



BAS Consultation Paper: Actuarial Information used for Accounts
and Other Financial Documents

Comments from Xafinity Consulting Limited

January 2010

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1. Introduction to Xafinity Consulting Limited

Xafinity Consulting Limited employs 30 Actuaries – of whom 20 are Scheme Actuaries – out of a total of around 350 staff. It provides a range of employee benefits consulting, actuarial and administration services to pension scheme trustees and sponsoring employers.

Xafinity Consulting Limited is part of the Xafinity Group, which also includes Hazell Carr, Xafinity Paymaster and Xafinity Claybrook. The Group now employs over 1,400 people throughout its offices in the UK.

This response to the BAS consultation paper has been produced by Xafinity Consulting's Actuarial Practice Committee, the members of which are Fellows of either the Institute of Actuaries or the Faculty of Actuaries and have extensive experience of advising companies on pension accounting disclosures under FRS 17 and IAS 19. The response represents views as actuarial advisers to corporate clients; it does not necessary represent the views of the directors of Xafinity Consulting Limited or of its shareholders.

2. Comments on the consultation paper dated October 2009

Question 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.

Yes.

Question 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?

Yes but at an additional cost.

As regards sub-paragraph 2.7(b), it is unclear how this will tie in with paragraph 2.6, which refers to financial reporting standards – rather than actuarial standards – specifying the nature of the information to be disclosed to the readers of accounts and other financial documents.

Question 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 rules (including stock exchange listing rules) but excluding those produced solely for the use of regulators?

Yes. Actuarial input for auditors is relied upon when reviewing accounts and should therefore be subject to the accounts TAS. That is, it should not be limited to the provision of information to the account preparers (ie the directors of the company concerned).

As an aside, we note that paragraph A.3 in Appendix A states that the calculation of FRS17 accounting figures is not required to be carried out by an actuary. However that standard does require (in paragraph 35) that the most recent actuarial valuation is updated by an actuary to reflect current conditions. Similarly with the provision of advice on actuarial assumptions – see paragraph 23 of FRS17. Does this mean that these aspects of FRS17 work fall under the definition of Reserved Work?

2. Comments on the consultation paper dated October 2009

Question 4

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

Yes.

Question 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 the scope of the accounts TAS?

Yes.

Question 6

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

Views on this question were mixed.

Question 7

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

On the basis that the geographic scope of any TAS is limited to work done in relation to the UK operations of entities and any overseas operations which report into the UK within the context of UK legislation or regulation (paragraph 13 of the *Scope & Authority of Technical Standards*), we do not believe there is any other work to be brought within scope.

However, this could create an anomaly where two pieces of similar work are required for the same client, only one of which falls within the ambit of the accounts TAS. For example, consider a UK company, owned by a US parent, which operates a defined benefit pension scheme. The UK company will require pension cost figures under FRS17, but will also need pension cost figures under the US accounting standard, FAS87; only the former would automatically be governed by the accounts TAS. (We note, by virtue of paragraph 14 of the *Scope & Authority of Technical Standards*, that a TAS may be voluntarily applied to work which falls outside the geographic scope referred to above.)

Question 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?

No.

2. Comments on the consultation paper dated October 2009

Question 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 agree with the proposals under paragraphs 6.6, 6.9, and 6.17.

We agree with the principle underlying paragraph 6.10 but the wording is too strong. Paragraph 6.10 refers to taking into account **all** available information (our emphasis); however, it is not possible to consider every single piece of information that might be available at any point in time. We suggest that the word 'all' is simply removed from the principle to make it realistic.

As regards paragraph 6.13, we also agree with the underlying principle, but it needs to be made clear that the intention is that current mortality rates and future improvements should be considered separately, rather than the actual rates having to be necessarily different. Clarification is also required as regards the second sentence in relation to small entities, to reflect the fact that there may be insufficient data to determine assumptions for current mortality rates on a scheme-specific basis.

Question 10

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

No.

Question 11

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

Whilst understanding the reasoning behind the proposed principle, we note that in the context of accounting for pensions it will generally not be very practical. This is because the calculations usually have to be produced within a very short timescale, thereby invariably necessitating an extrapolation approach regardless of the degree of materiality involved.

Question 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?

No.

2. Comments on the consultation paper dated October 2009

Question 13

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

As regards the principle in paragraph 8.4, we agree that it would help to show a range of assumptions which may be permissible but note that any such range will be subject to personal opinion.

In relation to pension costs, one may also have the situation where, for a group of companies, a decision has already been made as to the assumptions to be used on a group basis. A particular actuary may be asked simply to produce the required numbers for a subsidiary company, for inclusion in the group accounts. In such a scenario, there would appear to be no value in that actuary giving a range of assumptions. Indeed, are we correct in assuming that none of the references to assumptions in the accounts TAS would apply in situations where a third party has mandated the assumptions to be used?

The principle of proportionality will also apply to the principle in 8.4 so that only the key assumptions are quoted within a range. (Under FRS17 the assumptions chosen should be a 'best estimate' assumption, which means there is a range of possible values for each assumption.)

We disagree with the principle under paragraph 8.6. Reports for accounting purposes should state the rationale behind the method and assumptions used. Rather than stating the differences compared to those used for other exercises, such as Scheme Funding, we believe it is important that the users of any actuarial information understand the reason for the assumptions chosen and apply this knowledge when comparing assumptions from different exercises.

There are also problems in comparing accounting assumptions with Scheme Funding assumptions which will usually make any comparison meaningless:

1. The assumptions may be at different dates and under different economic conditions.
2. The assumptions may be based on advice from different actuaries.
3. The assumptions are the responsibility of different bodies, namely the trustees in the case of Scheme Funding and the directors of the Company as regards pension costs for company accounts.

Question 14

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

No.

2. Comments on the consultation paper dated October 2009

Question 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?

If adequately covered within the Actuarial Profession's ethical standards, there would perhaps be no need to replicate within BAS's technical standards.

Question 16

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

If the GNs are not withdrawn until after TAS A comes into effect any accounts prepared in the meantime will need to be based on two standards. This will lead to additional work and expense. We strongly recommend that the GNs are withdrawn at the same time as TAS A comes into effect.

Xafinity Consulting Limited

January 2010