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Sent by e-mail to: l.pryor@frc.org.uk

Dear Louise

### **BAS Consultation Paper Actuarial Information used for Accounts and other Financial Documents**

The Actuarial Profession is pleased to have the opportunity to comment on your Consultation Paper "Actuarial Information Used for Accounts and Other Financial Documents".

#### 1. Need for separate TAS on accounting information

On the fundamental issue of whether there should be a separate standard covering the provision of accounting information or alternatively whether these standards should be incorporated within the Insurance TAS (Life and General, possibly to be split) and the Pensions TAS, we can see arguments for each approach.

The answer will depend partly on how many of the Principles are sufficiently distinct from those in the Insurance and Pension specific TASs and partly on how many Principles are common to all three practice areas.

For example, the Principles in section 6 on assumptions are equally true for work within the scope of the Insurance and Pension specific TASs so their inclusion in a separate TAS may imply some subtle difference, when in fact there is none. However the Principle in 8.4, which requires an indication of where the assumptions advised by the actuary lie within a range permitted by an accounting standard, could be in a separate Accounting TAS.

We suggest that if there is to be a separate accounting standard then it should only include Principles which are specific to accounting and that it would be helpful to Users and Practitioners if the Principles common to all practice areas and those which apply only to specific practice areas are clearly identified.

#### 2. Comparison of assumptions for accounting purpose with those used for technical provisions for Defined Benefit Schemes

We are not clear why the Principle in 8.6 should be applied to accounting disclosures for Defined Benefit Schemes but in any event explain below why we feel this Principle is counterproductive and hence should not be introduced.

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We first observe that for General Insurance there is not currently, and indeed is unlikely in future to be, any marked difference between the technical provisions required in financial statements and those calculated for regulatory returns.

However for Pensions, the technical provisions under the funding requirements fulfill a different purpose to that of the provisions calculated in accordance with IAS19 or FRS 17. We therefore believe the comparison, envisaged by 8.6, will be confusing and require much explanation with little added value for the recipients (the company directors) of the actuarial advice on assumptions.

For the primary accounts for long-term insurance, there is a smaller difference between the technical and accounting provisions than is likely to be the case in Pensions but the Principle in 8.6 is still inappropriate.

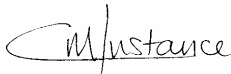
### 3. Embedded value

For long term insurance, we have also considered voluntary embedded value reporting. If the decision is to proceed with a separate standard for accounting information, then we would strongly request that embedded value reporting be incorporated only in the accounting standard so that duplication is removed from the Insurance Standard.

We would value a discussion on the above and on our response to the questions posed in Sections 10 of the TAS, outlined in the Appendix. In particular we draw your attention to Question 2, where a discussion on the roles and responsibilities of the different parties involved in the process may help to clarify the issue.

In the meantime we hope the above is helpful in highlighting what we believe are the most important issues to be considered in relation to the TAS.

Yours sincerely



Caroline Instance  
Chief Executive

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## Appendix

Question 1 - We believe it is important that if a separate standard for accounting is issued then it covers only Principles specific to accounting and that any such Principles which are practice specific rather than common across all three practice areas should be separately identified. In addition we believe the requirements for embedded value reporting should be in one TAS to avoid duplication.

Question 2 - We take the view that the directors and auditors should be able to rely on the information provided by the actuary. However we would like to discuss the Scope of the standard and the work products which it applies to. In particular we are unclear whether it is the intention to include information set out in the accounts or other management statements etc within the Scope of the TAS.

Question 3 - We agree with this proposed scope,

Question 4 - Yes we agree.

Question 5 - We think that scope should not extend to informal material such as this, given there is an opportunity to comply with the TASs on a voluntary basis. .

Question 6 - Yes we agree that this should be excluded.

Question 7 - We believe that it should be made clear that information contained in Interim Management Statements (IMS) is excluded. We take the view that this accords with the spirit of the IMS which is not subject to audit or detailed rules on content.

Question 8 - We support your comments in 5.3 and do not believe there are additional data requirements which are specific to accounting information which are not covered by the Principles in the Reporting and Data TASs. In this regard, there may be a need to emphasise that when considering materiality, judgment is required to establish if the data is sparse or of poor quality to the extent that there is a material effect on the results. We believe this is sufficiently covered by the Principle in 7.4

Question 9 - The Principles covering the assumptions in section 6 are essentially covered in the specific TASs for Pensions and Insurance. As we believe there should not be duplication, these Principles should either not be included in the accounting TAS or it should be made clear whether they are imposing any additional requirements to those in the specific TASs for Pensions and Insurance. We also observe that 6.9 may not have been sufficiently covered in the exposure draft for the specific TASs for Pensions and Insurance.

Question 10 - Perhaps it should be stated that all assumptions must be consistent with relevant accounting standards.

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Questions 11 – 14 No, but as stated in our letter we believe that the Principle in 8.6 is not appropriate.

Question 15 and 16 - We will consider this as part of our work on identifying the impact of the deletion of the GNs.

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