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Financial Reporting Council

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Dear Madam or Sir

Feedback on Post Implementation Review: Technical Actuarial Standards

Thank you for the opportunity to provide feedback post implementation of TAS 300. We wanted to share our experience of emerging practice on the areas covered in the call for feedback and views on regulatory developments in case helpful for your future review of TAS 300. This response is sent on behalf of XPS Pensions Group.

We appreciate as an organisation we are generally providers of actuarial advice rather than users of advice. However, our overarching view is that TAS 300 has been robust through regulatory and industry developments highlighted in your call for feedback. We believe this is due to the principles-based nature of the Technical Actuarial Standards.

Emerging practice in response to upcoming legislative requirements on setting a long-term funding and investment strategy (Question 17 of the Call for Feedback)

For several years now advice has evolved so that it is more common to provide advice on setting long term strategy and managing risk alongside advice on funding. This approach is now seen as best practice but is not universal. The extent to which this is considered depends on the scope of services requested or agreed to by clients. Some of our clients tell us that they do not wish to incur additional advisory costs for detailed advice on these aspects until there is more certainty over what the new regulatory requirements and approach will be.

In providing such advice it is typical for actuaries to work with other disciplines and professions. These include accountants, insolvency practitioners and corporate finance experts who provide advice on sponsor covenant which feeds into risk tolerance. Other advisers also include investment advisers and climate experts not part of the actuarial profession. Here actuaries need to be conscious of any shared models or collated advice to ensure that TAS elements are suitably reflected.

The nature of the work in this area often focuses on understanding risk, relevant stakeholders' objectives, security and outcomes for members, and how various funding and investment strategies can achieve objectives and manage risk.

There is also considerable additional focus on planning for contingencies and support available to mitigate any outcome. This includes downside protections such as security or guarantees and upside participation such as sharing in additional cash flow or profits created by the sponsor.

There is also varied practice on responses to being ahead of or behind plan, particularly in relation to investment risk, hedging and de-risking or amending targets in achieving outperformance. This may include automated actions (such as de-risking the investment strategy) or a flag for strategy or risks to be formally reviewed.

Emerging practice on risk transfer and risk settlement (Question 17 of the Call for Feedback)

We are seeing more practice on refining estimates and detailed information about risk settlement options such as buy-ins, buy-outs and longevity swaps and alternate settlement options such as superfunds.

Here there is a focus on what a transactable outcome may be relevant to initial solvency estimates that inform decision making. Refinements can reflect current competition among insurers and desire for transaction, the impact of specific assets that insures have sourced that will impact pricing, the desirability of a specific pension scheme (in terms of membership structure, data quality, benefit complexity, asset strategy) and market conditions.

In both the areas highlighted above use of technology Is now prevalent. Online or app-based models which can show development of funding position and the impact of various changes to assumptions and what-if scenarios on strategy are typically used to provide real time interactive discussions with trustees and manager of pension schemes and sponsors.

More generally, the upcoming legislative requirements on setting a long-term funding and investment strategy and the general trend of improved funding levels in recent years have led to a greater focus on solvency estimates. There is now greater reliance on projected *future* solvency funding level estimates in decision making and it is important the uncertainties inherent in any such advice are clearly communicated to clients.

Regulatory approach and changes to TAS 300 (Question 17 of the Call for Feedback)

In the context of providing robust actuarial advice, we are wary of the undue influence a regulatory process, such as Fast Track assessment (outlined in the Pensions Regulator's consultation on the new funding code of [redacted]his concern relates to the possibility that such a defined approach may create a comfort [redacted]which then becomes the norm. The legislative requirement based on Pension Schemes Act 2021 is to set a scheme specific funding and investment strategy and the relevant risks and position of each scheme should be considered. We think TAS 300 is already fit for that purpose. We expect that users of actuarial advice will wish to understand how their approach measures up against any regulatory tool. However, we believe that advice should be framed in the context of the appropriate approach for a pension scheme reflecting its specific situation and risk and would worry about any action that may short cut advice or an [redacted] a benchmark approach.

Factors for individual calculations (Question 18 of the Call for Feedback)

The feedback request relates to changes in practice as a result of Freedom and Choice being introduced. The broader options for defined benefit members once they transfer out under Freedom and Choice have not had a material impact on the approach taken to setting factors. However, several other influences have. These include the introduction of further options for defined benefit members such as exchange of pension increases, partial transfer values, and temporary increases in pensions to bridge the period between retirement age and State Pension Age

Review and change to rules on financial advice for DB transfers by the Financial Conduct Authority have had an impact on the incidence and typical age of members who transfer out and this in turn has impacted advice on factors to reflect emerging patterns of transfers.

Other topics (Question 30 of the Call for Feedback)

Whilst acknowledging the points made under 7.1-7.6 around the new challenges faced by certain actuaries working in investment and finance, they currently have limited relevance to the work carried out by XPS Investment. Our comments, therefore, can only be given by considering issues relating to those additional areas of work that do have currently applicability to us as a business, the main one being around ESG risk, rating and reporting. In that area of work, we note that:

> The industry still appears to need to progress considerably to establish more of a consensus on the ESG considerations that really matter to trustees, sponsors, members, advisers and investment managers (plus other interested parties) and how to measure/report on them.

> The use of actuarial techniques in addressing these matters is both varied and minimal at the current time; non-actuarial analysis appears to be far more commonly used.

On that basis, we are of the opinion that a separate standard would not add greater coherence at the current time. The value to users of introducing a separate TAS, specific to investment/finance, would not be significant enough to justify doing so until further developments have been made in the industry.

About XPS Pensions Group

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, covenant, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of more than 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 968,000 members and provide advisory services to schemes of all sizes including 51 with over £1bn of assets. We employ over 1,500 staff across 15 UK locations.

If you have any queries, please do not hesitate to contact me.

[redacted]

Yours sincerely,

John Prior FIA

Partner

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