THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

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Dear Sir or Madam,

CONSULTATION ON A NEW FRAMEWORK FOR TECHNICAL ACTUARIAL STANDARDS

We welcome the opportunity to comment on the above consultation document.

INTRODUCTION TO THE SOCIETY OF PENSION PROFESSIONALS

SPP is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPP's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPP is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPP's Members, including the overwhelming majority of the 500 largest UK pension funds. SPP's growing membership collectively employs some 15,000 people providing pension-related advice and services.

The consultation paper has been considered by SPC's Actuarial Committee, which comprises representatives of actuaries and consultants.

The Society of Pension Professionals was previously known as the Society of Pension Consultants (SPC).

RESPONSES TO THE CONSULTATION QUESTIONS

Question 3.1: Do you have any comments on the draft Framework for FRC Actuarial Standards (paragraphs 3.5 to 3.8 and Appendix A)?

The framework is generally appropriate and we understand the desire for consistency with ISAP

However, we do not consider that the case for such wide changes has been sufficiently made – in particular we are not sure that the fourth point in section 2.3, which requires the anticipated benefits of the change to outweigh the costs, has been sufficiently considered.

In section 4.6, we believe that the phrase "unless compliance with it can have no material effect on the decisions of users" should be changed to "unless compliance with it can be <u>expected</u> to have no material effect on the decisions of users". The user alone decides what is material (whether logical or not) when they come to make the decision, but the actuary has to make the judgement about what they believe to be material and therefore included in the work. Including the words "can be expected" would allow the actuary to only include what he or she would expect will influence the decision.

Question 3.2: Do you have any comments on our proposal to withdraw and archive the existing Scope & Authority (paragraphs 3.26 to 3.29)?

No.

Question 3.3 Do you have any comments on our proposed approach to the Significant Considerations documents (paragraphs 3.30 to 3.31)?

We are happy for the Significant Considerations documents to be withdrawn, provided the thinking behind them still applies. The way in which actuarial practice has developed has been influenced by these documents, and it will not benefit anyone if actuaries are forced to re-consider their practice, because the Significant Considerations have been withdrawn. Some confirmation that the thinking behind them remains valid would be helpful.

Question 4.1: Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.

and

Question 4.2: Do you agree with the proposed definition of actuarial work? If not, please provide reasons and suggest an alternative approach (paragraph 4.11).

1) We would prefer an approach, which (a) embodied a clearer definition of actuarial work (including clarity on who decides whether work is actuarial) and imposed the same mandatory standards on everybody carrying out that work (whether an actuary or not) or (b) reserved work defined as actuarial for actuaries subject to the mandatory application of TASs.

   This would address the current position, whereby the end user cannot rely on consistency of standards because, among those potentially carrying out actuarial work, only actuaries must comply with the standards set out in TASs.

2) We have concerns about the actuary's responsibilities under the TAS to "users", with whom he or she does not have a contractual relationship.

3) There were good reasons why work such as asset-liability modelling and most corporate pensions work were previously excluded from the TASs. We do not consider that the case for the benefits of including these areas of work within the scope of TAS 100 has been sufficiently made, set against the extra costs, which pension scheme sponsors and trustees will incur. In particular, pension scheme sponsors employ numerous advisers and they pay for the service they require. What matters to them in making decisions involves many factors, of which pensions is just one. Including corporate pensions work within the scope of the TASs could cause corporate pension scheme advisers to try to comment (or suggest the company gets specialists to comment) on the risks in these other areas. This could easily cause additional work, which was not wanted by the client.

Question 4.3: Do you agree with the analysis of different areas of work in Appendix E?

Some of our Member companies have investment departments, which employ both actuaries and non-actuaries. If asset-liability modelling is included within the scope of TAS100, non-actuaries will have to change the references to TAS 100 in their communications, depending on whether they are working for an actuary or a non-actuary. Alternatively, all the non-actuaries will have to learn about the TASs and their application, for what might be a very small element of their work. We do not consider either solution particularly efficient and suggest that asset-liability modelling could remain outside scope.

We also do not consider that actuaries working in wider fields should automatically be subject to TAS 100.

Question 5.1: Do you agree with the proposed high-level principles (paragraph 5.3)?

Yes, subject to our concerns on "materiality".

Question 5.2: Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

Yes, although it appears that there is an underlying assumption that data can always be supplemented. This is not the case. We are also not aware of any problems caused by the current TAS requirements not asking for the source of the data to be communicated. This appears to be an unnecessary extension of the current TAS principles.

Question 5.3: Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?

Yes.

From a presentational point of view, we are not sure that the multiple "Provisions" sub-headings are needed.

Question 5.4: Do you agree with the proposed provisions in TAS 100 on modelling (Appendix B)?

We suggest that there should be more emphasis on the need for users to be able to rely on the model having been properly constructed, without the expectation that the model will invariably produce the correct answer, since models are, in essence, only an approximation of actual circumstances.

Question 5.5: Do you agree with the proposed provisions in TAS 100 on communications (Appendix B)?

The comparison required by principle 3.4 of the assumptions of "any relevant previous actuarial work" is too wide-ranging. We assume it should also be work for the same client and purpose (which may be implied by "relevant"), to help manage separate corporate and trustee appointments.

Should the "third parties" principle 3.6 be extended to include the (second party) users, with whom the actuary is contracted to provide advice? For example, clients may put forward their own assumptions for the actuary to use, which may require comment.

In principle 3.6, we agree that if a client proposes an assumption, which an actuary considers to be unreasonable for the purpose, the actuary should point it out to the client. To encourage consistency amongst actuaries using this standard, it would be useful to give some examples of the expected response. For example, if it is the client, with advice from their auditors, who takes responsibility for an assumption, would it be acceptable for an actuary to point out that an assumption is outside the range that most actuaries would typically advise, with the result that the liabilities (for example) are lower than would otherwise be the case? The current wording of principle 3.6 does not seem to imply that this needs to be quantified or scenario-analysis provided. If the assumption is material to the actuarial output and the decisions to be made, the actuary should point out that, in order to comply with actuarial standards, he or she would advise that the impact be quantified to help decision-making. If the client did not wish to commission further work, the actuary would have departed from TAS100 in respect of a material piece of work, but with justification. Would this be acceptable?

In principle 5.2 we assume that where assumptions are prescribed (e.g. "s179 assumptions" prescribed by the PPF), sensitivity illustrations will not usually be useful, and would not be required, because they would not be "material" to any user decision.

In principle 5.4 it is not clear how widely a "previous exercise" should be interpreted. For example, a funding valuation relates to an entire scheme membership so comparison of results is sensible. However, suppose a corporate client carried out an enhanced transfer value (ETV) exercise in 2010, with the result that a reasonable number of members transferred out of the scheme. The impact on funding and corporate balance sheets is commented on and reflected in the next funding/accounting valuations. If another ETV exercise is carried out in 2015, the outcome of the 2010 exercise does not seem particularly relevant to the potential outcomes of this current exercise. Drawing comparisons seems unnecessary, does not add value in this example and would be challenged by clients. Perhaps the need is to refer to "relevant" previous exercises where, in this example, the 2010 exercise would be judged irrelevant. This is not to discount that there may be information from the original exercise, which will inform the planning of the current exercise and assessment of possible outcomes, but this does not seem to be what principle 5.4 has in mind.

Similarly, principle 5.5 would benefit from referring to a "relevant" previous exercise.

Question 5.6: Do you have any comments on the application of TAS 100 (paragraphs 5.25 to 5.29)?

No.

Question 5.7: Do you agree that a compliance statement should be required (paragraph 5.30)?

We do not consider that clients generally appreciate the compliance statement in its current form, referring to all the TASs, which have been complied with. We believe they would prefer a much shorter indication that all the relevant standards have been compiled with, maybe even some sort of TAS "stamp" which means "Our advice relating to the decisions to be made as a result of this work complies with the TASs".

In our commentators' experience, the statements are repetitive and cause actuaries to waste a disproportionate amount of time checking that they have put the relevant statement in a document at the right point of a project, when the aggregated work complies in all other respects. We consider that there is a risk that actuaries focus too much on the very visible disclaimer requirement, when their attention would be better spent reflecting on the more meaningful principles.

Question 5.8: Do you agree with the proposed approach on guidance material (paragraphs 5.32 to 5.34)?

Actuaries might hold different views on what is necessary to comply with the principles. Further guiding examples could help fully illustrate what approaches would be typically viewed as "reasonable", "proportionate" and "material". The most helpful examples would be "borderline" or possibly disputed cases, where actuaries would be likely to interpret the principles in different ways. This is not a substitute for individual professional judgement, but it would help actuaries' confidence in following the spirit of the principles if they had some suitable illustration from the FRC.

Question 5.9: Do you agree with the proposal to include defined terms in a separate glossary (paragraph 5.35)?

Yes.

Question 5.10: Do you consider the definitions of the terms in the glossary are clear (paragraph 5.35)?

Yes, subject to our comments in response to other questions.

Question 5.11: Do you have any other comments on the exposure draft of TAS 100?

No.

Question 6.1: What areas of work specified in scope of the current Specific TASs do you consider should not be subject to more detailed actuarial standards (paragraph 6.8)?

One of the functions of the old Specific TASs was to bring work into scope of the Generic TASs. This is no longer required, so the only work, which needs to be brought into scope of the Specific TASs, will be work, which requires additional guidance. It then becomes a very wide question – "What additional areas of work would benefit from additional principles, and what should those principles be?" We do not feel in a strong position to answer this question without significant additional consideration.

Question 6.2: What work, which is not currently in the scope of the Specific TASs, do you consider should be subject to more detailed standards (paragraph 6.8)?

Please see our answer to question 6.1.

Question 6.3: Do you agree with the proposed structure of the TASs (paragraphs 6.9 to 6.12)?

Yes.

Question 6.4: Do you have any other comments on the proposals for technical actuarial standards in section 6?

No.

Question 7.1: Do you have any comments on the proposed implementation of the new framework in Section 7?

We do not consider it helpful to end users to have the interim arrangements described in paragraphs 7.7 to 7.9.

Since, in our view, the new framework is not intended to introduce any fundamentally new provisions, we suggest that it would aid clarity to delay, if necessary, the introduction of new provisions, so that the whole package under the new framework takes effect from the same date.

Question 7.2: Are the proposed interim arrangements clear (paragraphs 7.7 to 7.9)?

Yes, but please see our answer to question 7.1.

Question 8.1: Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?

Yes, but only subject to the adjustments outlined in this response.

Question 8.2: Do you have any comments on our analysis of the impact of the changes set out in section 8?

We believe that the costs for work, which is not currently within scope of the TASs, could be greater than the consultation document suggests.

Yours sincerely

John Mortimer
Secretary