



**First Actuarial response to
Consultation on Board for Actuarial Standards Consultation Paper:
Actuarial Information used for Accounts and Other Financial Documents**

On behalf of First Actuarial LLP, I am pleased to offer the following comments in response to the proposed Accounts TAS.

This proposed Specific Standard covers different fields of actuarial work. Our comments are largely limited to matters relating to pension schemes.

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

We understand that having a separate TAS covering actuarial information for accounts and other financial documents may make it simpler for auditors etc to reference the information. From a practitioner's perspective, the existence of a separate TAS is also acceptable, but workability could be improved by including cross references between the Accounts TAS and the main Specific TAS for the particular actuarial field – for example, it would be helpful for the Pensions TAS to state the work relating to pensions and other post-employment benefits that fell into the scope of the Accounts TAS. Ideally hyperlinks between the two documents should be used, to further improve ease of use.

2. Will the proposed purpose of the TAS on actuarial information used for accounts and other financial documents... help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

Yes, we believe so. Our understanding is that this TAS will bring work into scope that is not deemed to be 'Reserved' advice, for example provision of figures under financial reporting standard FRS17. We can see no reason why any piece of actuarial work should not fulfil the Reliability Objective. We would expect that the role of the setters of the current accounting standards would also have similar objectives in mind.

3. Do respondents agree that the proposed scope of the accounts TAS should be the provision of actuarial information... which are required by statute or other rules (including stock exchange listing rules) but excluding those produced solely for the use of regulators?

Yes, given that the provision of actuarial information produced solely for the Pensions Regulator would come under the Pensions TAS.

4. Do respondents agree that the provision of information for preliminary statements of annual results should be within the scope of the accounts TAS?

Yes, but it should be recognised that the timescales given to produce such work are often very tight. The actuary is likely to exercise judgement in determining the requirements of TAS Accounts that need not be complied with on the grounds of what constitutes “proportionate” for the provision of preliminary results. The exercise of that judgement is likely to be more wide ranging than for the provision of full results. The key requirement is for the user of that actuarial information to understand the approach taken in deriving the preliminary results and to be aware that the final results may be different. We believe the proposed standard supports such an approach.

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

Yes, in the interests of ensuring a high level of reliance can be placed on information produced by the Actuarial Profession and to preserve the integrity of the Profession.

6. Do respondents agree that provision of actuarial information for internal budgeting exercises for management should not be within scope of the accounts TAS?

Yes, although in practice, is this any different to applying judgement in determining what is proportionate for the task in hand?

7. Is there any other work which respondents believe should be within scope of the accounts TAS?

We don't think so, but would seek clarification on the following point. Actuaries may be asked to calculate the value of employee share options in accordance with FRS20 (IFRS2) Share based payment. This work is not required to be carried out by an actuary and as such our understanding is that this work would not fall into the scope of the Accounts TAS. Is this correct?

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?

Paragraph 5.3 states “ We believe strongly in the importance of carrying out appropriate data checks and taking action to deal with incomplete, inaccurate or out of date data...”

We support the need to carry out data checks but seek clarification on what is meant by ‘out of date data.’ When calculating disclosures for FRS17 or IAS19, it is not necessary to carry out a full valuation based on full member data as at the accounting year end

date. Where a full valuation is not carried out, then in practice, the full last valuation (often carried out for funding purposes), which may be up to 3 years old, is used as the starting point and then adjusted to bring the valuation up to the accounting year end date. Although adjustments will be made for material changes to data, the approach does, by its very nature, use what may be termed 'out of date data'. This roll forward method is acceptable under the accounting standards (and we note that such an approach is covered in paragraph 7.4 of the consultation document).

We do not believe that TAS Data introduces any requirements that would invalidate the use of a roll forward approach, but feel it would be helpful if the Accounts TAS were to state that such an approach is acceptable.

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

6.6 – Agree.

6.9 – Agree in principle particularly where the actuary carrying out the calculations also provided the advice on the assumptions.

However, we are not sure how this would work where one actuary (the 'lead actuary') provides advice to the employer on the assumptions to be adopted across a number of defined benefit schemes where the calculations are then carried out by a number of different actuaries.

The requirement suggests that each actuary performing a calculation should provide a statement of the fitness for purpose of the assumptions used in the calculations. This is not desirable as it is duplicating work which will result in increased costs. It should be for the lead actuary who has overall responsibility for the provision of the advice on the assumptions to provide such a statement.

If the calculating actuary had major concerns about work she has been asked to undertake then she would have a professional duty under the requirements of the Actuaries Code to raise these with the client.

6.10 - For many schemes, experience of the entity may not be statistically credible to be taken into account in determining assumptions. We therefore suggest that you revise the wording to state "recent statistically credible experience of the relevant entity".

Furthermore, the requirement states 'all available information'. Are the words "all available" meant to include information that is available but which the actuary may reasonably be unaware of? There is a wealth of information available in the public domain, which the actuary may reasonably be unaware of, for example research papers by academics. We would suggest that the requirement as worded appears too onerous and is impracticable.

6.13 – Agree, assuming that the 'estimated current mortality rates applicable to the entity in question' is not intended to mean the same as the current mortality rates experienced

by the entity in question. These may be very different for many schemes, due to the lack of statistically credible experience.

6.17 – Agree.

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

Although it is recognised in paragraph 6.7 that accounting standards may prescribe an assumption, there is no reference to this in the proposed requirements of the Accounts TAS. The requirements set out by the Accounts TAS should be secondary to those set out in the Accounting Standard. The Accounts TAS should make this clear.

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

We agree with this requirement.

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 the principles in the accounts TAS?

No.

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

Paragraph 8.4- we support the provision of a range of assumptions, rather than a point value, in particular for FRS17/IAS19, where the choice of assumptions is down to the sponsoring employer of the defined benefit pension scheme. The provision of a range of assumptions provides the employer with a degree of choice.

However, it should be remembered that different actuaries may have different opinions on what may be a reasonable range for justifiable reasons.

Paragraph 8.6 – For the following reasons, we do not agree that the assumptions used for accounting purposes for defined benefit schemes should be compared with those adopted for the last Scheme funding exercise.

The advice on assumptions for funding purposes and accounting purposes are provided for two totally different purposes and to two different clients – the trustees for funding purposes and the sponsoring employer for accounting purposes. When determining assumptions for funding purposes, the trustees are required to select prudent assumptions, with the level of prudence reflecting the strength of the employer covenant. The choice of assumptions for pension scheme accounting are in some ways prescribed



(the discount rate) but otherwise are expected to provide a best estimate of the future cashflows under the scheme.

The proposals for the Pensions TAS include a comparison between 'best estimate' and 'prudent'. Although the provision of best estimates alongside liabilities calculated on prudent assumptions is a subject for debate, it does at least make some sense for funding purposes as it enables the user to judge the degree of prudence in the assumptions. A comparison of assumptions used for two completely different purposes, such as funding and pension cost accounting, does not and we believe such a comparison could potentially be confusing to, and misleading for, the reader.

The advice relating to assumptions for funding purposes is provided by the Scheme Actuary, who may work for a different actuarial firm than appointed to provide advice for pension scheme accounting purposes, and the latter may therefore not have access to the advice provided by the Scheme Actuary in order to make any informed comment.

As far as we can see, the requirement set out in the Accounts TAS serves no purpose and would result in additional cost, as well as possibly being impractical to achieve.

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

No.

15. Do respondents have any views on whether the 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?

No, we have no preference as to whether this is covered in the Accounts TAS or the Actuarial Profession's ethical standards. There are however, a number of matters currently covered in GN36 which are not reflected in the Accounts TAS. Such matters provide more detailed guidance on interpretation of the FRS17 accounting standard. We understand that the purpose of the TASs is not to provide such guidance. We hope that the Actuarial Profession will consider issuing an Information and Assistance Note ("IAN") relating to FRS17/IAS19 once GN36 is no longer in existence.

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

No, nothing else to add over and above the comment we have made under the previous consultation question about the usefulness of the Actuarial Profession providing an IAN once GN36 is removed.

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First Actuarial is a firm of actuaries and consultants providing actuarial, consultancy, investment and administrative services to clients in the private, public and not for profit sectors.