FRC

Board for Actuarial Standards

Actuarial information used for accounts and other financial documents:

Consultation Paper

October 2009

FOREWORD BY THE CHAIRMAN

The BAS is pressing on with its immediate task of issuing the Generic Technical Actuarial Standards, with the Reporting TAS already published and the Data and Modelling TASs at the Exposure Draft stage.

The BAS Board concluded from its consultations some time ago that it was appropriate to dedicate a Specific TAS to actuarial work used by the preparers of financial statements alongside the Specific TASs planned for insurance and pensions. This was seen to have the advantage of bringing together approaches across a wide range of issues which we hope would enable actuaries and users alike to dispense with some duplication of jargon and differences in approach, in support of the BAS's general goal of more reliable actuarial work.

We have prepared this Consultation Paper to cover a wide range of issues in this regard, bearing in mind the arguments that rage over the role of financial statements in the events of the last year. Actuarial work contributes to the way in which financial statements capture the risk profile of their subject, and this has clearly come into focus in the Walker Review. The complexity of modern day accounts is already a subject the FRC is addressing, and we intend to make a contribution to that work.

This consultation is important. It will, we think, give us a good insight into the key issues for us to address in this area. It can also help us find the best way to tackle this important subject. There remains a question about whether a separate Specific accounts TAS is the best way to tackle the issues involved. Alternatively, would it be better for us to extend the Insurance and Pensions TASs, or indeed some of the Generic TASs, to cover financial statements?

As ever, we see that actuarial work can only produce guidance about the shape of the uncertain future and better understanding of the current position. Single numeric answers rarely explain the whole picture. We hope to promote a better understanding of this reality and its implications for the preparers, auditors and users of financial statements.

The Board has been greatly assisted in its work by the members of the Working Group, and other users, practitioners and stakeholders. Our thanks are due to them all.

We seek the views, particularly, of accountants and users of information, as well as actuaries. All your views are important, and the Board looks forward to receiving them.

Jim Sutcliffe
October 2009

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1 INTRODUCTION

BACKGROUND

1.1 The Board for Actuarial Standards (the BAS) is responsible for setting technical actuarial standards in the UK. It is an operating body of the Financial Reporting Council (the FRC).[1]

1.2 The BAS is developing a new set of Technical Actuarial Standards (TASs), as it proposed in its consultation paper on the *Structure of new BAS standards*.[2] There will be three Generic TASs, applying across the range of actuarial work. The Generic TAS on *Reporting Actuarial Information* was published in September 2009 and Generic TASs on *Data* and *Modelling* will be published later in 2009. There will also be a number of Specific TASs, applying to work in particular areas such as insurance, pensions and accounts and other financial documents. Consultation papers on *Pensions* and *Insurance* setting out our proposals for Specific TASs in those areas were published in June and September 2009 respectively. This document sets out proposals for a Specific TAS on actuarial information used for accounts and other financial documents which, for convenience, we refer to as the accounts TAS.

1.3 The BAS has issued its *Conceptual Framework for Technical Actuarial Standards* and *Scope & Authority of Technical Standards* (*Conceptual Framework* and *Scope & Authority)*. Its standards will be outcome-focused and principles-based, and will be developed through a fully consultative process. This document, a consultation paper, will be followed by an exposure draft of the Specific TAS which will also be subject to public consultation.

AUDIENCE AND AIMS OF THIS DOCUMENT

1.4 This document has been written for anyone who is likely to be affected by the standard that the BAS intends to publish on actuarial information used for accounts and other financial documents. The intended audience includes actuaries, directors, accountants, auditors, regulators, investors and other stakeholders.

1.5 The primary purpose of the proposed TAS is to ensure that actuarial information used in the preparation of financial documents gives the best possible support to those who use the information.

1.6 This document does not revisit matters that have already been covered in the consultation papers and exposure drafts of the Generic TASs, which affect all areas of actuarial work.

1.7 This document proposes a number of principles for inclusion in the BAS's accounts TAS. However, it is by no means an exposure draft of the proposed TAS, and the proposals are intended to convey more the general sense of the requirements that may appear in the TAS than the precise words that are likely to be used, or the precise structure that the standard is likely to take.

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[1] The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

[2] All the BAS's publications are available from its website at http://www.frc.org.uk/bas/publications.

1.8 We would welcome views on the matters addressed in this document, and in particular on the questions in section 10. The responses that are received will inform our thinking as we develop an exposure draft leading to a Specific TAS.

ACTUARIAL INFORMATION USED FOR ACCOUNTS AND OTHER FINANCIAL DOCUMENTS

1.9 Actuarial information is used in the preparation of financial documents in a number of areas. In Appendix A we have listed some of the regulations and standards which apply to these documents.

1.10 Insurance companies, both long term insurers and general insurers, show insurance liabilities, sometimes referred to as technical provisions, in their accounts which are prepared in accordance with financial reporting standards. The Companies Act requires that the underlying calculations are carried out by a Reporting Actuary. Many long term insurers also disclose information relating to embedded values.

1.11 Lloyd's syndicates must produce accounts annually. Actuarial information is required to determine the liabilities shown in these accounts. The managing agents must appoint an actuary (the Syndicate Actuary), who has a Lloyd's Practising Certificate issued by the Actuarial Profession to provide an opinion on those technical provisions shown in these accounts.

1.12 The accounts of many companies show the deficit or surplus of defined benefit pension schemes on the balance sheet. The income statement includes a charge for pensions which covers the cost of benefits accruing and the cost of financing the pension scheme. The accounts also contain a number of disclosures about the pension arrangements for the benefit of the readers of the accounts. Similar information is provided for other post-employment benefits – typically post-retirement healthcare plans.

1.13 Over recent years the emphasis on risk management has increased. The Companies Act 2006 requires that the directors' report in company accounts contains a description of the principal risks and uncertainties facing the company. The Turnbull guidance on internal control states that "the annual report and accounts should include such meaningful, high-level information as the board considers necessary to assist shareholders' understanding of the main features of the company's risk management processes and system of internal control, and should not give a misleading impression." This trend for greater reporting of risk management is likely to grow following the banking crisis in 2008 and the subsequent Walker review of corporate governance of UK banks and other financial institutions. Actuarial information may be provided to illustrate the potential effect of risks in many financial and other companies.

1.14 Actuarial information may be provided in relation to the disclosures of the remuneration of directors including the value of any defined pension benefits being accrued.

1.15 Pension scheme accounts are required to show only the assets of the pension scheme. Sometimes actuarial information may be needed in determining the value of assets such as annuity contracts.

1.16 Auditors of accounts may seek actuarial input to their work. This is a requirement for life insurance regulatory returns, where auditors are required to engage an actuary known as the Reviewing Actuary, and is common practice in other areas.

SHOULD THERE BE A SEPARATE ACCOUNTS TAS?

1.17 A key structural question is whether there should be a separate TAS for actuarial information used for accounts and other financial documents or whether the work should be within the scope of the pensions, insurance and other TASs.

1.18 A separate TAS would help to ensure that issues relating to actuarial information for financial documents are addressed on a consistent basis across pensions, insurance and other fields. It would also avoid reinforcing the sometimes artificial distinctions that are made between the different actuarial fields.

1.19 A separate TAS may also be helpful to preparers and auditors of accounts if this type of work is covered in a separate TAS, especially if it includes work that is not easily categorised as either pensions or insurance.

1.20 On the other hand, it may be helpful for practitioners for the work to be within the scope of the pensions, insurance and other TASs, thus limiting the number of different TASs with which they have to be familiar.

1.21 The preferred course of action depends to a large extent on whether there is more in common between actuarial information used in accounts across the different fields, or between actuarial information used in accounts and used for different purposes within the same field.

1.22 We would welcome views on whether there should be a separate TAS for actuarial information used for accounts and other financial documents, bearing in mind the benefits to the users of actuarial information (such as the preparers of accounts and auditors) and to practitioners.

CONTENTS AND STRUCTURE OF THIS CONSULTATION PAPER

1.23 The Generic TASs on *Data*, *Modelling* and *Reporting Actuarial Information* (TAS D, TAS M and TAS R) will set out principles which can apply to all the principal areas of actuarial work. Specific TASs, including the accounts TAS, will build on the foundation laid by the Generic TASs, and will each specify the work to which it applies and contain principles covering how that work should be performed. By virtue of the BAS's *Scope & Authority* work which must comply with a Specific TAS must also comply with the Generic TASs.

1.24 We consider the purpose of the proposed TAS in section 2. Section 3 discusses some general concepts and section 4 covers the scope of the proposed TAS.

1.25 Sections 5 to 8 consider possible principles that the TAS might contain together with their underlying rationale.

1.26 Section 9 considers the transition from relevant adopted Guidance Notes to TASs.

RESPONSES TO THIS CONSULTATION PAPER

1.27 Details of how to respond to this paper are set out in Section 10. Comments should reach the BAS by **8 January 2010**.

In paragraphs 1.17 to 1.22 we consider whether there should be a separate TAS for actuarial information used for accounts and other financial documents or whether the work of preparing such information should be within the scope of the pensions, insurance and other TASs.

The BAS would welcome responses to the following 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.

2 PURPOSE

INTRODUCTION

2.1 Our *Conceptual Framework* states that each TAS will set out its purpose. In this section we propose a purpose for the accounts TAS and discuss the TAS's application. We also discuss the departures that will be permitted by virtue of our *Scope & Authority.*

PURPOSE OF THE ACCOUNTS TAS

2.2 The overall purpose of all BAS standards is that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information. This is the BAS's Reliability Objective, and is set out in the *Scope & Authority*.

2.3 Those responsible for preparing accounts and other financial documents must be able to rely on actuarial information provided to them and to understand the limitations of information provided, in particular the level of uncertainty in any numbers which they may use. They should be aware of any limitations in the data used and how any material issues with data were dealt with. They should also understand, and be satisfied with, the rationale underlying any assumptions made and the limitations of any underlying models.

2.4 Those responsible for producing financial documents often concentrate on the production of a single value for an asset or a liability. However, the use of a single number to represent complex actuarial liabilities (whether in insurance or pensions) loses important information about the nature of the liabilities and the uncertainty surrounding them. We therefore aim to encourage the production of better information about cash flows for companies with significant actuarial items to improve the understanding of accounting information. We also aim to help the users of accounts to make decisions that lead to better long term outcomes, rather than concentrating on short term effects.

2.5 Auditors must have confidence that actuarial information used in accounts and other financial documents has been subject to rigorous checks and scrutiny.

2.6 Readers of accounts and other financial documents should be able to rely on the accuracy of actuarial information provided. However, it is for financial reporting standards (rather than actuarial standards) to specify the nature of the information to be disclosed and the basis on which it is calculated.

2.7 We therefore propose that the purpose of the accounts TAS should be to assist the achievement of the Reliability Objective by ensuring that in relation to actuarial work within its scope:

a) directors and others with responsibility for preparing accounts and other financial documents are provided with appropriate actuarial information, (including information on risk and uncertainty, cash flows and long term effects) to enable them to prepare those documents with confidence; and

b) investors, auditors and other readers of accounts and other financial documents can rely on and understand actuarial calculations used in those documents.

DEPARTURES

2.8 The permitted or required departures from compliance with TASs are set out in full in paragraphs 20 to 24 of the BAS's *Scope & Authority*.

2.9 Paragraph 23 of the *Scope & Authority* explains that departures that have an immaterial effect on the work being performed are permitted. A departure should be considered material if, at the time the work is performed, the effect of the departure (or the combined effect if there is more than one departure) could influence the decisions to be taken by the intended recipients of the work product.

2.10 Paragraph 24 of the *Scope & Authority* explains other possible departures, of which the most important is that departure is required in the extremely rare circumstances that compliance would conflict with the Reliability Objective (see paragraph 2.2).

2.11 The *Scope & Authority* sets out the disclosures that are required in the event of any departure.

The BAS would welcome responses to the following 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?

3 GENERAL CONCEPTS

INTRODUCTION

3.1 In this section we revisit several issues which are fundamental to all areas of actuarial work. These have been covered in more detail in the previous consultations on the Generic TASs and in our *Scope & Authority*.

MATERIALITY

3.2 Materiality is a vital concept in the context of TASs. The *Scope & Authority* states that a failure to follow the principles in a standard need not be considered a departure if it does not have a material effect.[3] In the consultations on the Generic TASs we covered materiality in depth and we do not intend to cover the same ground in this paper. We intend to use the same definition in the accounts TAS as in TAS R: Reporting Actuarial Information and as is proposed in the exposure drafts of the modelling and data TASs. This definition is:

> A matter is material if, at the time the work is performed, it (or information resulting from it) could influence the decisions to be taken by users. A matter that is immaterial when considered in isolation may be material when considered in conjunction with others.

PROPORTIONALITY

3.3 We are committed to proportionate regulation, and have borne in mind the cost of applying our standards in drafting the proposals in this paper. We also recognise that our standards should not encourage those seeking to comply with them to perform work that does not provide commensurate benefit to the users of the resulting actuarial information. Our standards are drafted so that compliance will not require disproportionate work.

APPLICATION OF JUDGEMENT

3.4 The way in which the principles set out in a TAS are applied is a matter of judgement by those responsible for preparing actuarial information. In particular, it will often be necessary to make judgements about what is, or is not, material or proportionate.

3.5 We intend to include the following principle in the accounts TAS:

> Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

3.6 Our other TASs will include the same principle. In due course we may choose to amend our *Scope & Authority* to cover this.

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[3] Paragraph 23 of the *Scope & Authority of Technical Standards*.

4 SCOPE

INTRODUCTION

4.1 In this section we discuss the work that should fall within the scope of the accounts TAS. The rationale for bringing work within the scope of our TASs is described in paragraphs 4.2 to 4.9. In paragraphs 4.10 to 4.33 we consider the proposed scope of the accounts TAS. Paragraphs 4.34 to 4.38 consider other work which we are proposing not to bring into scope.

RATIONALE

4.2 Our overriding concern when considering the scope of our standards is our Reliability Objective, which is that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

4.3 When considering whether work should be within the scope of our standards, we take into account the importance that the actuarial information has for the decisions made by users. The more important it is, the more likely it is to be within scope.

4.4 Reserved Work and Required Work are defined in paragraphs 15 to 19 of the *Scope & Authority*. Required Work is work carried out in order that the entity commissioning the work complies with regulations, or with some other legal obligation, that require the entity to have the work carried out (or make certain outcomes conditional on the work having been carried out). Reserved Work is Required Work for which the regulations or other legal obligation require the entity in question to commission the work from an actuary. The *Scope & Authority* brings all Reserved Work within the scope of our Generic TASs. Much of the actuarial work carried out in relation to the preparation of accounts and other financial documents is not Reserved Work.

4.5 Entities including companies and pension schemes are required by legislation and other rules to produce various documents containing financial information. These documents are available to those with an interest in the entities. The interested parties may include suppliers and pension scheme members, for example, as well as investors. The documents include companies' annual reports and accounts, and also other documents such as interim accounts and prospectuses. They contain key information about an entity's financial position and their readers may base significant decisions on the information they contain.

4.6 We believe that it is important that the preparers and auditors of financial documents can be confident that any actuarial work used in their preparation is of a high standard and that actuarial information is communicated clearly. We therefore propose that the accounts TAS should cover 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. Our intention is that work produced for regulators will fall within the scope of other TASs (including those covering insurance and pensions).

4.7 For the same reasons as given in paragraph 4.6 we propose that the accounts TAS should also cover actuarial work carried out for financial information which is published in conjunction with accounts, or related financial documents, and which is required by statute or other rules. This would include the preparation of embedded values for financial statements.

4.8 There are other documents produced by entities which are not required by any rules or regulations but which may contain important information about their financial position. Where such information is of vital importance to investors or other stakeholders we will consider bringing actuarial work carried out for the preparation of the documents within the scope of the accounts TAS.

4.9 In the remainder of this section we discuss areas of work that we are proposing to include or exclude from the initial scope of the accounts TAS taking account of the factors discussed above. The scope of the TAS will be reviewed periodically following publication.

WORK WITHIN SCOPE – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

4.10 In paragraphs 4.11 to 4.13 we consider the work connected with pensions and other post-employment benefits which we propose to include within the scope of the accounts TAS.

Accounting standards

4.11 The financial reporting standard FRS17 and the international accounting standard IAS19 contain a number of requirements for the information about defined benefit pension schemes to be reported in UK company accounts. This information includes the pension scheme surplus or deficit (which is shown in the company's balance sheet), the pension cost (shown in the income statement) and various disclosures about the pension arrangements.

Pension scheme accounts

4.12 Legislation requires that annual accounts are prepared for occupational pension schemes. These accounts are prepared in accordance with a statement of recommended practice (SORP) rather than a mandatory accounting standard. Pension scheme accounts focus on the assets of the scheme and are not required to show liabilities. Sometimes actuarial information is used to establish a value for certain items such as some annuity contracts which are held as assets of a scheme.

Other post-employment benefits

4.13 Companies are required to report on certain post-employment benefits in a similar way to which they report on pensions. The most common post-employment benefit other than defined benefit pension schemes which requires actuarial calculations for company accounts is post-retirement healthcare. These arrangements are uncommon in the UK, with few if any new arrangements now being established. The calculations relating to post-employment benefits are similar to those for pension schemes but with some additional assumptions.

WORK WITHIN SCOPE – INSURANCE

4.14 In paragraphs 4.15 to 4.21 we consider insurance related work which we propose to include within the scope of the accounts TAS.

IFRS reporting

4.15 Insurance companies report on their liabilities in their annual accounts. The Companies Act 2006 requires that these long-term liabilities are calculated by a qualified actuary. Some accounting standards, including IFRS4 and FRS27, apply to the reporting of insurance liabilities. Some entities other than insurance companies also show insurance liabilities on their balance sheet: such entities include bancassurers and groups with an insurance subsidiary.

Embedded values

4.16 All UK listed life insurers report accounting information on an embedded value basis as supplementary information in their annual reports and accounts. The embedded value reporting is voluntary and is not required by statute or by accounting standards. The basis for embedded value reporting is set out by the Chief Financial Officers' (CFO) forum.

4.17 The embedded value measures the value of an insurer by adding the present value of the existing business (ie future profits) to the market value of net assets (ie accumulated past profits). The embedded value may be of interest to investors, analysts and others.

4.18 In our consultation paper on *Insurance* we proposed that work relating to embedded values should be within the scope of our insurance TAS. We are proposing that the preparation of embedded values for financial documents should also be within the scope of the accounts TAS. This work may therefore be within the scope of two specific TASs. We would ensure that the TASs are consistent.

Deferred acquisition costs (DACs)

4.19 Insurers defer costs directly related to the acquisition of insurance contracts to the extent they are recoverable out of future margins expected to arise from those insurance contracts. These deferred acquisition costs (DACs) are then amortised over the lives of the contracts in proportion to the margins emerging. Insurers are required to verify that the amount of any unamortised DACs at the end of each reporting period remains recoverable out of future margins. If DACs are no longer considered to be recoverable then they are written off. The evaluation of the future margins, determination of the amount of the amortisation and test of recoverability may depend on actuarial calculations.

Value of business acquired (VOBA)

4.20 Long-term insurers sometimes recognise the present value of future profits of an acquired portfolio of long term insurance or investment contracts as an asset. This value of business acquired (VOBA) is then amortised in line with the emergence of the profits on the acquired business. At the end of each reporting period they are required to test the VOBA against the expected value of future profits remaining from the acquired portfolio and to expense any impairment through the income statement. The determination of the initial VOBA, its amortisation and the regular impairment test may depend on actuarial calculations.

Insurance – Lloyd's syndicates

4.21 Lloyd's syndicates are required to produce annual accounts, which have many similarities to those of an insurance company.

WORK WITHIN SCOPE – COMPANY REPORTS AND ACCOUNTS

4.22 In paragraphs 4.23 to 4.25 we consider other actuarial work relating to the preparation of company reports and accounts which we propose to include within the scope of the accounts TAS.

Risk

4.23 There has recently been a trend towards providing more information on risk and the risk management process in company accounts. IFRS7 now requires companies to report the nature and extent of risks arising from financial instruments – this is particularly significant for insurance companies. Some companies provide more disclosure on the risks their businesses face than is required.

4.24 Actuarial information may be used in preparing disclosures on risk in a number of areas including insurance and pension scheme liabilities. For example, actuarial input may be used to show the sensitivity of accounting numbers to different events such as the movements in bond yields used for discounting liabilities or changes in life expectancy.

Directors' remuneration

4.25 Legislation requires that company accounts disclose information about the remuneration of directors. This includes the value of defined benefit pensions which is usually calculated using actuarial factors used for calculating cash equivalent transfer values.

WORK WITHIN SCOPE – OTHER FINANCIAL DOCUMENTS

4.26 In paragraphs 4.27 to 4.30 we consider other actuarial work relating to the preparation of other financial documents which we propose to include within the scope of the accounts TAS.

Preliminary statements of annual results

4.27 Preliminary statements (which are not required by the UK Listing Authority) of annual results are the first public communication of a company's results and financial position to the markets. They may contain figures which are based on actuarial information – particularly for insurance companies. These statements give investors and others the first indication of changes in financial performance. We are therefore proposing to bring any actuarial work performed in the preparation of preliminary statements of annual results within the scope of the accounts TAS. We would however welcome views on this.

Half-yearly financial reports

4.28 In the UK half-yearly financial reports are required by the UK Listing Authority. These documents may contain figures which are based on actuarial information – particularly for insurance companies.

Prospectuses and other investment circulars

4.29 Investment circulars include prospectuses, listing particulars, circulars to shareholders and other similar documents. These documents may include profits forecasts which may have used actuarial information. The Auditing Practices Board defines an investment circular in the following terms: "Investment circular is a generic term for any document issued by an entity pursuant to statutory or regulatory requirements relating to listed or unlisted securities on which it is intended that a third party should make an investment decision."[4]

Other publicly available information

4.30 Entities may produce material which is made publicly available but which is not required by any formal rules or regulations, such as presentations made for analysts which are posted on a company's website. We intend that actuarial information used for such exercises should be within the scope of the accounts TAS as these exercises are an essential part of the communications process for users and can have a material actuarially driven content. We would however welcome views on this.

WORK IN SCOPE – AUDITING

4.31 In paragraphs 4.32 to 4.33 we consider audit-related actuarial work which we propose to include within the scope of the accounts TAS.

Information provided to auditors

4.32 Auditors reviewing accounts of any type often seek actuarial input during the audit, for example on the appropriateness of assumptions such as the discount rate or the mortality tables used. This input may be provided by an actuary working for the same firm as the auditor or may be obtained externally. For insurance companies reporting their regulatory returns this input may be provided by the Reviewing Actuary engaged by the auditor.

4.33 Even though the actuarial work carried out may be limited the auditor must be able to rely on its quality.

WORK OUT OF SCOPE

4.34 In paragraphs 4.35 to 4.38 we consider work which we are proposing should not be within the scope of the accounts TAS.

Budgeting

4.35 Companies regularly carry out budgeting exercises to estimate cash flows, income statement charges and other financial information over the following year and for longer periods. While these exercises are very important for the management of companies they are not directly required by statute or other rules and regulations. In many cases the information will not normally be made public. We are therefore inclined not to include the provision of actuarial information for these exercises within the scope of the accounts TAS. We would however welcome views on this.

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[4] Paragraph 1(a) of the Introduction to Standards of Investment Reporting SIR 1000.

Non-UK accounts

4.36 The *Scope & Authority* states that "the BAS develops TASs in the context of UK legislation and regulation. The geographic scope of TASs is, therefore, 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."

4.37 This means that the work carried out for accounts of UK entities prepared in accordance with overseas standards such as those of the Financial Accounting Standards Board in the US is not within the scope of BAS standards. Nor is work carried out in respect of UK liabilities for the accounts of overseas organisations.

Lloyd's syndicates – reinsurance to close

4.38 Lloyd's syndicates cover risk over one year but remain open to claims for a period after the end of the year in question. The managing agent of a Lloyd's syndicate often decides to close the year after three years when most of the potential claims will have been settled. When a Lloyd's syndicate year is closed a payment known as a reinsurance to close premium may be made, representing an assessment of the value of claims incurred but not yet reported. We have proposed that the actuarial work in connection with reinsurance to close should be subject to the insurance TAS. We are therefore proposing not to include it within the scope of the accounts TAS.

Section 4 discusses the possible scope of the accounts TAS.

The BAS would welcome responses to the following questions:

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? (paragraph 4.6) If respondents believe that the scope should be different they should set out their preferred approach with reasons.

4. Do respondents agree that provision of actuarial information for preliminary statements of annual results should be within the scope of the accounts TAS? (paragraph 4.27)

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? (paragraph 4.30)

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? (paragraph 4.35)

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

5 DATA

INTRODUCTION

5.1 The exposure draft of TAS D contains requirements concerning data which will apply to all actuarial work within its scope, which includes all work within the scope of the accounts TAS. The principles contained in the exposure draft of TAS D cover the collection of data, its checking and the actions which should be taken when data is incomplete or inaccurate

5.2 TAS R contains principles relating to the reporting of data including the data used, shortcomings in that data and how any such shortcomings were dealt with.

DATA USED FOR FINANCIAL REPORTING EXERCISES

5.3 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 consider that the proposed principles in the exposure draft of TAS D together with the reporting requirements of TAS R will be sufficient for the work carried out in providing actuarial information for accounts and other financial documents. We therefore propose to include no further principles related to data in the accounts TAS. We would welcome respondents' views on this proposal.

Section 5 considers data requirements for actuarial work relating to actuarial information provided for accounts and other financial documents.

The BAS would welcome responses to the following 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?

6 ASSUMPTIONS

INTRODUCTION

6.1 In this section we consider assumption setting in actuarial work in relation to accounts. Paragraphs 6.5 to 6.17 consider general principles which might apply to all actuarial information being provided for accounts and other financial documents. Paragraph 6.18 discusses special considerations for post-retirement medical plans.

BACKGROUND

6.2 The choice of assumptions can have a significant impact on the results of calculations and on the information reported in accounts and other financial documents. It is therefore important that those responsible for selecting assumptions understand the rationale for them and how that selection might influence decisions.

6.3 In some circumstances it is the users of actuarial information, such as governing bodies of insurers or trustees of pension schemes, who are responsible for setting actuarial assumptions. In other circumstances the assumptions are set by the practitioners producing the actuarial information. In the remainder of this section we use the term "selecting assumptions" to refer to the process of determining the assumptions to be used, recommended or presented in actuarial information, regardless of who has the formal responsibility for choosing the assumptions.

6.4 The exposure draft of TAS M includes a number of requirements concerning assumptions that are used in models. However, some actuarial work may cover assumptions without involving the use of models. In some cases, for example, an actuary may be asked to recommend assumptions to be used but calculations may be carried out by another actuary working for a different organisation. We believe that the requirements in TAS M that concern assumptions should apply in these situations and will draft the accounts TAS accordingly.

GENERAL PRINCIPLES

6.5 In the following paragraphs we consider principles which might apply to the selection of assumptions for actuarial calculations for accounts and other financial documents. The pensions and insurance consultation papers propose similar principles for inclusion in the TASs on pensions and insurance.

Purpose

6.6 When selecting assumptions, consideration should be given to the nature and purpose of any calculations for which they will be used. We propose to include the following principle, which is consistent with principles proposed for the insurance and pensions TASs, in the accounts TAS:

> The selection of assumptions should take account of the purpose of the calculations for which they will be used.

Interaction with accounting standards or other rules and regulations

6.7 There may be occasions when accounting standards prescribe an assumption which would not be appropriate for other purposes. In such cases the information prepared for use in accounts would have significant limitations if used for other purposes, and we would expect such limitations to be clearly disclosed to users.

Appropriateness of assumptions

6.8 Often the directors, management or others responsible for preparing accounts are responsible for the selection of assumptions. On occasions it is possible that the assumptions adopted may not be in line with those that would be recommended by those providing the actuarial information. For example, a company's directors may wish to adopt assumptions for the calculation of pension costs for company accounts that reduce the deficit shown on the balance sheet and the charge to the income statement.

6.9 If those responsible for carrying out calculations have concerns about the assumptions being used, for example if they believe that they are inappropriate for the purpose for which they are being used, they should inform the preparers of the accounts or other financial documents of their concerns. We therefore propose to include the following principle in the accounts TAS:

> The aggregate report should include an indication of the fitness for purpose of the assumptions used in any calculations.

Evidence base

6.10 We believe that assumptions should be based on evidence. The evidence should include both past experience and any available insight into trends that might cause experience to be different in the future. We therefore propose to include the following principle in the accounts TAS:

> The selection of assumptions should take account of all available information as at the effective date of the calculations. That information should include financial and economic outlooks and longevity and other demographic projections, as well as recent experience of the relevant entity.

Mortality

6.11 We issued a discussion paper on *Mortality* in March 2008. Having considered responses to that paper we decided that we would not produce a Generic TAS on mortality but would cover the selection of mortality assumptions in Specific TASs.

6.12 Future rates of mortality depend on both current rates of mortality and the way in which those rates are expected to change in the future. As we discussed in our discussion paper on *Mortality*, we believe that these two factors are very different in nature: in principle it is often possible to obtain reliable data on current mortality, whereas it is impossible to know what the future holds in terms of changes to mortality rates. In addition, it is often possible to select assumptions about current mortality on an entity specific basis, whereas it is debatable whether that can be done for assumptions for future changes.

6.13 We propose to include the following principle, which is consistent with principles proposed for the pensions and insurance TASs, in our accounts TAS:

> Separate assumptions should be selected for current rates of mortality and for future changes to mortality rates. Assumptions concerning current rates of mortality should reflect the estimated current mortality rates applicable to the entity in question.

6.14 The information that should be taken into account when selecting assumptions for current mortality rates includes, for example, variations arising from occupation and regional factors. The CMI and other organisations publish many useful analyses of both current mortality rates and rates of change in mortality.

Consistency

6.15 It is important that the assumptions are consistent as a whole and each assumption should be justifiable individually. The exposure draft of TAS M requires that assumptions used in models are consistent, as do some of the relevant accounting standards.

6.16 Sometimes one assumption is modified in order to reflect a shortcoming in another. For example, the discount rate used to value liabilities is sometimes reduced to allow for future improvements in mortality rates instead of incorporating an explicit assumption. We believe that this approach makes information less transparent to users, and is inconsistent with the achievement of our Reliability Objective.

6.17 We therefore propose to include the following principle in the accounts TAS:

> No adjustment should be made to any assumption to compensate for a shortcoming in another assumption.

POST-RETIREMENT MEDICAL PLANS

6.18 The techniques and assumptions used to determine the accrued liabilities and periodic costs of a post-retirement medical plan (see paragraph 4.13) are similar to those used for pension schemes. There are, however, some specific considerations for these plans, such as future changes in medical costs. However, we believe the general principles set out above and in TAS M are sufficient for these plans.

Section 6 discusses considerations that apply to the selection of assumptions for calculations relating to actuarial information provided for accounts and other financial documents.

The BAS would welcome responses to the following questions:

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?

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

7 MODELLING AND CALCULATIONS

INTRODUCTION

7.1 TAS M will set out principles for actuarial models. It is expected to cover the use and documentation of models as well as the communication of the outputs of models to users.

7.2 The exposure draft of TAS M contains requirements concerning modelling which will apply to all actuarial work within its scope, which includes all work within the scope of the accounts TAS. The principles contained in the exposure draft of TAS M cover the construction of models, checking and documentation.

7.3 In this section we address areas in which further principles on modelling and calculations may be required in respect of actuarial information provided for accounts and other financial documents.

MATERIALITY FOR CALCULATIONS

7.4 In some circumstances approximate calculations are used in the preparation of information which will appear in financial documents. For example, results are often extrapolated from previous calculations (instead of performing fresh calculations) when preparing pension costs to be included in company accounts. In determining the accuracy that is required it is necessary to understand the level of materiality in the accounts. We therefore propose to include the following principle in the accounts TAS:

> Information should be sought regarding the materiality levels for accounting purposes relating to the piece of work, and those levels should be taken into account in the models used and calculations performed.

MODELLING

7.5 We believe that the proposed principles in the exposure draft of TAS M together with the reporting requirements of TAS R and the principle proposed in paragraph 7.4 are sufficient for the work carried out in providing actuarial information for accounts and other financial reports. We therefore propose to include no further principles on modelling and calculations in the accounts TAS. We would welcome respondents' views on this proposal.

Section 7 considers modelling and calculations relating to actuarial information provided for accounts and other financial documents.

The BAS would welcome responses to the following questions:

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

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?

8 REPORTING

INTRODUCTION

8.1 TAS R sets out principles for reporting which apply across a wide range of actuarial work. In this section we address areas in which further principles may be required in respect of actuarial information provided for accounts and other financial documents.

8.2 TAS R includes requirements for a statement of material assumptions and the rationale for their selection. Similarly, TAS R includes requirements for the rationale of methods and measures used for material calculations. These principles will ensure that the user is given sufficient information to understand the rationale for different assumptions that contribute to their decision making.

8.3 We believe therefore that the provisions of TAS R together with the principles on assumptions proposed in section 6 of this paper are sufficient to address the majority of reporting issues relating to accounts and other financial documents.

LATITUDE WITHIN ACCOUNTING STANDARDS

8.4 There may be occasions where accounting standards or other regulations prescribe how an assumption should be derived rather than prescribing the assumption. For example, IAS19 requires that the discount rate should be based on high quality corporate bonds and this is usually interpreted as corporate bonds with a credit rating of AA. There is, however, a range of yields on corporate bonds with a credit rating of AA and recently this range has been quite wide. We believe it is important for users to understand where an assumption chosen fits within the range of assumptions which might be permissible under accounting standards. We therefore propose to include the following principle in the accounts TAS:

> Where the method for selecting an assumption is prescribed by an accounting standard or by other regulations, and there is a range of possible assumptions which could satisfy the relevant accounting standard, then an indication of where the selected assumption falls within that range should be given.

PENSION SCHEMES – COMPARISON WITH SCHEME FUNDING EXERCISES

8.5 The assumptions used for calculating pension costs for company accounts are often different from those used for Scheme Funding exercises. This may be due to the different purpose, because the calculations were performed at a different date or for some other reason.

8.6 We believe that it is important that those preparing accounts are aware of the reasons for material differences in assumptions. We therefore propose to include the following principle in the accounts TAS:

> Assumptions used for calculations regarding defined benefit pension schemes for accounting purposes should where practical be compared with those used for the last Scheme Funding exercise and an explanation of any material differences should be given.

Section 8 considers the reporting of actuarial information for actuarial work provided for accounts and other financial documents.

The BAS would welcome responses to the following questions:

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

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

9 TRANSITION FROM ADOPTED GUIDANCE NOTES

INTRODUCTION

9.1 The BAS has responsibility for the Guidance Notes that it adopted from the Actuarial Profession (the adopted GNs). The adopted GNs that cover accounting matters are GN7 (long term insurance), GN21 (post-retirement medical plans) and GN36 (pensions). All three GNs are recommended practice. Our standards will contain mandatory principles, and although they may cover some of the matters covered in the GNs there will be some information and recommendations in the GNs that are not addressed in them. We intend to withdraw all three GNs after the accounts TAS comes into effect. We do not envisage any transitional issues arising from their withdrawal.

GN7

9.2 GN7 (*The Role of Actuaries in Relation to Financial Statements of Insurers and Insurance Groups writing Long-term Business and their Relationship with Auditors*) is recommended practice for actuaries who are calculating the long-term business provision to be included in the financial statements of a UK authorised insurance company, a friendly society, or a UK domiciled insurance group and for actuaries involved in the preparation of financial statements under the Companies Act, or equivalent friendly society legislation, for companies, societies, or groups transacting long-term insurance business and domiciled in the UK. GN7 discusses the role and responsibilities of the Reporting Actuary along with those of the directors. Both the insurance TAS and the accounts TAS, as well as the Generic TASs, are likely to cover some of the matters addressed in GN7.

GN21

9.3 The purpose of GN21 (*Post-Retirement Medical Plans*) is to provide guidelines on the factors that should be taken into account in giving actuarial advice on, and carrying out calculations for, post-retirement medical plans. GN21 was written with accounting standards (including FRS17) in mind.

9.4 GN21 includes information and recommendations on matters relating to data, assumptions, calculations and reporting. The accounts TAS, and the Generic TASs, are likely to cover some of the matters addressed in GN21.

GN36

9.5 GN36 (*Accounting for Retirement Benefits under FRS17*) covers matters relating to data, assumptions, calculations and reporting in relation to pension costs for company accounts under FRS17.

9.6 GN36 states that the actuary should ensure that the employer is aware of the time constraints for the relevant calculations. This could be construed as either a technical or ethical matter and could be covered in either the BAS's technical standards or the Actuarial Profession's ethical standards. We would welcome views on whether this matter should be covered in the accounts TAS.

Section 9 considers the transition from the adopted GNs to TASs. It describes each adopted GN, including any significant requirements that will not be covered in the Generic or Specific TASs.

The BAS would welcome responses to the following questions:

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)

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

10 INVITATION TO COMMENT

QUESTIONS

10.1 We invite the views of those stakeholders and other parties interested in actuarial information who wish to comment on the content of this document. In particular we would welcome views on the following issues:

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)

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?

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.

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)

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)

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)

7 Is there any other work which respondents believe should be within the scope of the accounts TAS? (section 4)

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)

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?

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

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

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)

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

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

15 Do respondents have any views on whether 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)

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

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

RESPONSES

10.3 For ease of handling, we prefer comments to be sent electronically to **basaccounts@frc.org.uk.** Comments may also be sent in hard copy form to:

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

10.4 Comments should reach the BAS by **8 January 2010**.

10.5 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.

10.6 We aim to publish non-confidential responses on our web site within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

A REGULATIONS AND ACCOUNTING STANDARDS

INTRODUCTION

A.1 Some of the key legislation and accounting standards which are relevant to this paper are summarised below.

PENSIONS

A.2 Pension costs for company accounts are determined in accordance with accounting standards. The standards with which UK companies must comply are FRS17 and IAS19. Under FRS17 and IAS19, the actuarial assumptions used are set by the employer. FRS17 states that assumptions should be set upon advice given by an actuary. IAS19 comments that assumptions are usually set having taken actuarial advice.

A.3 Neither standard requires calculations to be carried out by an actuary although they usually are.

A.4 There are other standards and statements issued by the accounting standards bodies which affect pensions. These include IFRIC14 which covers the amount of recoverable surplus which may be shown on the balance sheet.

POST-EMPLOYMENT BENEFITS

A.5 FRS17 and IAS19 also apply to post-employment benefits other than pensions. The most common benefit to fall into this category is post-employment healthcare benefits.

INSURANCE

A.6 The role of Reporting Actuary was established by Schedule 9A of the Companies Act 1985, introduced by the 1993 Regulations. The stipulations for this role now appear in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) Schedule 3 paragraph 52 (3). An insurer with long-term business is required to have a Reporting Actuary who must compute the long-term business provision of an insurer, as shown in the company accounts.

IFRS

A.7 Since 2005, all European Union listed companies have been required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

A.8 Financial Reporting Standard 27, Life Assurance (FRS27) was issued by the UK's Accounting Standards Board (ASB) in December 2004. A number of major UK insurance companies and the Association of British Insurers (ABI), signed a Memorandum of Understanding (MoU) with the ASB relating to FRS27. Under this MoU, these insurance companies agreed to adopt in full the standard from 2005 in their IFRS financial statements.

A.9 FRS27 requires liabilities of UK with profit funds to be calculated in the same way as the realistic basis liabilities as set out by the UK's Financial Services Authority, adjusted to remove the shareholders' share of future bonuses.

A.10 IFRS4 (insurance contracts) applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS39 Financial Instruments: Recognition and Measurement. Furthermore, it does not address accounting by policyholders. IFRS 4 was effective for reporting periods starting on or after 1 January 2005 with amendments effective for reporting periods starting on or after 1 January 2007.

A.11 The IASB is currently working on a second phase of its insurance project and this may result in new standards being developed for insurance.

A.12 IFRS 7 (financial instruments: disclosures) applies to all companies. It requires certain disclosures to be made in relation to financial instruments held by the company. This is particularly significant for insurance companies.

CFO Forum

A.13 The CFO Forum is a high-level discussion group attended by the Chief Financial Officers of major European insurance companies. Its aim is to discuss issues relating to financial reporting developments for their businesses and how they can create greater transparency for investors.

A.14 On 5 May 2004 the CFO forum published its European Embedded Value Principles which set out guidance on calculating or providing information on:

a) the cost of options and guarantees;

b) the assumptions being made in respect of future investment returns and risk margins;

c) disclosure of assumptions and key sensitivities; and

d) new business margins.

A.15 On 4 June 2008, the CFO Forum published the Market Consistent Embedded Value (MCEV) Principles, supported by a detailed Basis for Conclusions. The intention was that this would represent the only CFO Forum endorsed method of embedded value reporting for accounting periods ending on or after 31 December 2009.

A.16 On 22 May 2009 the CFO Forum announced that, due to economic uncertainty, it would defer MCEV reporting for all member firms until 2011.

Statement of Recommended Practice

A.17 The ABI published the latest version of its Statement of Recommended Practice (SORP) on Accounting for Insurance Business in December 2005 and amended it in December 2006. This SORP sets out recommended, rather than mandatory, practice to be followed in the preparation of insurance company accounts.

Audit

A.18 Practice Note 20: The Audit of Insurers in the United Kingdom (revised) (PN 20), published by the Auditing Practices Board in January 2007, provides an interpretation for the application of auditing standards to the accounts of an insurer.

FRIENDLY SOCIETIES

A.19 Friendly societies are required to produce accounts in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

Audit

A.20 Practice Note 24: The Audit of Friendly Societies in the United Kingdom (PN 24), published by the Auditing Practices Board in January 2007, provides an interpretation for the application of auditing standards to the accounts of a friendly society.

LLOYD'S SYNDICATES

A.21 The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (SI 2008/1950) require managing agents to prepare or cause to be prepared accounts and reports for syndicates for each year ending on 31 December. These Regulations also make the Council of Lloyd's responsible for preparing aggregate accounts in respect of each financial year by cumulating all the syndicate accounts in that financial year. In practice this obligation is fulfilled by aggregating information provided by the syndicates in their annual returns to Lloyd's rather than by using their annual accounts.

RISK AND UNCERTAINTIES

A.22 Paragraph 417 (3) (b) of the Companies Act 2006 requires that the directors' report in company accounts contains a description of the principal risks and uncertainties facing the company.

DIRECTORS' REMUNERATION

A.23 The Companies Act 2006 sets out requirements for the disclosure of various aspects of directors' remuneration. Schedule 8 of the Large and Medium-sized Companies (Accounts and Reports) Regulations 2008 (SI 2008/410) sets out more detailed requirements. Paragraph 13 of the Regulations requires that the directors' remuneration report must, for each person who has served as a director of the company during the relevant financial year, include the transfer value, calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)" published by the Institute of Actuaries and the Faculty of Actuaries and dated 6th April 2001, of their accrued benefits under the scheme at the year end. GN11 ceased to apply from 1 October 2008.

A.24 The FSA Listing Rules (9.8.8) impose similar requirements and refer to the same version of GN11.

PENSION SCHEME ACCOUNTS

A.25 Section 41 of the Pensions Act 1995 and associated regulations require pension scheme trustees to obtain audited pension scheme accounts.

A.26 The Pensions Research Accountants Group (PRAG) is recognised by the Accounting Standards Board as the appropriate organisation to issue Statements of Recommended Practice (SORPs) for pension schemes. PRAG published a SORP entitled "Financial Reports of Pension Schemes" in July 1996. The SORP was updated in November 2002 and further revised in 2007. Although SORPs set out recommended rather than mandatory practice, current UK pension regulations require schemes to disclose whether they have complied with the SORP and to explain and justify any material departure from the SORP.

A.27 The pension schemes SORP does not require the value of liabilities to be shown. However, it encourages the inclusion of the Summary Funding Statement and the certification of the calculations of the technical provisions.

A.28 The assets of a pension scheme may include insurance policies. The SORP allows policies specifically allocated to the provision of benefits for particular members to be excluded from the asset statement. Where this is not the case a value must be assigned to the insurance policy. One of the ways in which this may be achieved is by placing a discounted value on the future payments allowing for items such as bonuses, mortality and other contingencies.

A.29 Since 1 April 2007 the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 (SI 2007/228) have required administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include, for each of those funds, the fund account and net assets statement with supporting notes prepared in accordance with proper practices. The accounting requirements for the LGPS annual accounts are set out in the local authority SORP. Those requirements reflect many, but not all, of the requirements set out in the pension scheme SORP.

Audit

A.30 Practice Note 15: The Audit of Occupational Pension Schemes in the United Kingdom (PN 15), published by the Auditing Practices Board in March 2007, provides an interpretation for the application of auditing standards to the accounts of an occupational pension scheme.

B LIST OF DEFINITIONS AND PRINCIPLES

B.1 This appendix lists the principles that the BAS is proposing to include in its accounts TAS together with the associated definitions. This list is for convenience only. Readers should note that the principles cannot be seen in isolation, but should be read in the context of the discussion that explains them. Moreover, the proposals are intended to convey the general sense of the requirements that may appear in the TAS rather than the precise words that are likely to be used.

PURPOSE OF THE TAS

B.2 The purpose of the accounts TAS is to assist the achievement of the Reliability Objective by ensuring that in relation to actuarial work within the scope of the TAS: (paragraph 2.7)

a) directors and others with responsibility for preparing accounts and other financial documents are provided with sufficient actuarial information (including information on risk and uncertainty, cash flows and long term effects) to enable them to prepare those documents with confidence; and

b) investors, auditors and other readers of accounts and other financial documents can rely on and understand actuarial calculations used in those documents.

GENERAL CONCEPTS AND PRINCIPLES

B.3 (Definition) A matter is **material** if, at the time the work is performed, it (or information resulting from it) could influence the decisions to be taken by **users**. A matter that is **immaterial** when considered in isolation may be **material** when considered in conjunction with others (paragraph 3.2).

B.4 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner (paragraph 3.5).

SCOPE

B.5 We are proposing that the following work should be within the scope of the accounts TAS:

a) actuarial information produced 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) excluding those produced solely for the use of Regulators (paragraphs 4.6, 4.28 and 4.29);

b) determining embedded values for financial statements (paragraphs 4.16 to 4.18);

c) material containing financial information about a company or pension scheme which is made publicly available but which is not required by any formal rules or regulations (paragraph 4.30); and

d) provision of actuarial information for preliminary statements of annual results (paragraph 4.27).

ASSUMPTIONS

B.6 The selection of assumptions should take account of the purpose of the calculations for which they will be used (paragraph 6.6).

B.7 The aggregate report should include an indication of the fitness for purpose of the assumptions used in any calculations (paragraph 6.9).

B.8 The selection of assumptions should take account of all information available at the effective date of the calculations. That information should include financial and economic outlooks and longevity and other demographic projections, as well as recent experience of the relevant entity. (paragraph 6.10).

B.9 Separate assumptions should be selected for current rates of mortality and for future changes to mortality rates. Assumptions concerning current rates of mortality should reflect the estimated current mortality rates applicable to the entity in question (paragraph 6.13).

B.10 No adjustment should be made to any assumption to compensate for a shortcoming in another assumption (paragraph 6.17).

MODELLING

B.11 Information should be sought regarding the materiality levels for accounting purposes relating to the piece of work, and those levels should be taken into account in the models used and calculations performed (paragraph 7.4).

REPORTING

B.12 Where the method for selecting an assumption is prescribed by an accounting standard or by other regulations, and there is a range of possible assumptions which could satisfy the relevant accounting standard, then an indication of where the selected assumption falls within that range should be given (paragraph 8.4).

B.13 Assumptions used for used for calculations regarding defined benefit pension schemes for accounting purposes should where practical be compared with those used for the last Scheme Funding exercise and an explanation of any material differences should be given (paragraph 8.6).

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