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

e-mail: basaccounts@frc.org.uk

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Dear Sir/Madam

BOARD FOR ACTUARIAL STANDARDS – ACTUARIAL INFORMATION USED FOR ACCOUNTS AND OTHER FINANCIAL DOCUMENTS: CONSULTATION PAPER

The consultation on the above proposed standard has been considered by the Institute of Chartered Accountants of Scotland's Pensions Working Party, which comprises representatives of the accountancy, legal and actuarial professions from both professional practice and industry. Our views are set out below. As the Working Party is pensions focussed, our comments relate to the pensions arena.

General points

We are not entirely clear why there needs to be a specific Technical Actuarial Standard (TAS) on actuarial information for users of accounts and other financial documents. The generic TASs already published together with the specific TASs on pensions and insurance, whose exposure drafts are due to be published in the near future, appear to be designed to cover the whole ambit of advice given by actuaries including issues relating to data, modelling and reporting. The various accounting standards (FRS 17 and IAS 19) are fairly prescriptive in terms of what must be provided. We are not sure what needs to be included in the accounts TAS that could not be covered elsewhere. It may be that the accounts TAS is intended for the benefit of the users of the actuarial information rather than the actuaries themselves (who one would expect to be familiar with all of the relevant TASs). We think it is optimistic to expect that all users of actuarial information will become familiar with the accounts TAS. In practice, it is the actuaries who will interpret the accounts TAS for their clients. If the accounts TAS is simply intended to distil the relevant parts of other TASs into a single source document for the benefit of the users of actuarial advice, we are unconvinced that this will be of any significant benefit.

There is also a concern that unless carefully drafted, inconsistencies with other TASs could arise. There is also a danger that some actuaries and users of actuarial advice may rely entirely on the accounts TAS without reference to other TASs which may be more relevant in some situations.

We note that the remit of the proposed standard relates to UK reporting. However, UK actuaries often give advice in relation to overseas reporting (for example, it is fairly common for UK actuaries to provide advice in connection with reporting pension liabilities under the US FASB standards for UK subsidiaries of US companies). It seems anomalous that UK actuaries should be required to adhere to an accounts TAS in respect of a UK accounting standard and yet have no TAS in respect of advice to essentially the same client and which is very similar to the advice under the UK accounting standard.

The International Accounting Standards Board (IASB) has made great strides in recent years in trying to achieve consistency in accounting standards. Whilst we note that it is not the intention of the accounts TAS to encroach on accounting standards we believe that having a TAS which relates solely to UK accounting could lead to differences in approach to UK reporting compared to overseas entities.

We welcome the comments in section 3 of the consultation paper relating to materiality, proportionality and application of judgment and we would not support any proposals that added cost to businesses unless there was a benefit commensurate with that cost.

We are concerned that the introduction of new standards from any authority (whether this be regulation, accounting standards, technical actuarial standards, etc.) often bring initial compliance costs, and that it can take several iterations of the new standard before entities and their advisers are able to measure materiality and proportionality.

Specific questions

Q.1: should there be a separate TAS for actuarial information used for accounts and other financial documents?

As mentioned above, we are not entirely convinced there is a need for a specific accounts TAS for actuarial information used for accounts and other financial documents. We believe that the current generic TASs in force along with the proposals for the specific pensions and insurance TASs will be more than sufficient to meet the requirements of actuaries and other users of actuarial information used for accounts and other financial documents.

In addition, we would add that any developments in this direction should take account of work being undertaken by other Regulatory bodies. For example, both the Accounting Standards Board (ASB) and the International Accounting Standards Board (IASB) have been carrying out work for a number of years in connection with reviewing and updating their respective pensions standards (FRS 17 in the UK and IAS 19 internationally).

We also wonder how the current ASB discussions on the future of UK GAAP would fit into this especially if, as seems likely, there is a move towards using a mix of EU adopted IFRS (International Financial Reporting Standards) and the new IFRS for SMEs in the UK resulting in the dilution of UK GAAP.

Q.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 pointed out above, we are not clear why there needs to be a specific accounts TAS given the scope (or intended scope) of other TASs either in place or planned.

We also have some issues about which users of accounts would actually benefit from the proposed accounts TAS. We can understand that preparers and auditors of accounts would have access to the full reports/information prepared by an actuary. However, in the published accounts or financial statements, it is more likely that limited information will be presented, and the form and content of such presentation will follow the requirements of the relevant accounting standard and is not determined by the actuary. It is therefore questionable how this high degree of reliance can be achieved by investors and other readers of the financial statements given that the publishing of the actuarial information is out with the powers of the actuary.

Q.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?

Assuming that there is some merit in having an accounts TAS at all, we broadly agree with the proposal but would caveat this by requiring the definitions in section 4 to be clearer so that there can be no ambiguity about what is/is not within the scope of the proposed accounts TAS.

We would also caution that this would seem to be an area that would clearly overlap with the other proposed specific TASs.

Q.4: Do respondents agree that provision of actuarial information for preliminary statements of annual results should be in the scope of the accounts TAS?

Assuming that there is some merit in having an accounts TAS at all, we would agree with the proposal that the provision of actuarial information for preliminary statements of annual results should be included in the scope of the proposed accounts TAS.

Q.5: Do respondents agree that provision of actuarial information for material which is made publically available, but which is not required by any formal rules or regulations, should be in the scope of the accounts TAS?

We are concerned about the “catch-all” nature of this proposal. If the proposal is to have merit, there needs to be a clear indication as to what is included within the scope of the accounts TAS and what is not. The proposed accounts TAS as it currently stands does not adequately explain or clarify the intended scope or remit behind the need for an accounts TAS. As pointed out above, we believe that most situations should be covered by other TASs, provided that these are drafted appropriately.

Q.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?

Assuming that there is some merit in having an accounts TAS at all, we would agree with the proposal that the provision of actuarial information for internal budgeting exercises for management should not be in the scope of the accounts TAS.

Q.7: Is there any other work which respondents believe should be within the scope of the accounts TAS?

Assuming that there is some merit in having an accounts TAS at all, we do not believe there is any other work that should be within the scope of the accounts TAS. As we have already commented on, the current generic TASs in force along with the proposed specific TASs on pensions and insurance should be adequate.

Q.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?

There are no data issues specific to accounts and other financial documents which we believe should be covered by principles in the proposed accounts TAS.

Q.9: Do respondents have any comments on the proposals concerning assumptions that re presented in section 6, and in particular on the principles proposed in paragraphs 6.6, 6.9, 6.10, 6.13 and 6.17?

Para 6.6 – we do not think it is necessary to repeat principles set out elsewhere.

Para 6.9 – we do not think that this is workable. The roles and responsibilities of the various parties are often defined in the accounting standards or other authorities. It is not clear who is expected to give this opinion and at what point. For example, it may be that the actuary, having given his report to the preparers of the accounts, is not privy to the actual disclosed assumptions.

Para 6.10 – there is a danger that this could overlap with the requirements of accounting standards which set out some requirements in the choice of assumptions.

Para 6.13 – many entities will rely on standard tables and the accounts TAS should make it clear that standard tables may be used.

Para 6.17 – we would generally agree with this, though it could be seen as being too prescriptive. These would also have to be looked at in accordance with the concepts of materiality, proportionality and the application of judgement.

Q.10: Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS?

Assuming there is merit in having an accounts TAS at all, assumptions should be compatible with one another and there should be consistency in approach from year-to-year unless a departure can be justified.

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

It would seem appropriate for the actuary to seek information on materiality levels for accounting purposes and that those levels should be taken into account in the models used and calculations performed. There has to be dialogue between the actuary, the company and its auditors. This would provide an approach that is consistent with accounting and auditing standards.

Q.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?

There are no specific issues relating to modelling and calculation work for actuarial information provided for accounts and other financial documents which we believe should be covered by principles in the accounts TAS. As we have already commented on, we believe that current TASs in operation and the proposed TASs adequately cover this and would again question the need for a specific accounts TAS.

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

Para 8.4 – we are not sure that this correctly reflects the requirements of IAS 19 or its interpretation. The general interpretation of IAS 19 would take into account the duration of the liabilities, thereby narrowing the range of choice. Also, we are not sure that simply identifying where the selected assumption falls within the range gives much information to the user. It would be much more useful if information about the impact of changing to another point in the range is identified.

Para 8.6 – we do not believe that this would be relevant or appropriate to be included in the proposed accounts TAS. Scheme funding actuarial valuations have a different rationale and will have been carried out at a different date.

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

Ultimately, it is the reporting that users will in almost all cases be interested in. It would therefore seem more appropriate for any other principles to be included in the relevant reporting TAS and not in any proposed accounts TAS. This again begs the question as to whether or not there is any need for a specific accounts TAS.

Q.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?

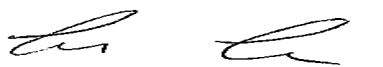
We do not think the accounts TAS should require an indication of the time constraints for actuarial work in relation to reporting pension costs for company accounts as we fail to see why this would be helpful to users of accounts.

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

We do not see any particular transitional issues.

Please do not hesitate to contact me should you wish to discuss any of the points in this letter further.

Yours faithfully



PAUL PROVAN
Assistant Director, Business Policy
Secretary to Pensions Working Party