



Actuaries & Consultants

Lane Clark & Peacock LLP

30 Old Burlington Street

London W1S 3NN

Tel: 020 7439 2266

Fax: 020 7439 0183

www.lcp.uk.com

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7th January 2010

Ms L Pryor
Technical Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Louise

**Actuarial information used for accounts and other financial documents (“accounts TAS”) –
October 2009 Consultation Paper
Lane Clark & Peacock LLP (“LCP”) response**

We are pleased to respond to the above consultation document.

1. Our expertise

Lane Clark & Peacock LLP (“LCP”) is a leading firm of actuaries and consultants, with over 90 partners, and a team of more than 450 employees across Europe. The firm provides actuarial, employee benefit, investment, insurance and risk management related advice as well as pensions administration services.

We have extensive knowledge of accounting for pensions, and for the last 16 years have produced our annual Accounting for Pensions report which is widely recognised as an authoritative survey of how leading global companies report their pension obligations. We also advise companies on other areas of their accounts, including insurance liabilities.

2. Our response

Our responses to your individual questions, set out in section 10 of your consultation paper, are provided in the appendix to this letter.

We support actuarial standards to cover actuarial information used for accounts. We believe there is a stronger case for these standards to be covered in the pensions and insurance TASs, rather than a separate accounts TAS, to recognise the quite different roles of actuaries in pensions and insurance contexts.

LCP is part of the Alexander Forbes Group, a leading independent provider of financial and risk services.

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All partners are members of Lane Clark & Peacock LLP.

A list of members' names is available for inspection at 30 Old Burlington Street, London, W1S 3NN, the firm's principal place of business and registered office. The firm is regulated by the Institute of Actuaries in respect of a range of investment business activities.

Offices in London, Winchester, Jersey, Belgium, Switzerland, the Netherlands and Ireland.

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Whether the standards are set in a separate accounts TAS, or in the pensions and insurance TASs, the standards need to be carefully worded to clarify their scope and recognise the different roles of actuaries and users in different situations. Specifically:

- The scope of the standards should be explicitly limited to areas where it is reasonable to expect involvement by actuaries – broadly, those areas of insurance and pensions listed in the consultation document.
- The ultimate objective of company accounts is to provide readers of accounts with appropriate information, and high quality actuarial information contributes to this. However, the actuary does not generally have ultimate control over what is written in company accounts – rather, the role of the actuary is to provide the preparers of the accounts with advice. The standards should therefore focus on the aspects that the actuary can control for each type of work that is to fall within scope.
- Accounts already have an extensive set of rules to ensure that accounts can be relied upon – accounting standards – as well as other rules for those preparing and auditing accounts. We believe that actuarial standards should not restrict, interpret or elaborate on the application of these existing standards.
- The drafting of the principles should recognise that there can be more than one actuarial party delivering the actuarial information with the possibility of the role being split between advice and calculations.

We note in paragraph 3.3 of the Consultation Paper your commitment to proportionate regulation and your mindfulness of the cost of applying your standards. We were therefore disappointed to see that there is no exploration in the paper of the additional costs that may arise through matters within scope of the proposed accounts TAS also being in scope of the three generic TAS. There is also no examination of whether all the principles set out in the generic TASs are appropriate when applied to accounting matters.

Please feel free to contact us if you would like to discuss any of the points we have made.

Yours sincerely

{Sent as an attachment to an e-mail on 7th January 2010 at 15:46}

Fiona J Morrison FIA
Partner

Enc: Appendix

Copy to: basaccounts@frc.org.uk

Response to specific 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)**

The needs of users and preparers could be served either by a separate accounts TAS, or by bringing accounts work within the scope of TAS P and TAS I. Whichever route is taken, the standards should:

- Explicitly identify those areas of work to which the standards apply, to avoid doubt over what types of information are “actuarial information”.
- Recognise, in setting the principles, the different roles of actuaries in different contexts. For example, the Reporting Actuary at an insurance company has a role in setting assumptions, whilst an actuary advising a company on pensions disclosures is generally responsible for advising on, rather than setting, assumptions. This suggests that, were you to develop a separate accounts TAS, it may be necessary to divide it into separate sections.

Because the above considerations vary between pensions and insurance work, we believe that incorporating the requirements into the pensions and insurance TASs would be a workable and preferable alternative to a separate accounts TAS.

We believe there are benefits for the users in applying actuarial standards to the preparation of work which is typically carried out by an actuary – ie the pensions and insurance work identified in the consultation document. We believe that there would not be corresponding benefits to users from applying actuarial standards to work carried out by an actuary which is not of an actuarial nature – for example, where the actuary was involved with preparing other areas of a company’s accounts. Therefore the scope of the actuarial accounting work covered should be explicitly restricted to providing actuarial information in specifically identified areas of actuarial work (we comment further to this in our response to question 3).

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?**

Our key concern here is that the purpose should be limited to those “users” who see the actuarial advice – for much actuarial accounting work that is the directors of the company and those with the responsibility for preparing the accounts.

It is not meaningful to place responsibility on the actuary to ensure users of the accounts themselves, such as investors, “*understand actuarial calculations*” when the actuary does not have the power to decide what those readers will see. It must be accounting standards and related rules on preparing accounts that protect the readers of accounts in this way.

If a single TAS A was to be retained we believe it would be more appropriate to add “*for the benefit of investors and other readers of accounts and other financial documents*” to the end

of a) in para 2.7 and delete b) completely. If the relevant items are added to TAS P and TAS I we appreciate the purposes of these TASs would need to be amended.

We are particularly concerned by the standard expressing that third parties can “*rely*” on the actuarial work produced. Whilst we fully appreciate the sentiment, we are concerned that such wording might, at least implicitly, confer legal obligations to third parties given the implications of the Contracts (Rights of Third Parties) Act 1999.

- 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 the definition of “*actuarial information*” is not obvious, certainly to users of such information, we believe that the standards should identify the particular pensions and insurance functions that are usually performed solely by the actuary as in scope. This would prevent unhelpful confusion when actuaries might assist with accounts in other ways, such as:

- where the actuary is a senior member of the company with responsibility for other areas of the accounts which are outside the usual areas of work of an actuary, but where complex calculations that might be similar in nature to actuarial work may nonetheless be necessary.
- where the actuary forms part of a team of professionals charged with producing certain figures for the accounts. If the actuary has the power strongly to influence the advice, the work would then need to comply with all the relevant actuarial standards, and this would mean that other members of the team would need to be familiar with the standards in order to comply with them. We believe that it is not in users’ interests to require another professional – such as an accountant – to be familiar with such actuarial standards unless they are assisting with work that is demonstrably actuarial in nature.

We agree that those documents produced solely for the use of regulators should be excluded.

- 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)**

Yes, there is no compelling reason for preliminary results to be covered by different rules to annual results.

- 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 believe that such work should not be within the scope of the accounts TAS for the following reasons:

- In general, it is not known at the time of preparing a given piece of actuarial work whether the content is to be made public or not, and in general the actuary will not have control over whether information is made public or not. Therefore, it is not possible for the actuary to know whether or not the TAS is to be complied with at the time of preparing the work.
- This requirement could bring much pensions corporate work into scope – a move that both we and the BAS opposed in the TAS P consultation.

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)

Yes

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, we believe the principles in TAS D and TAS R are sufficient.

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 believe that the accounts TAS should not include extensive specific requirements on the selection of assumptions. This is because the selection of assumptions is already governed by accounting standards, which are intended to ensure that the assumptions selected are appropriate to users of accounts.

We believe that actuarial and accounting standards have separate purposes and should not overlap in scope; actuarial standards should not attempt to elaborate, interpret or restrict the interpretation of accounting standards.

The role of the actuary is different in different contexts and areas of work. As acknowledged in the consultation paper, in many cases the assumptions are not set by the actuary – rather the actuary might

- advise on assumptions where someone else (for example, the directors of a company) have responsibility for setting assumptions; or
- calculate figures using assumptions provided by another actuary. This is common in an international context where a large company may employ one actuary to set consistent assumptions across a number of pension schemes.

In each case, the requirements of users of actuarial advice will be different. With regard to the specific principles:

6.6: We support the principle that the selection of assumptions should take account of the purpose of the calculations for which they are used; we believe the principle should be caveated “*Where the actuary is being asked to select the assumptions or for advice on the selection of assumptions...*” in line with our comments above. We note that this principle is generic – it having been set out in the Consultation Papers for both the Pensions and Insurance TAS.

6.9: We believe that it is appropriate for the actuary to comment on the fitness for purpose of assumptions in contexts where the actuary’s role includes advice on selection of assumptions. In some cases, the actuary’s role may not include advising on assumptions – for example, this may be carried out by another actuary. In such cases, we believe it is in users’ interests for this to be clearly stated in the “calculation” actuary’s aggregate report, but normally without specific comment on their fitness for purpose, as this could require the actuary to duplicate the work of the actuary advising on assumptions, leading to inefficiency and unnecessary conflict. What the “calculation” actuary should do if he has concerns about the assumptions used would be an ethical rather than technical issue, so is not appropriate for inclusion in a TAS.

You may wish to explore the situation where the actuary advising on assumptions in relation to the accounts for a UK entity is not subject to your Standards (because for example he lives overseas), whilst the local actuary who carries out a pure calculation role is subject to your Standards, but they are of limited relevance given his role.

Our responses to the remaining questions in this section assume the actuary has been asked to comment on the assumptions – if he has not then we do not believe the following principles should apply.

6.10: We do not support this principle on the grounds that what information should be used to set assumptions for companies’ accounts is a matter for accounting standards, rather than actuarial standards.

The suggested principle is to use “*all available information*” at the “*effective date of the calculations*”. Specifically:

- We suggest it is impracticable to use the words “*all available information*” as there are innumerable potential sources of information, many of which would not be used on grounds of materiality and practicability under the relevant accounting frameworks.
- The proposed wording implies that the information used should be that available at the effective date of the calculations. We believe that whether or not this is appropriate (for example, whether or not it is appropriate to use information available after the effective date) is a matter which should be left within the remit of accounting standards rather than actuarial professional standards.

6.13: This is yet another generic principle. We support it.

6.17: We believe that there is not a strong case for including it within an actuarial standard, on the grounds it should be within the remit of accounting standards.

We agree with the general thought behind this principle, but believe there can be occasions where adjustments to one assumption can be made to allow for possible inaccuracy in another assumption. Provided materiality and proportionality safeguards can be used, and it does not contradict the relevant accounting standards, we are happy with the principle.

We also note other principles not highlighted such as 6.15, which specifies that “*each assumption should be justifiable individually*”. We believe that while sound in principle, this principle should not form part of actuarial guidance because the principles of setting assumptions are within the remit of accounting standards.

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

No – principles on selection of assumptions are within the remit of accounting standards and we believe it would be inappropriate for actuarial standards to prescribe further principles.

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

We support the proposed wording in paragraph 7.4, which requires the actuary to seek information regarding the materiality levels for accounting purposes relating to the work. However, it is not always the case that information on materiality is provided; you may need to reflect this in the drafting of the principle.

Accounting standards already contain guidelines on materiality, and materiality requires careful judgement by companies, their actuaries and auditors. Separately, the TASs contain a definition of “*materiality*”. These two uses of the same word could potentially cause confusion.

We believe that it is in users’ interests for the existing considerations of materiality in company accounts to apply to actuarial work on accounts, and for the accounting definition of materiality to take precedence in such work if there is any difference of interpretation between them.

It should be recognised that due to the nature of actuarial work, which involves forward looking projections over many years, it is often appropriate under considerations of materiality for actuarial work to be carried out according to broader materiality guidelines than figures in some other areas of companies’ accounts, which record past transactions. We therefore suggest incorporating wording similar to section 2.2 of the existing Guidance Note 36, which states:

“It is recognised that in some circumstances the degree of accuracy which can be achieved by [a valuation update] compared with the results of a full valuation will be outside the normal materiality levels.”

It can be very difficult for actuaries to work within the materiality levels set appropriate to other areas of accounts, and to spend a long time trying to do so is unlikely to benefit users of actuarial information.

Returning to the BAS definition of materiality in paragraph 3.2 of the Consultation Paper, we assume that it has now been overtaken by the revised definition published in November.

- 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)**

No.

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

8.4 This gives a requirement to the actuary to comment on where an assumption falls within a range of assumptions. We believe that it is appropriate for an actuary to give such comment in many, but not all, cases.

An example of a case in which we believe it may not be appropriate for the actuary to comment would be if the actuary is not advising on the assumptions – for example, another actuary may be engaged for the purpose. Such advice from an actuary employed solely to perform the calculations is unlikely to be welcome and a statement of how/why the advice does not comply with TAS A could undermine confidence in the figures. Indeed, in some cases, the actuary performing the accounting calculations may not have the information or expertise to perform such an analysis.

You may wish to explore the situation where the actuary advising on assumptions in relation to the accounts for a UK entity is not subject to your Standards (because for example he lives overseas), whilst the local actuary who carries out a pure calculation role is subject to your Standards, but they are of limited relevance given his role.

8.6 We disagree with this principle because accounting and scheme funding valuations are fundamentally different calculations, for different purposes, under different rules, that may well be carried out by different actuaries with different effective dates. We believe that a comparison of the assumptions between the valuations would, in many cases, confuse users rather than help them. We also believe many clients would see this is an unnecessary expense – if they wish to understand the different assumptions, they can of course ask.

In our experience, thanks to the role of the company in scheme funding negotiations the majority of those receiving the accounting calculations well understand there are fundamental differences between the assumptions used for accounting and scheme funding valuations. If your aim is for all users of accounts to understand these differences we suggest that you need to recommend an appropriate change to accounting standards.

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

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? (paragraph 9.6)**

We believe that giving users an indication of time constraints is good practice for all actuarial work, but question the need to include this specifically in the accounts TAS. The generic TASs do not generally approach timescales; rather they focus on any limitations of the advice (for example because full data was not available in time) and the effect those limitations could have on the actuarial advice given.

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

Our main concern regarding the withdrawal of existing guidance notes is the loss of the broader materiality guidelines contained within Guidance Note 36 as highlighted in our response to question 11.

In addition to the specific questions listed above, we would welcome respondents' views on any other aspects of the proposed accounts TAS.

The phrase "*user of accounts*" appears in section 2.4, but this is confusing given the usual BAS definition of "*user*" and the fact the accounts will very rarely be a component report. The wording of the final standard should make it clear where definitions such as "*user*" and "*material*" are used within different contexts.