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FAO: Louise Pryor, Director

8 January 2010

Dear Sirs

Consultation Paper on Actuarial Information for Accounts TAS

Deloitte LLP is pleased to respond with comments on your consultation paper "Actuarial Information for Accounts" ("CP") and, as always, we welcome your consultative approach. We think that the way in which you are developing Generic and Specific Technical Actuarial Standards will contribute to maintaining and improving the quality of actuarial work. We set out below our key comments on the paper and respond to your specific questions in the attached appendix.

A separate TAS for actuarial information for accounts

Our first key comment relates to question one of the CP on whether there should be a separate TAS for actuarial information used for accounts and other financial documents. We believe that there is significant overlap between the scope and principles proposed in this CP and what other TASs (such as insurance and pensions) propose to cover. As such, it seems the CP addresses areas of work that are already covered by other specific TAS. It is merely the user of the actuarial information that differs from other TASs and what the actuary does to produce the information is not different. Therefore, we do not see the benefit in having a separate standard. We think it would be better to amend other TASs by adding any information contained in this CP that is not contained elsewhere already. Similarly for Pensions business, we suggest you include in the Pensions TAS Exposure Draft, areas which were excluded from the earlier consultation but that are proposed to be included in this TAS.

Scope

Whether the BAS goes ahead with a separate TAS on actuarial information for accounts or amends the Insurance and Pensions TASs to embed new principles proposed in this CP, we have the following comments on the scope which we believe, as currently presented, lacks clarity. For life insurance business, the CP proposes to include within its scope: reporting under International Financial Reporting Standards (IFRS), Embedded Values, Deferred Acquisition Costs and Value of Business Acquired. We think it would be less confusing and more helpful for the scope to cover "Published IFRS and UKGAAP accounts, excluding accounts prepared under overseas reporting standards" instead, which would automatically include all these items and any future additions without the need to amend / re-issue the standard.

Furthermore, it is our understanding from the “Scope and Authority of Technical Standards” document (version 3, November 2009) that the BAS does not intend to set standards on monitoring the work of another actuary, therefore excluding the Reviewing Actuary’s work. If that is the case, we fail to understand why “information provided to auditors” should fall in the scope of this standard. The standards for audit work are already covered by ISAs (UK and Ireland) and other auditing pronouncements issued by the Auditing Practising Board (APB) and should not be covered by two separate standards. We think that this TAS, if the BAS goes ahead with it, or other relevant TASs should deal with the *preparation* of actuarial information only and this distinction should clearly be made, as well as a very well defined scope. Similar comments would apply to work carried out by actuaries working to support auditors providing opinions which relate to companies’ pensions accounting disclosures, general insurers’ and Lloyd’s syndicates’ reserving or aspects of life insurer audits other than the Reviewing Actuary role.

Clearly though, this would leave a technical gap in the standards for the role of Reviewing Actuary used by the auditor of a life Insurer, and other actuarial roles which support auditors. If the BAS feels it is part of its remit to establish such standards, then this should be clearly separated from the guidance on preparation of actuarial information for financial reporting, which is quite different from the Reviewing Actuary’s work agreed between the him / her and the auditors. The BAS should also liaise with the APB to ensure that its Practice Notes 20 and 24 are aligned with this material.

Non-Life insurance - inaccuracies

Although the paper covers both life and non-life insurance, it seems to have been written mainly from a life insurance perspective as it contains a number of inaccuracies in relation of non-life business. For example, paragraph 1.10 says that “the Companies Act requires that underlying calculations are carried out by a Reporting Actuary”. That is not a requirement that applies to non-life insurance companies. Another inaccuracy can be found in paragraph 4.19 where the description of DAC accounting given is wrong for non-life business. We outline other items for correction in our Appendix and we ask the BAS to review its paper to ensure the information about non-life insurance is correct.

Response to questions

We set out in the attached appendix our responses to the specific questions in your consultation paper dated October 2009. We hope that you will find our responses useful in developing an appropriate standard on insurance. If you would like to discuss further any of the points we have raised, please contact David Murray (Life Insurance, 020 7303 3372), Alex Marcuson (General Insurance, 020 7303 3378), Paul Geeson (Pensions, 020 7303 0878) or Alex Arterton (Audit, 020 7303 5996).

Yours faithfully

Deloitte LLP

Deloitte.

APPENDIX

RESPONSES TO QUESTIONS

1. ***Should there be a separate TAS for actuarial information used for accounts and other financial documents? Respondents are asked to consider the benefits to the users of actuarial information (including the preparers of accounts and auditors) and to practitioners complying with BAS standards. (paragraphs 1.17 to 1.20).***

   We believe that there is significant overlap between the scope and principles proposed in this CP and what other TASs (such as insurance and pensions) cover. As such, it seems the CP does not seek to address a separate class of work not already covered by a specific TAS. It is merely the user of the actuarial information that differs from other TASs and what the actuary does to produce the information is not different. Therefore we do not see the benefit in having a separate standard. We think it would be better to amend other TASs by adding any information contained in this CP that is not contained elsewhere already (i.e. in the Insurance and Pensions TASs).

   We also note an inconsistency between paragraph 2.4 and 2.6 as the former encourages the production of better information whilst the latter clarifies that it is for financial reporting standards, rather than actuarial standards, to specify the nature of the information to be disclosed and the basis on which it is calculated.

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 per our previous comments, we think there should not be a separate standard for actuarial information used for accounts. Rather we recommend that the BAS amends the TASs on Insurance and Pensions currently being developed to include new principles coming out of this proposal.

   In relation to paragraph 2.7(a) – we think this should be reworded; directors would already be in breach of FSA regulations if they were not provided with appropriate actuarial information to enable them to prepare accounts and other financial documents with confidence. The purpose of the relevant TAS is to set actuarial standards for the reliability of actuarial information provided to directors not to ensure that they obtain appropriate actuarial information. The time over which the TAS applies should be clarified - for example, much of this information is provided on an annual cycle as opposed to a single point in time, e.g. the AFH has an ongoing role vis-a-vis the Board.

   In relation to paragraph 2.7(b) - responsibility for the accounts, investment circular etc. rests with the Board and it is for them to make sure that the information they provide is in accordance with relevant rules and regulations. The actuary should prepare the underlying information in accordance with TASs but this should not go as far as having to specifically anticipate the needs of prospective investors in doing so. The generic requirement to produce reliable information should be enough.

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? (paragraph 4.6) If respondents believe that the scope should be different they should set out their preferred approach with reasons?***

As per our comments in the covering letter and in the event that the BAS decides to go ahead with a separate TAS on actuarial information for accounts, we have the following comments on the scope which we believe, as currently presented, lacks clarity. For life insurance business, the CP proposes to include within its scope: reporting under International Financial Reporting Standards (IFRS), Embedded Values, Deferred Acquisition Costs and Value of Business Acquired. We think it would be less confusing and more helpful for the scope to cover "Published IFRS and UKGAAP accounts, excluding accounts prepared under overseas reporting standards" instead, which would automatically include all these items. This would then ensure that any future changes / additions to Financial Reporting were automatically covered by the relevant TAS rather than requiring the BAS to amend and re-issue.

Furthermore, it is our understanding from the "Scope and Authority of Technical Standards" document (version 3, November 2009) that the BAS does not intend to set standards on monitoring the work of another actuary, therefore excluding the Reviewing Actuary's work. If that is the case, we fail to understand why "information provided to auditors" should fall in the scope of this standard. The standards for audit work are already covered by ISAs (UK and Ireland) and other auditing pronouncements issued by the Auditing Practising Board (APB) and should not be covered by two separate standards. We think that this TAS, if the BAS goes ahead with it, or other relevant TASs should deal with the *preparation* of actuarial information only and this distinction should clearly be made, as well as a very well defined scope. Similar comments would apply to work carried out by actuaries working to support auditors providing opinions which relate to companies' pensions accounting disclosures, general insurers' and Lloyd's syndicates' reserving or aspects of life insurer audits other than the Reviewing Actuary role.

Clearly though, this would leave a technical gap in the standards for the work of the Reviewing Actuary used by the auditor of a life insurer, and other actuarial roles which support auditors. If the BAS feels it is part of its remit to establish such standards, then this should be clearly separated from the guidance on preparation of actuarial information for financial reporting, and the BAS should liaise with the APB to ensure that its Practice Notes 20 and 24 are aligned with this material.

4. ***Do respondents agree that provision of actuarial information for preliminary statements of annual results should be in the scope of the accounts TAS? (paragraph 4.27)***

We agree with paragraph 4.27 subject to the limitations of speed versus detail. In recent years the period for production of the audited financial statements of a listed PLC has been shortened from six months to four months, which inevitably means that the time between any voluntary unaudited preliminary announcement and the audited accounts is shorter. In addition, the auditor is required to consent to the release of a preliminary announcement and is not permitted to do so unless it has, inter alia, cleared all outstanding audit matters other than those which are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement (see paragraph 21 of APB Bulletin 2008/2 *The auditor's association with preliminary announcements).* This would include actuarial work being completed to a sufficiently advanced stage that it is unlikely that the numbers reported in the preliminary announcement would change.

However, we can envisage a situation where the actuary has prepared the information required for inclusion in the preliminary announcement but, at that stage, not yet completed his / her work on all of the other information to be included in the annual report and then during the completion of that work the actuary discovers an issue which does lead to a potential change in the information already reported in the preliminary announcement. We recommend that the standard makes clear that in the case of an unaudited preliminary announcement, the actuarial work must have been completed to such a sufficiently advanced stage (albeit that may not be to the same level of accuracy as a full year report), but if that work is not complete, that the actuary communicates to the Directors the fact that whilst changes are unlikely, there cannot be absolute certainty that during the completion of his / her work further matters may not come to light.

Furthermore and as per previous comments, we would prefer to see this brought into the other TASs currently being developed (i.e., Insurance and Pensions).

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 in the scope of the accounts TAS? (paragraph 4.30)***

   We agree that publicly available information which is not required by any formal rules or regulations should be in scope of a TAS, such as the Insurance and Pensions TASs, as long as it is applied on a proportionate basis. Actuarial information that is the basis for published numbers should be reliable but the level of detail presented to support published information may be less if the information is of less significance to the user.

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? (paragraph 4.35)***

   We agree. We think that actuarial information that is not primarily of public interest should be excluded from the scope, in line with our response to the Insurance TAS consultation.

7. ***Is there any other work which respondents believe should be within the scope of the accounts TAS? (section 4)***

   No.

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? (section 5)***

   No.

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

   We think that in general, assumptions are adequately addressed in other TASs, such as the Reporting, Insurance and Pensions ones. However, if the BAS does not share our thinking, we suggest that those TASs be amended accordingly, i.e. embedding principles proposed in section 6 into the Insurance, Pensions or Reporting TASs. Below are a few specific comments relating to the principles in section 6.

   In relation to paragraph 6.10, we suggest using the following alternative wording: "... take account of all ***relevant*** available information...". For example, in determining Embedded Value results to be reported on within weeks of the year-end (effective date of calculations), it is likely that the actuary is unable to take into account all of the deaths and lapses that have occurred in determining the demographic assumption or in the data being used in the calculation. This is both understandable and unlikely to result in a misleading statement.

   In relation to paragraph 6.13, we would add "... for future changes to mortality rates where these increase the reserves".

   We are concerned about the interpretation of the principle in paragraph 6.17 as it is very much reliant on the interpretation of "shortcoming". If one assumption in a basis is subject to considerable uncertainty, for example because of a lack of data or experience, it might be reasonable, in some circumstances, for an actuary to add an extra margin for prudence elsewhere in the basis. In general when establishing assumptions, there is often a range within which the assumption can be set and would be considered to be reasonable. An assumption outside of this range may be considered to be unjustifiable (which is what we understand by "shortcoming"). When performing a reserving exercise we would expect each assumption for each product class to be within its appropriate range, and therefore, the aggregate level of reserves to be appropriate. If an assumption is outside of its appropriate range (and therefore is unjustifiable) we would not expect this inadequacy to be compensated for by making an offsetting adjustment to another assumption elsewhere. In this situation, we would expect the company to move the assumption which is unjustifiable into its appropriate range. It may be helpful if paragraph 6.17 was clarified to reflect this rationale.

10. ***Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS? (section 6)***

    No.

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

    In line with our other comments, we think that the definition of materiality should be clarified and other TASs would benefit from including the principle proposed in 7.4.

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? (section 7)***

    As per our comment in the main body of this letter, we think there is no need for a separate TAS and that principles relating to modelling should already be covered by TAS M when finalised.

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

    We think that for Pensions business the principle in 8.4 could be difficult to apply in practice in some circumstances. For example, at the height of the international credit crunch, the end points of a range of possible discount rate assumptions would have been difficult to quantify.

14. ***Are there any other principles on reporting which respondents believe should be in the accounts TAS? (section 8)***

    As per our comment in the main body of this letter, we think there is no need for a separate TAS and that principles relating to reporting should already be covered by TAS R.

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? (paragraph 9.6)***

    We think that time constraint is not specific to GN36 / pensions work and we do not see such a requirement as appropriate. Furthermore, it is not relevant for a technical actuarial standard as it is a professional ethics.

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

We believe it is regrettable to be losing the GNs as they are a source of valuable information. There are a number of areas in the practical application of any of these principles which will only become clear with the use of the standards. There needs to be some mechanism to provide feedback to the Profession. It may be helpful to keep some of the material in the Guidance Notes as application material to the TASs or incorporated into the Information and Advisory Notes (IANs).

OTHER COMMENTS NOT SPECIFIC TO YOUR QUESTIONS

The TAS seems to have been written mainly from a life insurance perspective although it says it covers both life and general) and contains a number of inaccuracies relating to non-life business, for example:

- Contrary to what is stated in paragraph 1.10 it is not a requirement for non life companies that "the underlying calculations are carried out by a Reporting Actuary";
- Paragraph 1.11 states that the actuary provides an opinion on the liabilities in a syndicate's accounts, whereas the opinion is on the liabilities included within the syndicate's year-end quarterly return to Lloyd's for the purposes of the Lloyd's solvency requirements. Furthermore it is in a specific format as required by Lloyd's and is therefore a different sort of opinion to other actuarial opinions;
- Paragraph 4.15 refers to "these long term liabilities" under IFRS reporting - this section should cover both life and non-life;
- The description of DAC accounting in 4.19 is wrong for a non-life company;
- Paragraph 4.21 is correct only if the above points are corrected;
- Paragraph 4.38 states that "When a Lloyd's syndicate year is closed a payment known as a reinsurance to close premium may be made, representing an assessment of the value of claims incurred but not yet reported." This statement is inaccurate in that it equates reinsurance to close to only the IBNR component of technical provisions. Reinsurance to close could better be described as "A reinsurance premium paid to close a year of account. The RITC premium is paid to a later year of account in order to transfer the responsibility to discharge the liabilities of the former year of account (and any year of account closed into that year), including the right to any further income arising in relation to those liabilities, to the latter year of account".