

**PRIVATE**

6 March 2015

The Actuarial Policy Team  
Financial Reporting Council  
Sent via email only

Dear Sirs

## **A NEW FRAMEWORK FOR TECHNICAL ACTUARIAL STANDARDS** **Consultation response**

Barnett Waddingham LLP is a UK based firm of actuaries and consultants. In particular, we provide actuarial, administration and investment consultancy services to trustees and sponsoring employers of occupational pension schemes. We also have a specialist team providing actuarial and investment advice to insurance companies. We therefore considered the Financial Reporting Council's consultation on "a new framework for Technical Actuarial Standards" with a great deal of interest.

The following represents the views of many, but not necessarily all, of the actuaries working at Barnett Waddingham. This response should, however, be considered as our organisation's views, rather than my own professional views although the two are, by and large, the same. We are happy for this response to be made public.

We have considered the specific questions posed in the consultation document and set out our answers in the attached appendix. I have also made some general comments and observations below.

### **Summary**

We support the consolidation of the Generic TASs into a single, more concise document. We are also happy in principle for a wider range of work to be subject to the requirements of TAS100.

However, it is important that the requirements of TAS100 can be applied in practice, and we have some concerns as to whether this is the case under these proposals. In particular, we feel the proposed definition of actuarial work will be difficult to apply in some areas, as it does not focus on specific work delivered to users.

Further, we believe there is a significant risk that practitioners will reach different conclusions as to whether work is in scope of TAS100. We do not think such uncertainty and inconsistency would be in the interests of users or practitioners. Therefore, if the scope is extended in this way we believe it is imperative that further guidance is provided – either by the FRC or by another body – as to what is and is not in scope.

Yours faithfully



**Steve Hitchiner FIA**  
**Partner, Barnett Waddingham LLP**

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Barnett Waddingham LLP, Cheapside House, 138 Cheapside, London, EC2V 6BW

Tel 020 7776 2200

Fax 020 7776 3800

Web [www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)

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## Appendix 1 Response to specific questions

### **Q3.1 Do you have any comments on the draft Framework for FRC Actuarial Standards (paragraphs 3.5 to 3.8 and Appendix A)?**

We have no comments on the proposed draft *Framework for FRC Actuarial Standards*.

### **Q3.2 Do you have any comments on our proposal to withdraw and archive the existing Scope & Authority (paragraphs 3.26 to 3.29)?**

We have no comments on the proposal to withdraw and archive the existing *Scope & Authority*.

### **Q3.3 Do you have any comments on our proposed approach to the Significant Considerations documents (paragraphs 3.30 to 3.31)?**

We would be happy for the FRC not to issue further *Significant Considerations* papers. However, important matters that would have been covered in these papers will need to be included elsewhere in future.

For example, the *Significant Considerations* document for the Transformations TAS includes a number of important points on the interpretation and application of the TAS, including what work was considered in and out of scope. The FRC will need to ensure that there is an appropriate format for similar points to be recorded and referred to in relation to the new TASs.

### **Q4.1 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.**

We agree that extending the scope of TAS100 is likely to be of benefit to users, and we would be happy for more of our work to be subject to the requirements of TAS100. However, for the extension of the scope to be of benefit it must be done in a way that can be applied in practice.

Therefore it is important that TAS100, and indeed any other standard which is applied to actuarial work more generally, is fit for application to such a wide range of work. The concepts of materiality and proportionality should not be used to justify the inclusion of requirements that are inappropriate for a significant section of the work to which TAS100 is intended to apply.

Further, the extension of the scope will mean TAS100 may be applicable to small elements of larger non-actuarial projects. For example, a pension scheme investment monitoring report may include a funding level update (which would be considered actuarial work) as part of a larger report covering investment market commentary and data from investment managers (which would not). It is not clear how the investment consultant would disclose the application of TAS100 to certain aspects of such a report in a way that is clear and understandable from the users' perspective.

### **Q4.2 Do you agree with the proposed definition of actuarial work? If not, please provide reasons and suggest an alternative approach (paragraph 4.11).**

We are concerned that the proposed definition might be difficult to apply in practice, as it results in TAS100 being applied to a "concept" of actuarial work rather than to specific advice delivered to users.

For example, the consultation states that actuarial software development is "actuarial work", and therefore in scope of TAS100, as it requires actuarial expertise as well as judgement (i.e. the first part of the definition). However, it is not possible to apply many of the requirements of TAS100 such as reliability of data, appropriateness of assumptions, and fitness for purpose to such software development. These requirements, and the materiality of these requirements, can only be applied in the context of specific advice to users which is based on such software, and the decisions those users need to take.

We believe this issue could be addressed by amending the definition of actuarial work so that work delivered to users is central to the definition, or alternatively by amending the way that TAS100 is applied to such work.

Further, we feel that inclusion of the words “by implication” in the second part of the definition could cause aspects of our work to be in scope where TAS100 is not intended to apply.

The pensions industry in particular commonly refers to matters as “actuarial consultancy” even though the work is not actuarial work. Examples include drafting member communications, advice on governance requirements, acting as a trustee secretary and advice on compliance with auto-enrolment. Such work will often be included under a schedule of “actuarial consultancy” tasks in tenders and fee agreements and therefore is, by implication, actuarial work under the second part of the definition. Such work may not be actuarial work, though, and applying TAS100 may be impractical.

Therefore we suggest the words “by implication” be removed from the definition.

#### **Q4.3 Do you agree with the analysis of different areas of work in Appendix E?**

We do not disagree with the analysis in Appendix E, although we would note the comments above regarding the application of TAS100 to actuarial software development, and we would make similar points regarding E.6 “Complex calculations using actuarial factors in pensions and insurance work”. It is hard to see how TAS100 can be applied practically to such a general concept of work without a specific user or decision.

Further, we feel that the examples set out in Appendix E are insufficient to provide the necessary clarity, and that far more examples of work in and out of scope are needed. We believe there is a significant risk that the revised scope of TAS100 and actuarial work definition will result in practitioners reaching different conclusions as to whether work is in scope. We do not think this uncertainty would be in the interests of users and therefore if the scope of work is to be extended it is imperative that further guidance is provided – either by the FRC or by another body – as to what is and is not in scope.

Areas of work that we believe to be unclear which are not covered by the examples include:

- Estimates of Pension Protection Fund levies.
- Advice on the actions that might be taken to reduce Pension Protection Fund levies, including advice on insolvency risks.
- Commenting on proposed rule amendments, including amendments that have a potential impact on member benefits.
- Advising on the potential transfer of risk to an insurance company.
- Preparing communications to members on financial matters relating to a pension scheme.
- Advice on executive pension benefits, including maximising the tax efficiency of such benefits.

#### **Q5.1 Do you agree with the proposed high-level principles (paragraph 5.3)?**

Yes.

#### **Q5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?**

Yes.

#### **Q5.3 Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?**

Yes.

#### **Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling (Appendix B)?**

Yes.

**Q5.5 Do you agree with the proposed provisions in TAS 100 on communications (Appendix B)?**

No. We believe that the proposed provision 5.2 is too prescriptive. Sensitivity of results to variations in key assumptions can be a valuable way of communicating uncertainty in some circumstances, but in many cases an alternative approach such as a narrative explanation, a scenario analysis or more detailed stochastic modelling is more appropriate. Therefore, we believe a more generic requirement to communicate uncertainty – as is the case under the current TAS-R – would be more beneficial for users.

**Q5.6 Do you have any comments on the application of TAS 100 (paragraphs 5.25 to 5.29)?**

As mentioned above, we do not believe the statement on materiality should be used to justify the inclusion of requirements that would be inappropriate for a large section of work to which TAS100 is intended to apply.

In addition, we do not disagree with the sentiments expressed regarding proportionality but we would note that proportionality can be difficult to apply in practice. Again, we do not believe the statement on proportionality should be used to justify the inclusion of requirements that would be inappropriate for a large section of work to which TAS100 is intended to apply.

**Q5.7 Do you agree that a compliance statement should be required (paragraph 5.30)?**

We have mixed views within the firm as to the value of the compliance statement for users and the widening of the scope of the TASs should reduce the need for its inclusion. If a compliance statement is to be required, it would be useful if it were made clear that a simple statement suffices for this purpose, and that a specific description of TAS100 does not need to be included.

**Q5.8 Do you agree with the proposed approach on guidance material (paragraphs 5.32 to 5.34)?**

We agree that such guidance should be removed from TAS100 itself so that it is a shorter document with a clearer focus on the underlying principles and requirements. However, we believe that supporting guidance and examples are useful for practitioners and feel that there should be some form of replacement under the new framework (whether this is issued by the FRC or another body).

**Q5.9 Do you agree with the proposal to include defined terms in a separate glossary (paragraph 5.35)?**

Yes.

**Q5.10 Do you consider the definitions of the terms in the glossary are clear (paragraph 5.35)?**

Yes.

**Q5.11 Do you have any other comments on the exposure draft of TAS 100?**

Yes, we do not believe it is sensible or practical for “communications” to include statements in non-permanent form i.e. oral communications. It is very difficult to see how TAS100 could be applied to such communications or how practitioners could demonstrate compliance. There is a requirement in paragraph 5.3 to follow up significant oral advice in writing and we believe this should be sufficient.

**Q6.1 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)?**

We do not have any specific comments on this point at this stage as it depends on the structure and content of the more detailed standards.

**Q6.2 What work which is not currently in the scope of the Specific TASs do you consider should be subject to the more detailed standards (paragraph 6.8)?**

We do not have any specific comments on this point at this stage as it depends on the structure and content of the more detailed standards.

**Q6.3 Do you agree with the proposed structure of the TASs (paragraphs 6.9 to 6.12)?**

Yes.

**Q6.4 Do you have any other comments on the proposals for technical actuarial standards in section 6?**

No.

**Q7.1 Do you have any comments on the proposed implementation of the new framework in Section 7?**

We consider the proposed interim arrangements, whereby both TAS100 and the generic TASs will be in force for different areas of work from 1 January 2016, to be unnecessarily complex. One implication of this is that different aspects of a single piece of work could be subject to different standards.

For example, work for a client on Pension Protection Fund levies might include advice on certifiable deficit reduction contributions (reserved work subject to the generic TASs) and an estimate of the updated funding position on which the actual levy calculation will be based (actuarial work subject to TAS100).

In our view it would be clearer for both practitioners and users if there is a single implementation for the entirety of the new framework.

**Q7.2 Are the proposed interim arrangements clear (paragraphs 7.7 to 7.9)?**

We believe the proposed arrangements are unnecessarily complicated and are likely to be confusing for users of actuarial advice as explained above.

**Q8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?**

Potentially yes, if the contents of TAS100 and the definition of scope allows it to be applied in a sensible and practical way. Based on the current proposals for the application of TAS100 and the definition of actuarial work, we have some concerns in this regard as explained above.

**Q8.2 Do you have any comments on our analysis of the impact of the changes set out in section 8?**

No.