



GOVERNMENT **ACTUARY'S** DEPARTMENT



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

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Dear Dr Pryor

Consultation Paper: Actuarial Information Used for Accounts and Other Financial Documents

I am writing to set out the views of the Government Actuary's Department (GAD) on the above consultation paper issued in October 2009. GAD welcomes the opportunity to offer input.

By way of background, GAD provides actuarial advice to the UK Government on pensions policy, social security and other actuarial matters. We are also the appointed actuary to many public service pension schemes and have extensive experience of advising on social security and pension issues in the international context.

We have not made any detailed comments on the provisions relating to insurance accounting as we do not expect our work in this area (which is predominantly for jurisdictions outside the UK) to fall within the scope of this proposed TAS.

We have some concerns that in the pension context, the paper does not reflect the accounting requirements in the public sector, with no mention made of Resource Accounting. For example, there is no need in resource accounting to set out buy-out costs, and comparison with scheme funding reports would not be appropriate (as the valuations may be quite old and may use different principles depending on their purpose). We are very happy to work with you to ensure that the resulting standard is appropriate in both private and public sector contexts.

It may be useful to give you some background to Resource Accounting so that the requirements may be factored in when producing your exposure draft. . All central government bodies (including pension schemes) produce "Resource Accounts", the general framework for which is set out under the Government Resource and Accounts Act 2000. The format of Resource Accounts for pension schemes does differ for that underlying other Resource Accounts, and is largely based on the private sector model, although it is not identical to that model. Resource Accounts must all be audited by the National Audit Office.

The accounting policies underlying resource accounts are set out in the Government Financial reporting *Manual (or FReM)*. The Financial Reporting Advisory Board (FRAB), which brings together representatives from the Treasury, departments, the National Audit Office, the Audit Commission, the Accounting Standards Board, industry and academia, must be consulted on all additions and changes (including proposals not to follow standard practice) to the *Resource Accounting Manual*. Section 12 of the manual concerns pension schemes; however in addition HM Treasury publish supplementary guidance on assessing pension costs (this is not in the public domain); this guidance prescribes both the discount rate for pension liabilities and an inflation rate. There is no statutory role for the actuary in the preparation of these accounts, although we will often be commissioned to produce figures for inclusion in the Resource Accounts of pension schemes.

Finally we would comment that while the consultation paper does set out that it relates to the information provided to those who are required to produce the final accounts or other financial documents, the paper does, in places, imply that the requirements relate to the accounts themselves (over which the actuary is very unlikely to have any great degree of control); we assume that the exposure draft will make it clear that this is not the intention.

In closing it is worth noting that, in effect, the proposed standard will cover the report that the actuary prepares to the directors and others with the responsibility for preparing accounts (or other financial documents). We are therefore surprised that there is no explicit reference in the document to TAS R nor to "best estimate". Furthermore whilst the paper discusses the various frameworks relating to accounts, there is little in depth discussion of the responsibilities of Directors or others tasked with preparing them and no discussion on audit standards or the use of other professionals. By examining all these features you could well end up with serious changes of principle; I would therefore urge you to hold discussions with audit standard setters before deciding how best to move forwards.

Yours sincerely



Trevor Llanwarne
Government Actuary