not consistency, then two pieces of work from different actuaries could provide different disclosures and be unintentionally misleading for a user as they are making certain implicit assumptions about the disclosures. This is particularly relevant for those providing actuarial work that is being brought into scope for the first time.

Q5.1 Do you agree with the proposed high-level principles (paragraph 5.3)?

On balance, yes, although we believe that care will be needed to balance the requirement to communicate all material judgements with the need to ensure material actuarial information is not obscured (5.10 in the draft of TAS100).

Q5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

The definition of data should also include, for example, relevant legislation and Regulatory requirements. It is **all** the information required to provide the actuarial results, which will include an understanding of the legislative framework.

Other examples of data include the purpose of the results which is important to determine a definition of "sufficient".

An actuary may not have control over the data but be a user of data provided by third parties. Checks for reasonableness are carried out but judgement is exercised as to the degree of sufficiency and accuracy of the data that is necessary for the purpose. As it stands, the current wording in 2.0 could be read as

removing this judgement. We suggest "Data used in actuarial work shall be ***judged*** sufficient and reliable...."

2.1 Data should be relevant for the purpose (which implies that it shall be relevant to the entity). Relevant data need not limit data only to the entity. If specific data for an entity is sparse, it may be necessary to use more general data (such as survey data).

2.2 It may not be possible or desirable to improve data by adjusting it or supplementing it. For example, inherited pension scheme data from acquisitions in the 1980s could be found to have missing or unreliable entries. Depending on the purpose of the actuarial work and the relative magnitude of the insufficient data to the overall results and decisions to be taken, experienced practitioners would exercise judgement, could make some general allowance and explain their approach. This approach is permitted in the existing Data TAS by paragraph C.5.15, but is not part of the 'boxed' text that was used as the basis for drafting TAS100.

It may not be possible to determine the reliability of data provided by third parties. As described in our response to Q3.1, there is a risk here that actuaries are regarded by users as unnecessarily inflexible in insisting that they check all data. Clients may request that the data they provide be relied upon by an actuary carrying out a material project. However, to satisfy TAS100, the actuary may feel that it is necessary to carry out more thorough checking of data than, say, the minimum high-level validation needed to ensure models will run. If it is possible to request the same work from firms employing non-actuaries, then these firms may be perceived by users to offer better value for money (at least until such time as other Regulators require that the work should be subject to TAS100 whoever carries it out). It would be useful to cover this in an example.

2.3 We agree with this general principle but note that the more general types of data, such as general legislative or regulatory requirements, do not lend themselves to proportionate separate documentation. Documents should be dated so as to ensure the context of the legislative and regulatory environment is understood. Any anticipated changes in legislation or regulatory requirements that have been incorporated in the actuarial work should be mentioned.

2.4 We agree, subject to this being proportionate to the nature of the data and the purpose of the actuarial work. As referred to in 2.3, describing data using its widest definition could significantly add to the volume of information to a client and may detract from clarity of the key messages. As for the communication of material judgements, there is a tension between this requirement and the need not to obscure material information. This is also an example of a requirement that may cause those applying TASs for the first time greater problems than those who have used the generic TASs for several years, and who are therefore more comfortable applying the materiality and proportionality tests to TAS requirements.

2.5 Agreed.

Q5.3 Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?

3.1 It is a matter of judgement as to what constitutes sufficient information and this will vary according to the purpose. Assumptions based on available information (where there is a lack of relevant information) may not be suitable assumptions. We suggest this be re-expressed to refer also to judgement.

3.2 This might be interpreted by some to require that even apparently unrelated assumptions should somehow be tested for consistency (for example proportions married against the level of future inflation). It may be worth expanding this principle to clarify that it means related assumptions in modelling for a specific purpose, or a single assumption across a suite of models (as in C.4.22 to C.4.26 of the Modelling TAS).

3.3 Agreed.

3.4 Reference to any relevant earlier actuarial work needs to explain that this is actuarial work carried out for the same purpose and for the same client. It would not be suitable for advice provided to, for example, a trustee client to be referenced when providing advice to the employer. In addition, we suspect it is not intended to refer to "any" previous relevant actuarial work, but perhaps the most recent for the same user. Again, this should be clarified, particularly for the benefit of those new to the TASs.

3.5 This pre-supposes that the assumptions are mainly financial or demographic whereas there may be assumptions that relate to, for example, data or regulatory context where the concept of neutrality is not meaningful. A definition of "assumptions" may be needed in the glossary. It would also be desirable to limit this to material assumptions. Again this issue arises because the draft TAS100 principle has been removed from its current context of the Modelling TAS and the subsequent explanations in paragraphs C.5.4 to C.5.7.

We note the definition of neutral but would also point out that, elsewhere in the consultation, there is reference to adverse deviation. It would be helpful to ensure that language between the TAS and the framework is consistent when these are finalised.

3.6 The meaning of third party is not clear – is this intended to mean the party with whom the actuary is contracted to provide advice or does it also include third party advisors to the client, for example, auditors, investment managers etc.? Should this refer to "material" assumptions?

We agree that if a client proposes an assumption that an actuary considers to be unreasonable for the purpose, the actuary should speak up in some way. It should be noted, however, that the third party may have already received actuarial advice (which may have been stated to be TAS-compliant) or the actuary may not be aware of all the facts and context behind the client's instruction to use a specified assumption. Should TAS100 directly reproduce the ISAP requirement, or include something broadly equivalent that doesn't impose a rule that the 'nuclear option' be taken without further investigation?

To encourage consistency amongst actuaries using this standard, it would be useful to give some examples of the expected response. For example, if it is the client, with advice from their auditors, who takes responsibility for an assumption, would it be acceptable for an actuary to point out that an assumption is outside the range that most actuaries would typically advise, with the result that the value placed on the liabilities (for example) is lower than would otherwise be the case. The current wording of 3.6 doesn't seem to imply that this needs to be quantified or scenario-analysis provided. If the assumption is material to the actuarial output and the decisions to be made, then the actuary should point out that, in order to comply with actuarial standards, they would advise that the impact be quantified to help decision-making. If the client did not wish to commission further work, the actuary would have departed from TAS100 in respect of a material piece of work but with justification. Would this be acceptable?

Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling (Appendix B)?

4.1 Agreed.

4.2 Agreed.

4.3 We believe this is intended to mean "in general terms" and doesn't envisage formulae or technical specifications of methods etc.

4.4 Whilst we understand why it might be appropriate to transfer the corresponding principle from the specific Insurance and Pensions TASs to the generic TAS100, we think it is confusing for the term 'models' to be used in place of measures, methods and assumptions, For many actuaries (and non-actuaries), the term model will more commonly mean a specific and discrete branded tool or spreadsheet used to complete an actuarial calculation. The definition of model in the TASs is much more wide-ranging and abstract. Readers of the standard may interpret this to mean that changes in systems should be reported, or even just changes in versions of systems or updates to spreadsheets. We do not believe that this is the intention of this principle and it may be better to either specify that it is the overall modelling approach (for example deterministic vs stochastic, discounted cashflow vs actuarial factors) that is relevant, or perhaps just retain the wording in the existing specific TASs, In order to keep such commentary manageable, this should consider material changes. There may be an elapse of time that would mean such comparisons are not useful.

4.5 Agreed.

Q5.5 Do you agree with the proposed provisions in TAS 100 on communications (Appendix B)?

We have one general comment on communications, on the basis that we understand that you wish to avoid including important clarification as separate guidance, and again with new readers of the TASs in mind – we suggest adding "always ensuring that the key messages can be identified. For example, sensible use of appendices to cover non-material matters of detail is encouraged." We note this is suggested by 5.10.

5.1 Agreed. This principle may be more important if it allows actuaries to deal with any uncertainty if the existing TAS100 definitions of users and communications are retained (see our general comments for section 5 of the consultation paper).

5.2 We agree in principle but there may be situations where this is not necessary, for example, providing PPF levy information where the PPF benefits and valuation assumptions are defined. It would be impractical to prepare extensive scenario analysis for accounting disclosures. The terms upon which bulk transfer values are calculated on company acquisitions and mergers are defined at the final calculations stage (although we accept that scenario-analysis might be relevant when considering the negotiation of the assumptions between parties). This should be amended to exclude scenarios where there is no or limited flexibility in the choice of assumptions. It is assumed that this relates to material actuarial work. Finally, we note that the requirement for sensitivity calculations has been added to align with ISAP1 but we believe that, where they are material, they should be included already as a result of compliance with 5.7 of TAS100 (and the corresponding principle in TAS R).

5.3 A decision is needed about the purpose for which the advice might be used. Using an example, suppose a funding valuation has been signed off and an annual update provided a year later. At a meeting, a trustee asks how the up-to-date solvency position might affect the priority order for paying benefits. A verbal answer is provided. If the actuary decides that the answer is not material to trustee decision-making, then TAS100 won't apply so they won't need to confirm in writing. If they think the response is more material to decision-making, any written communication would need to comply with section 5 of the TAS, providing appropriate context, comparisons and scenario testing, subject to materiality and proportionality. The actuary will only be able to judge this based on their understanding of the circumstances and the use to which the information might be put. If, at a later date, there is no record of it but the information turns out to have been used for a material purpose, then it could, with hindsight, appear that the actuary failed to comply with TAS requirements. In this case, the scenario could be where an unexpected shock occurs, the sponsor fails, the scheme enters the PPF and the proportion of benefits payable is nowhere close to the estimate indicated by the actuary. However, in the context of answering a question in a meeting where there is no reasonable expectation that this situation would arise, they would appear to have been justified in not confirming the oral advice given in writing (or doing so very briefly on the grounds of proportionality). Again, we think it would be helpful to expand upon this type of example.

5.4 This principle (as drafted in TAS100) provides another example of a potential unintended consequence owing to the exclusion of the subsequent unboxed test in the existing standard (TAS R, paragraphs C.5.17 to C.5.19). As now drafted, it is not clear if this is intended to mean a previous exercise for the same population. For example, a funding valuation relates to an entire scheme membership so comparison of results is sensible. However, suppose a corporate client carries out an enhanced TV exercise in 2010 with the result that a reasonable number of members transfer out of the scheme. The impact on funding and corporate balance sheets is commented on and reflected in the next funding/accounting valuations. If another ETV exercise is carried out in 2015, the outcome of the 2010 exercise does not seem all that relevant to the potential outcomes of this current exercise. Drawing comparisons when presenting results seems unnecessary, does not add value in this example and would be challenged by clients. Perhaps this

needs to refer to "relevant" previous exercises where, in this example, the 2010 exercise would be judged irrelevant. This is not to discount that there may be information from the original exercise that will inform the planning of the current exercise and assessment of possible outcomes but this doesn't seem to be what this is driving at.

5.5 The example above also questions whether comparing measures will always be appropriate. It may be useful to include "relevant".

5.6 Should the language used here be consistent with 3.5 i.e. is adverse deviation the same as the degree of difference from neutral assumptions? If not then adverse deviations should be defined in the glossary. As well as describing adverse deviations, it would be helpful to the users for the reasoning to be explained.

5.7 First bullet – agreed.

Second bullet – it is not clear whether this expects a description of the risks inherent in the actuarial work, for example longevity risk in scheme funding, or whether it is supposed to be an assessment of the risks in an entity's business for which the actuarial work is providing a possible set of results to aid decision-making. Entity is defined in the glossary as a pension fund in this example so we believe it is the former. However, the Framework uses entity also to mean an employer. Again, this may be a result of the exclusion of unboxed text in TAS R – in this case paragraphs C.5.3, 5.4, 5.6 and 5.7.

5.8 This needs to indicate that it is the period of time up to the communication being issued (recognising that there may well be a short period of grace needed for practical purposes). It would be impractical to update information after advice has been delivered.

There is no compulsion on the individual responsible for the communication to find out whether any material changes have taken place. This places the responsibility on the client to inform the key contact. The individual can consider information within their control such as general economic conditions or legislation or Regulatory perspectives.

This requirement also needs to recognise that conflict of interest protocols may mean that some information might not be known by the actuarial adviser depending on whether they are acting for a trustee or a corporate body.

5.9 As previously stated, we believe that *user* should be more tightly defined, particularly given that this principle refers to *any* user and might be interpreted more widely than required as a result – it is the contractual client or Regulators or third parties where reliance has been agreed between the advisers and client, otherwise there is a risk that anyone (for example readers of a pension plan's annual newsletter that references the Statutory Funding Update) would fall within scope. This is particularly relevant given the direction of travel for consideration of public interest and member freedoms as mentioned previously.

5.10 Agreed, although we reiterate our concern that the new requirements in TAS100 to disclose material judgements, data checks and controls and to provide sensitivity analyses all need to be weighed against this principle.

Q5.6 Do you have any comments on the application of TAS 100 (paragraphs 5.25 to 5.29)?

We are pleased to see the work of a previous ACA committee included in the standard and, unsurprisingly, approve of the approach described!

Q5.7 Do you agree that a compliance statement should be required (paragraph 5.30)?

We agree that a brief compliance statement should be included. Whilst the *Disclosure* principle in the Compliance section states that (only) material departures need be disclosed, the judgement that a principle was immaterial may itself be a material one. This might be interpreted as effectively requiring all departures from the TASs to be disclosed (creating another potential conflict with 5.10 of TAS100). For example, the absence of sensitivity calculations where there is only one possible measure and set of assumptions permitted might be considered a material departure; on the other hand, as assumptions are prescribed, then there is no added value in considering scenarios so perhaps it is an immaterial departure. It may be helpful to include a statement that judgements that principles are not material are not expected to be reported unless, exceptionally, the actuary believes it necessary or, perhaps, the user has requested it.

Q5.8 Do you agree with the proposed approach on guidance material (paragraphs 5.32 to 5.34)?

We agree subject to the TAS100 being sufficiently clear in its own right. It would be useful to expand the examples with less clear-cut scenarios to aid consistency of interpretation of the standard amongst actuaries.

Q5.9 Do you agree with the proposal to include defined terms in a separate glossary (paragraph 5.35)?

The glossary is helpful. As noted in earlier responses, some additional definitions are needed.

Q5.10 Do you consider the definitions of the terms in the glossary are clear (paragraph 5.35)?

The definition of actuarial work is not helpful, too wide-ranging and circular. See earlier response.
As mentioned above data is more wide-ranging than defined.

Does *to document* really need a separate definition from that implied by the definition of *documentation*? If this is retained, then we suggest it would be useful to add "to indicate" and explain that this implies a general description of the impact and direction and does not go as far as "to quantify".

Entity – the definition suggests that it is the subject of the actuarial work whereas the Framework uses entity to include employers (e.g. 4.5, 4.11). This should be clarified.

Measure and method are possibly open to interpretation and this may be another example where previous material might be helpful to new TAS readers.

Neutral - see earlier comments about adverse deviation.

Earlier comments highlight some omissions in the glossary.

Q5.11 Do you have any other comments on the exposure draft of TAS 100?

No

Q6.1 What areas of work specified in scope of the current Specific TASs do you consider should not be subject to more detailed actuarial standards (paragraph 6.8)?

Please note that we have neither reviewed nor commented on the scope of the Insurance TAS as this is outside the area of expertise of the authors of this response.

Pensions TAS

Given that the calculations required for directors' remuneration disclosures in respect of defined benefit pensions (C.1.27) no longer involve actuarial work, we suggest that this can be removed from the scope of any replacement. Otherwise we believe the work currently identified as in scope should continue to be subject to the actuarial standards.

Transformations TAS (TAS T)

We believe that all the work that meets the definition of a Pensions Transformation should continue to fall with the scope of a specialist TAS. The FRC will doubtless recall that the feedback from actuaries prior to implementation of TAS T was that the pensions-related elements of the Transformations should be separated from the insurance elements, and integrated with the existing Pensions TAS. This appears to be the intention of the FRC based on the proposed structure (3.18 & 3.19 of the consultation document) but we believe it is worth re-stating our preference for this to happen.

Q6.2 What work which is not currently in the scope of the Specific TASs do you consider should be subject to the more detailed standards (paragraph 6.8)?

We suggest that the following areas of actuarial pensions work might be suitable for inclusion in the scope of specific TASs:

- Asset Liability Modelling and similar work to support pension scheme investment decisions (such as buy-ins, LDI and longevity-hedging) and integrated funding and investment advice for actuaries and sponsors;

- Expert witness work in relation to occupational pension schemes;
- Advice in relation to the use of special purpose vehicles (asset-backed contributions);
- Various aspects of public sector pension scheme advice (for both funded and unfunded schemes), including, for example, comparability certificates, fair deal certification, bonds and contribution rate calculations for participating employers; and
- Advice in relation to the new pension freedoms (recognising that it is not yet clear exactly what role actuaries might play that is not already covered by requirements for advice on funding, transfer value assumptions etc.).

Q6.3 Do you agree with the proposed structure of the TASs (paragraphs 6.9 to 6.12)?

We agree with the proposed structure. As with the current TASs, actuarial employers may choose to reorganise/collate the relevant principles for certain work into the sort of standards considered in 6.10 for internal training or documentation purposes.

Q6.4 Do you have any other comments on the proposals for technical actuarial standards in section 6?

Both the content in 6.13-6.14 and order specified in 6.13 seem reasonable.

Q7.1 Do you have any comments on the proposed implementation of the new framework in Section 7?

See response to Q7.2 below.

Q7.2 Are the proposed interim arrangements clear (paragraphs 7.7 to 7.9)?

The timetable seems unnecessarily complex and a recipe for confusion, wasted effort and cost in relation to both training and the delivery of client work in the transition period. For example, the proposals would require non-statutory funding advice given to trustees and sponsors in 2016 (i.e. not given as part of a formal triennial valuation) to comply with two different frameworks. In practice, the two sets of advice might not look that different, but there would be tangible costs of developing and monitoring the two approaches, notwithstanding the fact that conflict considerations would generally mean different teams or firms would be involved. Individual actuaries with both trustee and corporate appointments would still have to do work to two different sets of standards.

We suggest that either the extension of the scope of the TASs to all actuarial work be delayed until the full set of replacement standards are effective, or, if there is unavoidable urgency to apply some standards to all actuarial work, it be left to individual actuaries to make a reasoned judgement as to whether to apply the existing framework or the new one to such further work. Where the work is genuinely 'new' to the TASs, for

example actuaries providing ERM services to banking clients, it will make sense to adopt TAS100 ahead of any replacement specific standards. Where the extension of scope is effectively to bring further users of actuarial work into scope, e.g. the extension of non-statutory funding advice from pension scheme trustees to also include sponsors, then it may be easier for actuaries who are familiar with the existing framework (i.e. the three generic TASs and relevant specific TASs) to continue to apply them for all actuarial work until the whole replacement package of new standards is available.

Q8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?

In principle, as a replacement for the three generic TASs, we agree. In practice, because of the issues identified in our response, we think there will be some additional costs that are disproportionate to the benefit to users. There remains a belief that actuaries had a tendency to 'over-interpret' the generic standards in the early days of the TASs. The new principles are likely to generate the same reaction, no matter what messages or guidance around materiality and proportionality are put alongside them. Many actuaries will

- include more matters of judgement than users need to know about;
- comment at greater length on the data checks and controls than users wish (for many the latter would be no comment at all); and
- provide sensitivities where they in no way might aid the decisions made by users.

Actuaries will not 'over-comply' because they don't understand the needs of their clients, or the issues of materiality and proportionality. They will do so because they are fearful that hindsight will be harsh in judging the absence of these matters in their communications, or, more likely, the un-anticipatable failure of proportionate content to address an underlying problem that causes a subsequent dispute. It will be safer to address everything potentially relevant in the advice given at the time, than much later to attempt to retrospectively justify a judgement to exclude an issue from reporting, when hindsight has shown that specific issue now to appear very material. This may cause a very significant shift in the burden of proof, which currently only requires an actuary to demonstrate that they were not negligent in the way they exercised judgement, rather than the specific outcome.

At this point, there is little in the public domain on how the IFoA disciplinary process will treat what is retrospectively judged to be a failure to comply with the TASs, although we understand that there are such cases underway. They may have a significant influence on how actuaries view these particular additions to the standards, which appear to be a step in the direction of rules rather than principles.

Q8.2 Do you have any comments on our analysis of the impact of the changes set out in section 8?

Whilst we recognise the rationale set out in 8.2 to 8.7, and support the aims listed in 8.8, we do have some concerns that improving the reliability of actuarial advice will not, in isolation, produce the intended benefits to the public interest. This will only happen if there are some corresponding behavioural changes amongst the users of this information, and perhaps some incentive or compulsion for them to both commission work from actuaries and pay attention to the less palatable conclusions that work may suggest. The FRC indicate that they believe it is more likely that other regulators and contracting parties will require work to comply with TAS 100 than with the existing TASs (8.13). We suggest that some evidence of this, perhaps in the form of other regulators committing to require TAS100 compliance for actuarial work delivered by non-actuaries in their respective ambits. This commitment should include a timescale, so that actuaries can at least point to similar standards applying whoever does the work, within a short period of TAS100 first coming into force.

Response by:

Association of Consulting Actuaries
Regis House
45 King William Street
London EC4R 9AN
020 3102 6761
Contact: Jenny.condron@mercer.com

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