

The Director,
Board for Actuarial Standards,
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7 January 2010

Dear Louise,

Accounting TAS – Consultation Paper

I have consulted with my colleagues at Prudential with regard to the proposed Accounting TAS. We have a number of comments which I have outlined below. These have been outlined in terms of overall general comments and answers to the specific questions raised within the CP.

General Comments

Overall we do not support the introduction of a further TAS for accounts. The following comments highlight our concerns with these proposals and provide feedback on some of the recommendations to support the incorporation of these principles within the overall BAS framework as appropriate.

While the consultation paper contains some good suggestions, there are a number of areas where we consider implementation to be problematic. In particular the CP has significant overlap with some of the proposed TASs, TAS-R specifically. It would appear that the main motivation of the CP is to broaden the application of TAS-R beyond reserved and required work.

We are concerned that given these overlaps confusion is introduced for the actuary in certifying compliance with the specific requirements of BAS and would suggest that steps be taken to clarify the approach. Overall, we would recommend that any extension of scope would be best served by increasing the scope of TAS-R.

We would suggest reviewing the content of the paper and how it may be applied to regulatory work. Early in the document it feels as though FSA work is out of scope, but later it implies that this will fall into scope. Published Accounts rely on information/reporting that is out of the proposed scope of this CP, and the CP creates a number of potential conflicts for this. For example (2.4) suggests that a range of answers should be provided for actuarial reserves, yet clearly reserves are published as single figures in the Accounts.

In Section 8, mention is made of the TAS-R principles. However, TAS-R currently applies only to Reserved work. The wording of Section 8 seems to extend the TAS-R principles to all actuarial work. We consider this to be a material change in emphasis.

Consideration needs to be given as to how these proposals interact with the disclosure requirements under Solvency II, which outlines the disclosure requirements in the new solvency regime, and also the requirement to produce an ORSA.

Answers to Specific Questions

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

We do not feel that a separate TAS is of benefit and feel that the interests of this proposed TAS are best served by expanding the scope of TAS-R should this be considered necessary,

We do agree that a separate TAS *may* be helpful for auditors of accounts (1.19) but that such a TAS should then concentrate on the aspects of audit rather than account preparation which would be better served by TAS-R.

The terminology “other financial documents” provides a very wide scope for interpretation. We consider this terminology confusing as this could relate to a wide range of publications from single press statements to complex published financial statements. We would suggest that more detail/guidance is required on the proposed scope of application.

Specific reference is made in the CP to Embedded Values in paragraph 4.18. To capture preparation of Embedded Values under the Insurance and Accounts TAS, but not the Reporting TAS is likely to be confusing. At the moment it appears that Embedded Values and IFRS would be covered partly by TAS-A, and partly by TAS-R. We would recommend that these items should be considered by a single standard.

2. Will the proposed purpose of the TAS, set out in paragraph 2.7, help to ensure it meets the BAS’s Reliability Objective?

We agree that BAS’s reliability objective should apply to actuarial information used in Accounts and financial documents

We agree that using a single number to represent complex actuarial liabilities may result in the loss of important information about the nature and uncertainty of liabilities (2.4). However, this does not appear consistent with the current approach to profit measurement and reporting.

Providing additional cashflow information and ranges of values within the published valuation would lead to confusion within the public domain. This could undermine the requirement that readers of Accounts and other financial documents need to be able to understand the actuarial calculations used (2.7 b). We agree that there is value in providing ranges to Management and to the Board but do not feel that it would then be appropriate to place this information into the public domain.

3. Do respondents agree that the proposed scope should be the provision of actuarial information for the preparers/auditors of accounts or any related financial documents which are required by statute or other rules, but excluding those produced solely for the use of regulators?

We believe that it is clear that documents such as annual and interim reports and accounts would be within scope (4.5), yet it is unclear why work for regulators should not fall in scope (4.6) as there is often significant overlap in the preparation. For example, it is proposed that IFRS reporting would be in scope (4.15), however, the insurance liabilities calculated for IFRS reporting are based heavily on Pillar 1, which appears to be out of scope earlier on in the document based upon (4.6).

Furthermore under the proposed Solvency II regime, the Report To Supervisor (RTS) builds on the Solvency and Financial Condition Report (SFCR). However, under the proposals in 4.5 and 4.6, the RTS will not be under the scope of TAS-A, but the SFCR will.

4. Do respondents agree that provision of actuarial information for preliminary statements of annual information should be within scope? (4.27)

We do not believe that preliminary results should be within scope of such a TAS as this may lead to a requirement to describe changes between preliminary and final published results in significant detail, and possibly lead to the acceleration of reporting timescales to ensure appropriate BAS compliance. Furthermore, preliminary results are often published on an un-audited basis and a requirement for compliance with TAS-A may place undue pressure on the audit opinion.

5. Do respondents agree that provision of actuarial information for material which is made publicly available, but which is not required by any formal rules or regulations, should be within scope?

We do not believe this to be appropriate. This appears to be a catch-all statement designed to bring a wide variety of publications into scope as opposed to providing direction towards specific areas of actuarial work (e.g. Embedded Values).

6. Do respondents agree that a provision of actuarial information for internal budgeting exercises for management should not be within scope? (4.35)

Yes, although BAS's reasoning for excluding this is that it is not normally made public. However, under Solvency II it is indicated that some of these items will be made more readily available.

7. Is there any other work which respondents believe should be within scope?

We would suggest that consideration needs to be given to the documentation that will fall into the public domain under Solvency II as this will replace some of the existing published disclosures. In so-doing, however, consideration will need to be given to the direction of Solvency II which places much of the emphasis on the Risk function rather than the Actuarial function. We would suggest that the scope of coverage should only apply to items that need to be produced by an Actuary.

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?

We are not aware of any and agree the principles in TAS D and TAS R should be sufficient. (5.3)

9. Do respondents have any comments on the proposals concerning assumptions that are presented in section 6 (Assumptions)?

We are supportive of some of the principles, for example:

- assumptions should take account of the purpose of the calculations for which they will be used (6.6)

- the aggregate report should indicate the fitness for purpose of the assumptions used in any calculations (6.9)
- separate assumptions should be selected for current rates of mortality and for future changes to mortality rates (6.13), but this point is perhaps more relevant to the modelling or reporting TAS.
- it is important that assumptions are consistent as a whole and that each assumption should be justifiable individually (6.15)

We consider (6.10) however, to be particularly problematic and possibly contradictory to (6.9). This (6.10) states that “the assumptions should take account of **all** available information as at the effective date of the calculations”. We do not consider that this requirement makes adequate allowance for the use of actuarial judgement in the setting of assumptions as would be signalled under (6.9), nor does it allow for the circumstances where the assumptions are set by the Board on the advice of the actuary. We consider it particularly problematic for an Actuary to confirm that account has been taken of “**all** available information” when providing advice and would suggest that this requirement is softened to allow for materiality and availability.

We feel that the principle on adjustments to assumptions to compensate for the shortcoming of another assumption (6.17) would need more thought and guidance on how else to allow for this. It is difficult to explain the difference between a shortcoming and an uncertainty, and would prefer that the (6.17) were redrafted to require an indication of the order of the impact of the adjustment for uncertainty in particular that has been made rather than to explicitly exclude such a possibility.

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

No.

11. Do respondents have any comments on the proposed principle regarding materiality levels for accounting purposes (7.4)?

We have no further comments

12. Are there any specific issues relating to modelling and calculation work for actuarial information provided for accounts and financial documents which respondents believe should be covered by the accounts TAS?

We are not aware of any other issues.

13. Do respondents have any comments on the proposed principles on reporting?

We disagree with the need to establish the position of an assumption within the range of acceptable outcomes if this information were to fall into the public domain. We believe that such publication may lead to undue emphasis upon individual elements of an actuarial basis/valuation as opposed to ensuring that the aggregate position is properly understood.

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

We are not aware of any other principles that should be included.

- 15. Do respondents have any views on whether on the accounts TAS should require the user to be given an indication of the time constraints for actuarial work in relation to reporting to reporting pension costs for company accounts?**

We currently do not have any other views.

- 16. Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs?**

No

Kind regards

Yours sincerely

Andrew W Sharpe