



BOARD FOR ACTUARIAL STANDARDS

EXPOSURE DRAFT: TRANSFORMATIONS

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CONTENTS

<i>Section</i>	<i>Page</i>
Analysis of Responses and Invitation to Comment	2
1 Introduction	3
2 Structure, purpose and scope	5
3 Principles	13
4 General comments and further proposals	20
5 Transition from adopted guidance notes	23
6 Impact assessment	24
7 Invitation to comment	26
Exposure Draft	28
Appendices	41
A Members of the Board and Working Group	41
B Respondents to the consultation paper	43

ANALYSIS OF RESPONSES

AND

INVITATION TO COMMENT

1 INTRODUCTION

CONSULTATION AND RESPONSES

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹. In December 2009, it published a consultation paper on a Specific Technical Actuarial Standard (Specific TAS)² on transformations of pensions and insurance obligations. During the preparation of the consultation paper we were assisted by a Working Group³.
- 1.2 The consultation period ended on 1 March 2010. A total of 27 public responses⁴ were received (see Appendix B). We held a number of meetings with practitioners and other stakeholders. We thank all those who have contributed.

SUMMARY

- 1.3 In drafting the proposed text of the Transformations TAS we have taken account of the comments we received in response to the consultation paper, as well as other comments that have been made to us in meetings. We have also considered the responses to our other consultations.
- 1.4 Respondents to the consultation generally agreed with the aims of the consultation paper and the proposed purpose of the Transformations TAS. However, all but one of the respondents considered that they were best met by extending the scope of and including appropriate principles in the proposed Pensions and Insurance TASs.
- 1.5 The purpose of much transformations work differs fundamentally from that of other work within scope of the Insurance and Pensions TASs. Transformations work has a focus on the impact on beneficiaries as opposed to management of the pension scheme or insurance company. We consider that a separate TAS will highlight this difference in focus.
- 1.6 Respondents' views on the scope were varied. Some wanted the scope of the TAS to be restricted to Reserved Work while others thought that the scope should also include any actuarial information which is provided to assist users in making a decision about changes to benefits.
- 1.7 We are proposing to include actuarial information provided in support of users making decisions about transformations within the scope of the Transformations TAS. The scope therefore extends beyond Reserved Work.

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

² Generic TASs apply to all work specified in the Schedule to the BAS's *Scope & Authority of Technical Standards*. Specific TASs are limited to a specific, defined context.

³ Members of the working group are listed in Appendix A.

⁴ The responses are available at <http://www.frc.org.uk/bas/publications/pub2133.html>.

- 1.8 A number of respondents commented that some of the principles which were proposed for the Transformations TAS could also apply to other work in pensions and insurance and should therefore be in one of the Generic TASs. This may be so for some principles, and we intend to review the structure of the TASs when the initial set has been issued. However, we note that the fact that a principle could apply more widely than to work on transformations does not always imply that it should be so applied. Moreover, the Generic TASs apply to areas of work other than insurance and pensions, and a principle that is applicable to both these areas of work may not be applicable or desirable in other areas.
- 1.9 Respondents generally agreed with the other principles proposed in the consultation. There were many helpful suggestions on the detailed wording which we have taken into account when drafting the proposed text.
- 1.10 A common request from respondents was that examples should be provided of what is required in order to comply with this TAS. We have included examples for many of the principles proposed. We will also issue, alongside the final TAS, a document describing the significant considerations that were taken into account in its development. This is also likely to include examples.
- 1.11 Section 2 covers the structure, purpose and scope of the Transformations TAS. Section 3 covers the proposed principles of the TAS. These sections summarise the comments that we received in answer to the specific questions and describe how we have responded to them. Section 4 summarises the other comments we received, and describes further proposals. Section 5 considers the transition from adopted guidance notes. Section 6 discusses the expected effects of the Transformations TAS and other TASs on work concerning transformations. Section 7 contains our invitation to comment on the exposure draft of the Transformations TAS. The second part of this document contains the proposed text.

RESPONSES TO THIS CONSULTATION PAPER

- 1.12 Details of how to respond to this paper are set out in Section 7. Comments should reach the FRC by **27 August 2010**.

2 STRUCTURE, PURPOSE AND SCOPE

INTRODUCTION

- 2.1 This section considers the structure of the Transformations TAS. It also considers the purpose and scope, including the specific questions on these matters that were proposed in the consultation paper. We have included these questions in boxes with the same numbering as in the consultation paper.
- 2.2 In brief we are proposing that:
- there will be a specific TAS covering both pensions and insurance transformations; and
 - the scope will extend beyond Reserved Work.

SHOULD THERE BE A SEPARATE TRANSFORMATIONS TAS?

1 Do respondents agree that the benefits of a separate transformations TAS outlined in paragraph 1.24 outweigh the benefit of one fewer Specific TASs?

- 2.3 All respondents accepted that actuarial work on transformations should be subject to our standards. Only one respondent suggested that no new principles were required. Most respondents agreed that some additional principles on reporting about the impact of the transformation on benefit payouts and the risks to those payouts would be appropriate.
- 2.4 The one respondent who agreed that there should be a separate Transformations TAS drew particular attention to the high visibility of actuarial work associated with transformations. This respondent considered that a separate TAS would improve users' confidence in actuarial work.
- 2.5 All the practitioners who expressed a view thought that work connected with transformations should be covered in the Pensions and Insurance TASs rather than in a separate TAS, although a few agreed that a separate TAS might encourage a greater focus on the needs of the beneficiaries affected. The reasons given against a separate TAS fall into three main groups:
- pensions and insurance are so different that a single TAS could not address work in both areas;
 - work in transformations is not significantly different from other actuarial work; and
 - the fewer TASs the better.

Pensions and insurance are different

- 2.6 The reasons given for considering that actuarial work concerning transformations in pensions is different from that in insurance included:
- pensions and insurance transformations are subject to different legislative and regulatory regimes; and
 - the needs of the users of actuarial information are different in the two areas.
- 2.7 We agree that pensions and insurance TASs are subject to different legislative and regulatory regimes.
- 2.8 However, we consider that the various acts and regulations share a common purpose, which is to allow a transformation to proceed when:
- there is good reason for it; and
 - pension scheme members' or insurance policyholders' rights and benefits are protected or appropriate compensation is provided.
- 2.9 There is (at least) one significant difference between the users of actuarial information in the two areas. For bulk transfers without members' consents, the principal type of pensions transformation, an actuarial certificate provided to pension scheme trustees is a precondition for the transformation to proceed. The trustees do not exercise any judgement based on the certificate, although they are obliged to consider other aspects of the transformation which may not necessarily be covered by actuarial work. This contrasts with some insurance transformations (such as Part VII transfers) in which the courts weigh up the evidence (including the actuarial information) in reaching a decision. Some respondents argued that this difference is so significant that there is no common ground between the types of work involved, and that therefore a single separate Transformations TAS would not be practical.
- 2.10 Overall we agree that there are some significant differences between pensions and insurance transformations, but consider that there are similarities too. The principal similarity is the emphasis on the impact of the transformation on beneficiaries, be they the members of pension schemes or insurance policyholders.

Transformations are not different

- 2.11 The reasons given for considering that work in transformations has no significant differences from other actuarial work included:
- there are no fundamental conceptual differences; and
 - there are no or only a very few principles required for transformations in addition to those already proposed for the Pensions and Insurance TASs.
- 2.12 We agree that work for transformations has much in common with other actuarial work, and indeed we are proposing to include work for transformations within the scope of the Pensions and Insurance TASs. However, there are also some differences.

- 2.13 In the case of transformations, the actuarial work often involves considering interests of beneficiaries – pension scheme members or insurance policyholders – in order to assist users in making decisions which might affect the benefits received by those beneficiaries. This is not the case for most other actuarial work, which typically involves the provision of information to support the making of management decisions.
- 2.14 In insurance there is a further difference, in that the user of actuarial information in transformations is often the court, while in other work it is usually the insurance company management or governing body.
- 2.15 A separate Transformations TAS, while remaining focused on the needs of users, would also consider the beneficiaries affected by the transformation, by ensuring that the users were given information about the impact on them.

The fewer TASs the better

- 2.16 The reasons given for considering that the BAS should issue fewer rather than more TASs included:
- all work concerning pension schemes should be covered in the Pensions TAS and all work concerning insurance should be covered in the Insurance TAS; and
 - multiple TASs and too many principles might encourage a tick box attitude towards compliance.
- 2.17 A common thread running through these responses is that it would be easier for practitioners if there were fewer TASs.
- 2.18 Our standards are intended for the benefit of users, rather than the convenience of actuaries. We do however recognise that there are benefits in making them easy for practitioners to understand and use.
- 2.19 We share respondents' views on the undesirability of a tick box attitude towards compliance, but are not convinced that multiple TASs would encourage such an attitude. The TASs require the exercise of judgement in their application: it is not possible to comply with them through an entirely tick box approach.

A separate TAS

- 2.20 We consider that the arguments against and in favour of a separate Transformations TAS are finely balanced. However, overall we have decided to issue a separate TAS because we consider there will be some significant differences in emphasis between the Pensions and Insurance TASs and a separate Transformations TAS. In addition, practical considerations, especially those concerning the need for effective consultation, mean that it is easier to issue a separate TAS than to amend TASs which have not yet appeared in their final form.
- 2.21 However, we are intending to review the structure of the TASs when we have issued the first set of them. In particular we will be considering whether there are some principles in the Specific TASs that should be in the Generic TASs. We will also consider whether the current division of principles between the Specific TASs is the right one.

- 2.22 In order to provide as much clarity as possible, the proposed text of the Transformations TAS contains only one principle that also appears in other TASs. This is possible because all work within the proposed scope is also within the scope of the Pensions or Insurance TASs.
- 2.23 The proposed structure of the Transformations TAS is the same as that proposed for the other Specific TASs. The first two Parts follow the same pattern as the Generic TASs, with Part A covering the purpose and Part B the interpretation of the TAS. As a Specific TAS, the Transformations TAS must specify its scope, and this is done in Part C. The principles applying to both pensions and insurance transformations are in Part D. We are not proposing any other principles.

PURPOSE

2 Will the proposed purpose of the transformations TAS that is set out in paragraph 2.5 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

- 2.24 Most respondents agreed with the proposed purpose set out in the Consultation Paper, which was to facilitate the achievement of the Reliability Objective by ensuring that in relation to the performance of work within its scope:
- a) users of actuarial information who make decisions on the transfer of assets and liabilities or the modification of liabilities are provided with sufficient information, including information on cash flows, risk and uncertainty, to enable them to make an informed decision or to assess the impact, including fairness, security and level of benefits, on those affected by the transfer or modification.
 - b) in those cases where the actuarial information is a determination made by an actuary performing an expert role, the users of the determination are provided with sufficient information to see that it has been made with the greatest practicable degree of fairness between the interested parties, subject to the constraints of any applicable regulation, and to understand its limitations.
- 2.25 Some respondents were concerned that the purpose would impose requirements on actuaries performing work within the scope of the TAS. For example, one respondent suggested that information on cash flows would have to be provided even where it was not relevant, simply because of the mention of cash flows in the purpose. This is not the case: the purpose sets the scene for the TAS and provides a context for interpreting the principles that apply to work within its scope, but is not in itself a requirement.
- 2.26 A number of concerns were expressed over the inclusion of the concept of fairness, based either on the difficulty of defining it or on the basis that it was not necessarily a legal requirement that a transformation be fair. We consider that users might wish to make a judgement over whether a particular transformation is fair and that actuarial information can often contribute to this assessment.

- 2.27 Some respondents suggested that, since not all actuarial work within scope is directly related to users' decisions, our definition of materiality allows many of the principles concerning reporting to be ignored. We consider that this strong reliance on the definition might in some circumstances be in contradiction to the objectives outlined in the purpose, and is clearly contrary to the spirit of the standards.

SCOPE

3.	Do respondents agree that the areas of work listed in paragraph 4.56 should be within the scope of the transformations TAS?
4.	Should the areas of work listed in paragraph 4.57 be within the scope of the transformations TAS?
5.	Do respondents agree that the areas of work listed in paragraph 4.58 should not be within the scope of the transformations TAS?
6.	Do respondents agree that information provided for one party to a scheme of arrangement should be within the scope of the insurance TAS? (paragraph 4.27)
7.	Is there any other work which is not mentioned that should be within the scope of the transformations TAS? (section 4)

General considerations

- 2.28 Most respondents agreed that much of the work that was listed should be within the scope of technical standards, but disagreed that there should be a separate Transformations TAS (see paragraphs 2.3 to 2.15).

Pension scheme buyouts

- 2.29 A number of respondents expressed concerns that the proposed scope in connection with pension scheme buyouts was too broad. They pointed out that actuaries perform a wide range of work on buyouts not all of which is obviously actuarial in nature. The examples they gave included:

- drafting member communications;
- obtaining buyout quotes; and
- evaluating insurance policy documentation.

- 2.30 We accept these concerns and propose limiting the scope to include only actuarial work in connection with pension scheme buyouts.

With-profits long-term insurance

- 2.31 All those respondents who expressed a view agreed that work performed by With-Profits Actuaries on Part VII transfers and schemes of arrangement should be within the scope of TASs. One respondent suggested that the scope of the Transformations TAS should be limited to the With-Profits Actuary's report submitted to the court on a Part VII transfer and that other information provided to management should be within the scope of the Insurance TAS.

All other respondents thought that it should be within the scope of the Insurance TAS for the reasons given in paragraphs 2.3 to 2.15.

- 2.32 Two respondents considered changes to the *Principles and Practices of Financial Management* (PPFM) should be excluded from scope as they are not transformations. Other respondents considered that this is Reserved Work subject to regulation and thought that it should be bracketed with other Reserved Work within the Insurance TAS. We accept that changes to the practices contained in the PPFM are not transformations. However, we consider that changes in principles are likely to have a material impact on policyholder benefits, and for this reason might be considered to be transformations. We also note that the FSA requires firms to notify with-profits policyholders three months in advance of any proposed change to principles, from which we infer that it considers this to be a material issue for the policyholders affected.
- 2.33 We therefore propose to include work relating to changes to the principles contained within the PPFM within the scope of the Transformations TAS.

Schemes of arrangement

- 2.34 Work acting as, or in support of, an independent expert or policyholder advocate required by a scheme of arrangement has precisely the characteristics of the work that the Transformations TAS is intended to address, and no respondents considered it should be excluded.
- 2.35 We asked whether work performed for one party to a scheme of arrangement (rather than for an independent expert) should be within the scope of TASs. All those respondents who expressed a view agreed that it should be within the scope of the Insurance TAS. This work was included in the scope that was proposed for the Insurance TAS in the exposure draft that we issued in April 2010, and we do not propose to include it within the scope of the Transformations TAS.

Part VII transfers

- 2.36 Work acting as or in support of an independent expert required by a Part VII transfer has precisely the characteristics of the work that the Transformations TAS is intended to address, and no respondents considered it should be excluded.
- 2.37 We asked whether work performed by the Actuarial Function Holder on Part VII transfers of long-term insurance business (rather than work performed for an independent expert) should be within the scope of TASs. All those respondents who expressed a view agreed that it should and suggested that it should be within the scope of the Insurance TAS. This work was included in the scope that was proposed for the Insurance TAS in the exposure draft that we issued in April 2010, and we do not propose to include it within the scope of the Transformations TAS.

Skilled Persons Reports

- 2.38 Respondents generally considered that the work performed by or in support of a Skilled Person under FSMA s.166 or the Pensions Act 2004 s.71 should not be within the scope of TASs. The arguments they advanced included:
- only a small proportion of such work is concerned with transformations;
 - the regulators requiring the appointment of a skilled person are able to specify the terms of reference, which could include the standards with which the work should comply; and
 - actuaries compete with non-actuaries for this work and compliance with technical standards might put actuaries at a competitive disadvantage.
- 2.39 We accept the first of these arguments and therefore we are not proposing to include this work within the scope of the Transformations TAS. We are however considering whether it should be included within the scope of the Pensions or Insurance TASs.

Other work

- 2.40 Respondents mostly agreed with the inclusion of the other areas of work proposed in the Consultation Paper:
- transfer of pension scheme liabilities without members' consents;
 - modification of pension scheme benefits;
 - re-attributions of inherited estate; and
 - policyholder benefit reductions.
- 2.41 Respondents also generally agreed with the inclusion of work concerning transfers of public sector employees' future pension rights. We intend to consult further with various stakeholders of public service schemes. We are not currently proposing to include this work within the scope of the Transformations TAS. However, we may consider including it within the scope of this or another TAS at some future time.
- 2.42 We asked for views on the inclusion of actuarial work performed while acting as or in support of an expert or arbitrator making a determination about claim amounts under insurance contracts or the appropriate treatment of beneficiaries of a pension scheme or insurance policyholders. Few respondents commented on this point specifically. However those who did pointed out that in such work the person performing the work would normally be appointed by the relevant regulator who would be able to specify the standards that should be complied with.
- 2.43 We agree that this work varies widely and that the principles that should apply to other work on transformations may not be appropriate for it. We are therefore not currently proposing that it should be within the scope of the Transformations TAS. However, we may consider including it within the scope of this or another TAS at some future time.

- 2.44 A number of respondents suggested that the scope should include actuarial work concerning certain pensions transformations with members' consent, such as offers of enhanced transfer values with the enhancement being provided as an immediate cash payment. They pointed out that members and trustees might have a poor understanding of the relative value of the offer being made and the benefits being given up.
- 2.45 Several respondents to our consultation paper on pensions noted that the Pensions Regulator has issued guidance on this issue. Others noted the ethical nature of elements of this work and suggested that the Actuarial Profession rather than the BAS should address this matter.
- 2.46 We are not currently proposing to include this work within the scope of the Transformations TAS. However, we may consider including it within the scope of this or another TAS at some future time.
- 2.47 One respondent suggested that the scope should include buy-ins – transactions through which trustees purchase insurance contracts to meet pensions obligations. We do not consider these transactions to be transformations as the obligations to the scheme members are not changed, and are not proposing to include them within the scope of the Transformations TAS.

3 PRINCIPLES

INTRODUCTION

- 3.1 In this section we summarise the comments received in answer to the specific questions on proposed principles that were posed in the consultation paper, and our reactions to them.
- 3.2 In brief we are proposing that the Transformations TAS:
- will not replicate any of the principles on data, assumptions or modelling that are contained in the Pensions or Insurance TASs;
 - will clarify how some of the principles on data included in TAS D should be applied to work for transformations;
 - will include no additional principles on modelling; and
 - will include principles requiring an indication of the amount of the change in benefits (if any) and the circumstances in which these changes would arise.
- 3.3 Section 4 discusses the comments that we received that were not in response to any specific questions posed in the consultation paper.

DATA

Data used for transformations

8 Do respondents have any comments on the proposal concerning data that is presented in paragraph 5.4?

- 3.4 Paragraph 5.4 of the consultation paper proposed a principle that the data received for a transformation should be challenged in order to determine the extent to which it is sufficiently accurate, relevant and complete for users to rely on the neutrality of the resulting actuarial information. We described neutrality in this context as meaning that the information does not favour one group of stakeholders at the expense of another.
- 3.5 Practitioners thought that the requirements of TAS D were sufficient and that no additional requirements were needed in the specific situation of a transformation.
- 3.6 Respondents expressed two concerns in relation to these proposals. First, many were uncomfortable with the concept of challenging data. Second, some respondents were concerned with the emphasis on neutrality, particularly in the pensions context. They noted that, in a transfer of pension rights without consent, the requirement to certify that the benefits are “broadly no less favourable” means that such a transformation is never neutral but rather tends to being favourable to the member.
- 3.7 The principles we proposed in the consultation paper reflected a concern that the data may be provided by a party wishing to ensure that the transformation either proceeds or does not, whose interests may be best served by ensuring that the data supports this objective. Insufficient or

inaccurate data could result in a significant mis-estimation of the impact on beneficiaries.

- 3.8 We agree that the principles in TAS D allow those complying with it to use their judgement to require better data or to challenge incomplete data. However, we consider that some particular considerations apply to the data used in work for transformations. The proposed text therefore includes some clarification of the matters that should be considered when exercising this judgement (paragraphs D.3.1 to D.3.2).
- 3.9 TAS M requires an explanation of the rationale for using grouped data, instead of individual records if it is not possible to demonstrate that doing so has no material effect. We recognise that in some transformations work it may not be practical to analyse individual data records, but, given the focus of transformations work on beneficiaries, we consider that practitioners should be alert to the possibility that transformations might have quite different results on individual records within apparently homogeneous data groups. The judgements which might apply to grouped data are addressed in paragraphs D.3.3 to D.3.4.

OTHER PRINCIPLES ON DATA

9	Are there any other data issues which respondents consider should be covered by principles in the transformations TAS? (section 5)
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- 3.10 One respondent suggested that the limit of the scope of data checks should be brought to the attention of the user. Another suggested the inclusion of principles covering additional tests for neutrality and fairness in situations where there is insufficient data. We consider that both these issues are adequately addressed by the requirements in TAS R to report material uncertainty over the accuracy of data.
- 3.11 No other significant data issues which should be covered in the Transformations TAS were identified.

ASSUMPTIONS

10	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 6.5, 6.7, 6.10, 6.13 and 6.19?
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Purpose

- 3.12 Paragraph 6.5 of the consultation paper proposed that assumptions should take account of the calculations for which they will be used.
- 3.13 Those respondents commenting on this question agreed with the proposed principle, although many noted that it replicated requirements that we are proposing to include in the Pensions and Insurance TASs. Since all work within the proposed scope of the Transformations TAS is also within the proposed scope of either the Pensions or Insurance TAS, we do not intend to repeat this principle in the Transformations TAS.

Evidence base

- 3.14 Paragraph 6.7 of the consultation paper proposed that the selection of assumptions should take into account all available and relevant historical information. As we are proposing to include a requirement in the Pensions and Insurance TASs that assumptions should be derived from sufficient relevant information, we do not intend to repeat it in the Transformations TAS.

Consistency

- 3.15 Paragraph 6.10 of the consultation paper proposed that no adjustment should be made to an assumption to compensate for a shortcoming in another assumption. As we are proposing to include this requirement in the Pensions and Insurance TASs, we do not intend to repeat it in the Transformations TAS.

Mortality

- 3.16 Paragraph 6.13 of the consultation paper proposed that:
- a) separate assumptions should be selected for current rates of mortality and for future changes to mortality rates; and
 - b) assumptions concerning current rates of mortality should reflect rates applicable to the entity in question.
- 3.17 We are proposing to include this requirement in the Pensions TAS. We are proposing to include a more general requirement in the Insurance TAS, applying to claim rates (of which mortality rates are a specific example). We therefore do not intend to repeat this requirement in the Transformations TAS.

Neutrality

- 3.18 Paragraph 6.19 of the consultation paper proposed that the selection of assumptions should place proper emphasis on the interests of all the interested parties.
- 3.19 Many respondents were concerned that this requirement would extend the practitioner's duty of care beyond that implied by any terms of reference for the engagement in question. For example, they thought that an Actuarial Function Holder working on a Part VII transfer had an obligation only to the insurer and policyholders on one side of the transaction.
- 3.20 We agree that if the work is being performed specifically for one party to the transaction, it is not always necessary for assumptions to be selected even-handedly. However, the proposed requirement is not for even-handedness, but for a proper emphasis on the interests of each party. It might well be appropriate, in a particular context, to ignore the interests of one or more parties. However, it is always worth considering whether the users' attention should be drawn to the broad impact on other parties, if only to prepare them for potential debate and negotiation.
- 3.21 Some respondents questioned the applicability of the requirement to specific areas of work such as the provision of a certificate in connection with a bulk

transfer from a pension scheme without consent. The scope of this certificate is narrowly defined and concerns the interests of only one party to the transformation (the members of the pension scheme). It was argued that assumptions which are unduly conservative (and which therefore potentially over-protect the members) should be acceptable.

- 3.22 Paragraphs D.2.2 to D.2.4 make clear that the question of what constitutes proper emphasis is a matter for judgement, which may depend on the terms of reference for the piece of work being performed. They also include a requirement that the extent to which the interests of the various parties have been taken into account should be documented.

OTHER PRINCIPLES ON ASSUMPTIONS

11	Are there any other principles on the selection of assumptions which respondents believe should be in the transformations TAS? (section 6)
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- 3.23 One respondent was concerned that the TAS would require detailed calculations to be performed in situations in which the practitioner is acting as an expert required only to express a broad opinion on the effects of the transformation. However, we do not consider that this will be the case: the proposed text of the TAS includes no requirements for detailed calculations. Indeed, all our TASs state that they should not be interpreted as requiring work to be performed that is not proportionate to the assignment (paragraph B.1.3). The issue of materiality is further addressed in paragraphs 4.6 to 4.11.

- 3.24 No other significant issues concerning assumptions which should be covered in the Transformations TAS were identified.

MODELLING

12	Are there any specific issues relating to modelling and calculation work for actuarial information provided for transformations which respondents believe should be covered by principles in the transformations TAS? (section 7)
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- 3.25 No respondents cited any specific issues relating to modelling and calculation work that should be covered by principles in a Transformations TAS. We agree; the proposed text includes no principles concerning modelling.

REPORTING

13	Do respondents have any comments on the proposed principles on reporting in paragraphs 8.5, 8.6 and 8.7?
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Material changes to cash flows

- 3.26 Paragraph 8.5 of the consultation paper proposed that reports on transformations should indicate any material changes to the nature of cash flows to the pension scheme members or insurance policyholders affected directly by the transformation.
- 3.27 There was broad agreement with this principle from those respondents who commented directly on it.
- 3.28 However, some concerns were expressed that the requirement to indicate material changes to cash flows might require work to be performed that was

outside the terms of reference of the engagement, or beyond the legislative requirements. For example, in some cases the only legislative requirement is for a certificate, unaccompanied by a detailed report.

- 3.29 Paragraphs D.4.1~ and D.4.2~ make it clear that what constitutes a material change to cash flows is a matter for judgement. In many cases there will be no material changes, so a simple statement to that effect would suffice. In other cases, a statement that cash flows would be materially accelerated or delayed for some beneficiaries would provide useful information to users making a decision on whether or not to approve or support a proposed transformation. Sometimes, a more detailed explanation or quantitative analysis might be needed.

Risks

- 3.30 Paragraph 8.6 of the consultation paper proposed that reports should state the nature and the extent of the material risks to their benefits being faced by the different classes of beneficiaries affected either directly or indirectly by the transformation, and how those risks would be affected by the transformation. We made this proposal because it is a feature of some transformations that they have different effects on different classes of beneficiaries, and that in assessing issues of fairness users need an appreciation of these different effects.
- 3.31 Some respondents considered that this proposal was too wide ranging, and that any such requirement should be limited to the beneficiaries directly affected by the transformation.
- 3.32 We agree that legislation sometimes requires consideration only of the impact on beneficiaries directly affected by the transformation. The proposed text in paragraphs D.4.3 to D.4.7 recognises this, but points out that practitioners might need to consider the impact on other beneficiaries in some cases.

Range of plausible assumptions

- 3.33 Paragraph 8.7 of the consultation paper proposed that a range of plausible material assumptions should be indicated, together with the rationale for the assumptions actually selected.
- 3.34 Some respondents considered that it would be impractical to identify such ranges, and were concerned that there was a strong element of subjectivity in deciding on plausibility.
- 3.35 We recognise the difficulty in identifying a range of plausible assumptions. However, we consider that such a range is relevant to users' understanding of the uncertainty in the actuarial information – for example, whether the assumptions used are prudent or optimistic. Paragraph D.4.9 makes this clear.
- 3.36 Paragraphs D.4.10 to D.4.11 require an indication of the impact of adopting an alternative set of assumptions from within a plausible range. We consider that this will help users understand the degree of comfort in the information, and whether the adoption of any other plausible assumptions would render it impossible for any opinion that it contains to be given.

FAIRNESS**14 Do respondents believe that reports should include an opinion on the fairness of a transformation together with a rationale for that opinion? (paragraphs 8.8 to 8.9)**

- 3.37 Most respondents disagreed with the proposal for a statement on fairness together with the rationale for that opinion. Many thought it was a subjective judgement, and that it extended beyond what constituted actuarial work.
- 3.38 We agree that the determination of fairness or otherwise is not actuarial work. However, we consider that determining the values of benefits before and after a transformation and recognising the implications are. Users who are required to decide on the merits of a proposed transformation should be able to rely on actuarial information that includes a quantification of the impact of the transformation.
- 3.39 Users who rely on actuarial information to support decisions on fairness might reasonably expect it to reflect actuarial skills in:
- projecting benefit amounts and values under different economic scenarios;
 - identifying sources of risk even if it is not within actuarial scope to evaluate or assess these risks;
 - explaining the particular circumstances which might have an adverse impact on all affected beneficiaries; and
 - identifying circumstances which might have a different effect on some beneficiaries than on others, and quantifying that difference.
- 3.40 We consider that none of this would require an opinion on what constitutes fairness. To the extent that actuarial work includes a requirement to opine on some aspects of fairness, the actuary effectively becomes the user, and will then need to rely on information such as that described in paragraph 3.39 in giving such an opinion.
- 3.41 Paragraphs D.4.12 to D.4.15 address these points. There is no requirement to assess fairness, but there are requirements to provide information that would assist in an assessment.
- 3.42 In circumstances in which a practitioner does opine on fairness, we consider that users are entitled to know about the information and rationale on which that opinion is based. They should also be given confirmation that, in reaching that opinion, the practitioner has adopted the principles set out in the Transformations TAS.

OTHER PRINCIPLES ON REPORTING**15 Are there any other principles on reporting which respondents believe should be in the transformations TAS? (section 8)**

- 3.43 One respondent suggested that it would be useful to have requirements covering the roles and responsibilities of Actuarial Function Holders and With-Profits Actuaries. However, these are set out in FSA Regulations and we consider that it is not our role to interpret legislation and regulation.

TRANSITION FROM ADOPTED GUIDANCE NOTES

16	Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9?
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3.44 The transition from the adopted guidance notes is covered in Section 5.

4 GENERAL COMMENTS AND FURTHER PROPOSALS

INTRODUCTION

- 4.1 In addition to answers to the specific questions posed in our consultation paper, we received a number of more general comments. Some of the comments which we have received on other consultations or in other contexts are also relevant to the development of the Transformations TAS.

COMMON PRINCIPLES IN TECHNICAL ACTUARIAL STANDARDS

- 4.2 Several respondents commented that some of the principles proposed in the consultation paper could apply equally to other areas of work and should therefore be in a Generic TAS.
- 4.3 We intend to review the structure of the standards when they become effective. It is possible that we will modify the structure of the standards and move principles which are common to more than one Specific TAS (such as those on assumptions) to one of the Generic TASs.
- 4.4 However, it is not necessarily the case that a principle that is capable of being applied to other areas of actuarial work should be so applied. It is possible that a principle that is proportionate in one field of work would be disproportionate in another. The Generic TASs apply to a broad range of actuarial work, and even principles that are both applicable and proportionate to work in insurance and pensions might be inapplicable or disproportionate for work in other areas. The appearance of a principle in more than one Specific TAS does not therefore imply that it should be in a Generic TAS.
- 4.5 Several of the principles that we proposed in the consultation paper are similar to principles proposed in the exposure drafts of the Pensions or Insurance TASs. Since all work within the proposed scope of the Transformations TAS is also within the proposed scope of either the Pensions or Insurance TAS, we do not intend to repeat them in the Transformations TAS.

MATERIALITY AND PROPORTIONALITY

- 4.6 Some practitioners have expressed concerns about the definition of materiality that appeared in the consultation paper.
- 4.7 In November 2009 we amended the definition of materiality in our *Scope & Authority* and in TAS R. We have used this amended definition in subsequent exposure drafts and TASs. Our definition now makes it clear that the judgement of materiality must take place within the context in which the work is performed and reported. The context includes the time at which the activities take place, so there is no element of hindsight, but does not limit it to either the time at which the work is performed or the time at which it is reported (which are not always the same). The definition also introduces an element of reasonableness into the judgement. It remains close to that used in international accounting standards.

- 4.8 There is some concern among practitioners about the impact of the TASs on smaller pieces of work. Some have suggested that compliance could result in longer reports and additional costs to insurers and pension scheme trustees.
- 4.9 We consider not only that actuaries (and others complying with BAS standards) should not act disproportionately, but that they should not use BAS standards as an excuse for doing so. We consider that the best way of ensuring this is to explain that our standards should not be interpreted disproportionately (paragraph B.1.3).
- 4.10 Practitioners will need to use their judgement to determine what approach they use to comply with each requirement of the TASs, bearing in mind the particular circumstances of the case. They will also need to bear in mind the purpose of the TASs, to improve the reliability of actuarial information for users, rather than to aspire to technical comprehensiveness for its own sake. Most of the requirements in our TASs are expressed in terms of indications, explanations and similar terms in order to allow scope for such judgements.
- 4.11 Many practitioners recognise that our TASs should not necessarily result in longer reports being produced for smaller pieces of work but some are concerned that additional costs will arise from demonstrating compliance. All our standards require documentation of checks, assumptions and work that concerns a material matter. We do not, however, specify the extent of such checks or the level of detail of documentation required. We consider that documentation is likely to be particularly helpful for audit and peer review purposes and those complying with TASs will need to exercise judgement about what documentation they produce taking these and other uses into consideration.

DEFINITION OF ACTUARIAL INFORMATION

- 4.12 Some practitioners have asked us to clarify the definition of actuarial information which is used in our standards and the *Scope & Authority*. One respondent to the consultation considered that actuarial information does not always have to be provided by an actuary; we agree.
- 4.13 Although we do not intend to define actuarial information, we recognise that in some circumstances, the line between actuarial and other work may not be clear. Where appropriate we will provide clarification in the form of non-exhaustive lists of work that is in or out of scope. In the case of transformations, we consider that the scope is sufficiently tightly defined to make extensive lists unnecessary.

COMMENCEMENT OF THE TRANSFORMATIONS TAS

- 4.14 We are proposing that the Transformations TAS will apply to work within its scope performed for aggregate reports completed on or after [1 October 2011]. This means that it will apply to aggregate reports completed on or after [1 October 2011] and to data and models used in the preparation of aggregate reports completed on or after [1 October 2011].
- 4.15 As we intend to issue the TAS towards the end of 2010 we consider that practitioners will have sufficient time to ensure they can comply with the standard, especially as they will have become familiar with the application of the Generic Standards.

- 4.16 We would be interested in respondents' views on the practicality of the proposed commencement date. If respondents are in favour of a later commencement date they should explain how the needs of users will be met.

5 TRANSITION FROM ADOPTED GUIDANCE NOTES

INTRODUCTION

5.1 Our intention is that the adopted guidance notes (GNs) dealing with transformations will cease to apply when the Transformations TAS becomes effective. The consultation paper asked whether respondents had any comments on our proposed transitional arrangements from the adopted GNs to TASs. The responses are summarised below.

GN16

5.2 Respondents had mixed views about the merits of a standard wording for a certificate relating to transfers without consent. We received several comments to the effect that practitioners would like to see the Actuarial Profession take back GN16. We are in discussion with the Actuarial Profession regarding their adoption of the ethical elements of this GN, and retention of Counsel's opinion on several aspects of the legislation relating to the actuarial certification.

5.3 GN16 contains the form of the certificate which actuaries must sign to confirm that benefits are in their opinion "broadly no less favourable". Several respondents suggested that the certificate should be maintained by the BAS.

5.4 We have concluded that the form of the certificate is not for us to determine. Although we intend to withdraw GN16, its text will (as a past version of a GN) remain available.

OTHER GNS

5.5 There was no feedback on any other GN in particular, although a number of respondents made the point that they would find it helpful if the Actuarial Profession would re-adopt and retain many of the GNs for reference - with one specific reference to GN51 (modification of subsisting right).

5.6 Although it remains our intention to withdraw GNs, their text will (as past versions of GNs) remain available.

6 IMPACT ASSESSMENT

INTRODUCTION

6.1 In this section we consider the impact of the introduction of the Transformations TAS, identifying benefits to users and costs of compliance.

SUMMARY

6.2 We recognise that compliance with the Transformations TAS will involve some increase in costs, in particular whenever additional analysis and reporting are required to support decisions on fairness. We consider, however, that, given the scale of transformations work and the sums at risk in such projects, the benefits to the user will outweigh these additional costs.

BENEFITS

6.3 All work that is within the scope of the Transformations TAS is also within the scope of either the Pensions TAS or the Insurance TAS. The Transformation TAS will therefore bring no new work within the scope of the Generic TASs. Work within scope of the Transformations TAS will however be subject to the requirements of the Generic TASs, in addition to the principles set out in this TAS. We have set out the benefits to users of the Generic TASs in the papers analysing the responses to previous consultations. In transformations work we consider that the Transformations TAS in conjunction with the Generic TASs will result in:

- better communication of risk and uncertainty enabling trustees, the courts and policyholder advocates to make more informed decisions;
- greater focus on cash flows; and
- greater focus on users' needs.

6.4 Practitioners are already reviewing their processes in light of the new standards and we consider that these reviews will also be of benefit to users.

ONGOING COSTS

6.5 We consider that much actuarial work that is within the scope of the Transformations TAS already substantially meets many of the requirements.

6.6 We acknowledge that the requirements in terms of supporting information for fairness may require additional analysis and reporting which will add to costs for such exercises. We consider that in most cases, given the scale and budgets associated with transformations work, the percentage increase in costs will be modest.

TRANSITIONAL COSTS

6.7 Transitional costs include those of training, establishing compliance processes, reviewing and documenting models and reviewing reporting needs. Practitioners will have to invest time in these areas. Insurers and actuarial firms will already have invested in the professional training of their staff and in reviewing processes and reports on an ongoing basis to reflect

changes in the business environment in which they operate resulting from the implementation of the Generic TASs and the Specific TASs on Pensions and Insurance. We believe that any additional transitional costs resulting from the Transformations TAS will be modest, and that they represent a justifiable investment in raising standards and adding value for users of actuarial work.

7 INVITATION TO COMMENT

QUESTIONS

- 7.1 The BAS invites the views of those stakeholders and other parties interested in actuarial information who wish to comment on the content of this document. In particular the BAS would welcome views on the following issues:
- 1 the proposed commencement date of the Transformations TAS (paragraphs 4.14 to 4.16)
 - 2 our impact assessment and the effects that the introduction of the Insurance TAS is likely to have on actuarial information (see section 6)
 - 3 the text of the exposure draft as a means of implementing the proposals presented in this document.
- 7.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of the proposed TAS. To ensure that the significance of their point is fully appreciated by the BAS, respondents are asked to indicate how their comments would address the BAS's aim of increasing the reliance that users of actuarial information can place on it.

RESPONSES

- 7.3 For ease of handling, we prefer comments to be sent electronically to bastransformations@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
- 7.4 Comments should reach the FRC by **27 August 2010**. In determining the appropriate period for consultation, the BAS has considered both its view that stakeholders will benefit from having the TAS in place and the importance of giving stakeholders adequate time to comment.
- 7.5 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.

- 7.6 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.

EXPOSURE DRAFT OF
TRANSFORMATIONS TECHNICAL ACTUARIAL
STANDARD

TRANSFORMATIONS TAS

Status

This standard (the Transformations TAS) is a Specific Technical Actuarial Standard (Specific TAS), as defined in the *Scope & Authority of Technical Standards (Scope & Authority)* of the Board for Actuarial Standards (BAS).

This standard should be read in the context of the *Scope & Authority*.

The *Scope & Authority* sets out circumstances in which material departures from this standard are permitted or required and the disclosures which are required in respect of them.

A separate document, *Transformations TAS: Significant Considerations*, issued at the same time as this standard, reviews the considerations and arguments that were thought significant by the BAS in developing this standard.

Scope

This standard applies to the work specified in Part C of the standard.

Wider adoption is encouraged.

Commencement

This standard applies to work performed for aggregate reports completed on or after 1 October 2011.

Earlier adoption is encouraged.

Relationship with other TASs and with Guidance Notes

This standard sets out principles to be adopted across the range of work to which it applies, as described above. The Generic and other Specific TASs may apply to work that is within the scope of this standard, setting out additional principles that should be adopted.

In the event of a conflict between this standard and a Guidance Note adopted by the BAS (as described in the *Scope & Authority*), this standard shall prevail.

CONTENTS [OF THE TRANSFORMATIONS TAS EXPOSURE DRAFT]

<i>Part</i>		<i>Page</i>
A	Purpose of the Transformations TAS	31
	A.1 Purpose	31
B	Interpretation	32
	B.1 Interpretation of the text	32
	B.2 Definitions	32
C	Scope	35
	C.1 Work within the scope of this standard	35
D	Principles	37
	D.1 Introduction	37
	D.2 Assumptions	37
	D.3 Data	37
	D.4 Reporting	38

A PURPOSE OF THE TRANSFORMATIONS TAS

A.1 PURPOSE

A.1.1 The BAS's Reliability Objective is that the **users**¹ 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.

A.1.2 The purpose of this standard is to assist the achievement of the Reliability Objective by ensuring that in the performance of work within its scope, **users** of actuarial information who make decisions on

- the transfer of assets and liabilities; or
- the modification of liabilities

are provided with sufficient information, including information on cash flows, risk and uncertainty, to enable them:

- to make an informed decision; and
- to assess the impact including fairness, security and level of benefits on **beneficiaries**.

¹ Terms appearing in **bold** in the text are explained in the Definitions set out in Part B.

B INTERPRETATION

B.1 INTERPRETATION OF THE TEXT

- B.1.1 All text in this standard has equal status unless stated otherwise. Paragraphs setting out explicit principles are emphasised with boxes for convenience.
- B.1.2 The **Scope & Authority**² states that a failure to follow the principles in this standard need not be considered a departure if it does not have a **material** effect. The contents of this standard should be read in that context, even where the term **material** is not explicitly used or where the word “shall” is used.
- B.1.3 Nothing in this standard should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or assignment to which it relates and the benefit that **users** would be expected to obtain from the work.
- B.1.4 The form that is taken by any explanations, rationales, descriptions, indications or other analyses required by this standard will need to depend on the scope of the work being performed and the benefit to the **users**. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.5 Lists are not intended to be exhaustive.
- B.1.6 This standard should be interpreted in the light of the purpose set out in Part A.

B.2 DEFINITIONS

- B.2.1 Terms appearing in **bold** in the text are used with the meanings set out below. Some of the definitions are taken from the **Scope & Authority**. The definitions are used consistently in the **Scope & Authority** and other BAS standards.

actuarial factor	A number calculated using actuarial techniques and used to place a value on a benefit or to convert a benefit from one form to another.
aggregate report	The set of all component reports relating to a piece of work within the scope of this standard. The aggregate report for a decision taken by a user in connection with work within the scope of this standard is the set of all component reports containing information material to that decision.
beneficiaries	The members of a pension scheme or the insurance policyholders who are entitled to benefits. For this purpose, beneficiaries include dependants with a contingent entitlement to benefits.

² Paragraph 23 of the **Scope & Authority**.

component report	A document given to a user in permanent form containing material information which relates to work within the scope of this standard. A component report may be given to the user in hard copy or electronically. Formal written reports, draft reports, emails and presentations are examples of component reports . Possible contents of component reports include tables, charts and other diagrammatic presentations as well as or instead of text. A component report may form part of one or more aggregate reports .
data	Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder data, claims data, asset and investment data, operating data (such as administrative or running costs), benefit definitions and policy terms and conditions.
to document	To record in documentation .
documentation	Records of facts, opinions, explanations of judgements and other matters. Documentation may be paper or electronic based. It is not necessarily provided to users . Documentation is material if it concerns a material matter.
entity	The pension scheme, insurance company, fund or other body that is the subject of the work being performed.
Generic TAS	A Technical Actuarial Standard which applies to all work specified in the Schedule to the Scope & Authority .
governing body	A body responsible for the governance of a pension scheme or a distinct part of a pension scheme . Examples of governing bodies include the trustees of an occupational pension scheme and the administering authority of a section of the Local Government Pension Scheme.
implementation	The formulae and algorithms of a model in a form that will perform the calculations required by the specification . In many cases an implementation is a computer program, but other types of implementation are possible – for instance, manual calculations are often used for simple models .
insurance transformation	A change, without the consent of all of the policyholders, in the contract terms of a portfolio of insurance contracts, or in the principles set out in the Principles and Practices of Financial Management according to which with-profits business is conducted.
insurer	A body effecting or carrying out contracts of insurance.
material	Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.

measure	The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different measures of the same asset or liability may produce different results.
method	The mechanism that is used to quantify an (uncertain) asset or liability amount. Two different methods of calculating the same asset or liability measure should produce similar results.
model	<p>A representation of some aspect of the world which is based on simplifying assumptions.</p> <p>A model is specified by describing the matters that should be represented and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using the implementation to produce a set of outputs from inputs in the form of data and parameters.</p>
neutral	A neutral measure , assumption or judgement is one that is not deliberately either optimistic or pessimistic and does not incorporate any adjustments to reflect the desired outcome. A neutral estimate is one that is derived using neutral measures , assumptions and judgements. There may be a range of neutral estimates, reflecting inherent uncertainty.
pension scheme	An occupational or personal pension scheme established under UK legislation.
pension transformation	A change, without the consent of all of the members, in the terms underlying the benefits of some or all of the members of a pension scheme .
report	An aggregate report or a component report .
Scope & Authority	The BAS's <i>Scope & Authority of Technical Actuarial Standards</i> .
Specific TAS	A Technical Actuarial Standard that is not designated by the BAS as a Generic TAS . A Specific TAS is limited to a specific, defined context.
transformation	An insurance transformation or a pension transformation .
users	Those people whose decisions a report is intended (at the time of writing) to assist. Those to whom the report is addressed, regulators and third parties for whose benefit a report is written are examples of possible users .

C SCOPE

C.1 WORK WITHIN THE SCOPE OF THIS STANDARD

C.1.1 Work that is within the scope of this standard may also be within the scope of other BAS standards. In particular, the **Generic TASs**, including those on *Reporting Actuarial Information, Data and Modelling*, apply to all such work.

C.1.2 This standard shall apply to all Reserved Work that concerns **insurance transformations** or **pension transformations**.

C.1.3 Reserved Work is defined in the **Scope & Authority**.

C.1.4 This standard also applies to some work that is not Reserved Work, as described below.

C.1.5 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** in connection with the transfer of the benefits of some or all members of a **pension scheme**, without the consents of those members.

C.1.6 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** in connection with the modification of the benefits of some or all members of a **pension scheme**, without the consents of those members.

C.1.7 This standard shall apply to actuarial work for a **governing body** of a **pension scheme** in wind up that concerns the transfer of liabilities and assets to an **insurer**.

C.1.8 The work described in paragraphs C.1.5 to C.1.7 includes:

- comparing the values of benefits before and after the transfer, modification or wind up;
- comparing funding levels before and after the transfer, modification or wind up; and
- comparing the terms of member options (such as early retirement) before and after the transfer, modification or wind-up.

C.1.9 This standard shall apply to actuarial work performed in an **insurance transformation** for, or as an independent expert required by, a Part VII transfer or scheme of arrangement.

C.1.10 This standard shall apply to actuarial work performed in an **insurance transformation** for a policyholder advocate in an estate reattribution.

C.1.11 This standard shall apply to actuarial information provided by the with-profits actuary relating to changes in the principles contained in the *Principles and Practices of Financial Management*.

C.1.12 This standard shall apply to actuarial reporting on policyholder benefit reductions that:

- a) in the opinion of the actuary ought to be made as a result of a business transfer; or
- b) are deemed necessary for the successful continuation of that part of the insurer's business where the insurer is in liquidation.

C.1.13 The work described in paragraph C.1.12 includes actuarial reporting on policyholder benefit reductions under section 113 and section 376 of the *Financial Services and Markets Act 2000*.

D PRINCIPLES

D.1 INTRODUCTION

- D.1.1 This Part contains general principles relating to actuarial work in transformations that support the purpose of this standard set out in Part A. It should be interpreted as described in Part B.
- D.1.2 All work that is within the scope of the **Transformations TAS** is also within the scope of either the **Pensions TAS** or the **Insurance TAS**. All principles in those standards therefore also apply to, respectively, pensions and insurance work within the scope of this standard.

Judgement

D.1.3 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

- D.1.4 Judgement may be needed on matters such as the nature of information required to carry out an exercise.

D.2 ASSUMPTIONS

D.2.1 The selection of assumptions shall place proper emphasis on how the **transformation** affects the interests of all parties.

D.2.2 The extent to which account has been taken of the interests of different parties shall be **documented**.

- D.2.3 Proper emphasis is a matter for judgement, and will need to depend on matters such as the terms of reference for the actuarial information requested.
- D.2.4 Proper emphasis does not necessarily mean giving the same weight to the interests of all parties. Examples of circumstances in which it might be proper to give less weight (and possibly none at all) to the interests of a particular party include those in which:
- a class of **beneficiaries** is explicitly excluded from the terms of reference for the actuarial information requested;
 - the benefits of some **beneficiaries** are not affected by the **transformation**, although the security for those benefits may be; or
 - there are guarantees which reduce or eliminate the risk of any adverse impact on the benefits of some **beneficiaries**.

D.3 DATA

- D.3.1 The **Generic TAS on Data (TAS D)** requires that a set of checks be performed to determine the accuracy, relevance and completeness of **data**, that consideration be given to supplementing incomplete or inadequate **data** and that actions be **documented**. The principles are set out in paragraphs C.5.6 to C.5.15 of TAS D.

D.3.2 Judgements about the application of the principles in TAS D to **transformations** will need to take into account:

- the effect of using incorrect data on the analysis of the impacts on **beneficiaries**; and
- the possibility that the **data** might be provided by a party with an interest in ensuring that the **transformation** either does or does not proceed.

D.3.3 The **Generic TAS** on *Modelling* (TAS M) requires the clear identification of grouped **data** and the inclusion of an explanation of the rationale underlying the grouping in the **aggregate report** if it is not possible to demonstrate that the grouping has no **material** effect. The principles are set out in paragraphs C.4.9 to C.4.12 of TAS M.

D.3.4 Judgements about the extent to which grouping of **data** is **material** for **transformations** might need to depend on:

- the scale of the **transformation** and the extent to which it is practical to subdivide the **data** into homogeneous groups; and
- the potential for the grouping of **data** to mask different impacts on individual **beneficiaries** in what may appear to be a homogeneous group.

D.4 REPORTING

Cash flows

D.4.1 **Aggregate reports** shall indicate any **material** changes to the nature of cash flows to **beneficiaries** resulting from the **transformation**.

D.4.2 **Material** changes might include:

- any deferral or acceleration of the average payment term;
- any changes to the rate of increases of pensions in payment; and
- any changes to the likelihood of the payment being made as expected.

Material risks

D.4.3 **Aggregate reports** shall state the nature of the **material** risks to the benefits of the different classes of **beneficiaries** who are affected directly by the **transformation**.

D.4.4 **Aggregate reports** shall indicate how the **material** risks in paragraph D.4.3 are affected by the **transformation**.

D.4.5 Changes to **material** risks might include:

- a change in the financial circumstances of the **pension scheme** sponsor or **insurer** resulting from the **transformation**; and
- a change in the impact of particular economic circumstances on individual entitlements resulting from the proposed **transformation**.

- D.4.6 The information that is provided might need to include the **material** risks being faced by those **beneficiaries** who are not directly affected by the **transformation**.
- D.4.7 **Aggregate reports** in which it might be appropriate to include the **material** risks in paragraph D.4.6 include:
- advice on the possible reaction of other parties which is provided for the party proposing a **pension scheme** transfer without consent; or
 - reports on actuarial work in connection with a Part VII transfer or Scheme of Arrangement which refer to the impact of the **transformation** on policyholders of the **insurer** accepting the liabilities.

Range of assumptions

- D.4.8 The **Generic TAS** on *Reporting Actuarial Information* (TAS R) requires that **aggregate reports** describe the rationales for any **material** assumptions used or recommended. The principles are set out in paragraphs C.4.6 to C.4.9 of TAS R.
- D.4.9 Judgements about the application of the principles in TAS R to **transformations** will need to take into account:
- the ranges of plausible **material** assumptions;
 - where the selected assumptions lie within these ranges; and
 - why the selected assumptions are judged to be appropriate.

D.4.10 **Aggregate reports** shall indicate the impact on the actuarial information of adopting alternative plausible assumptions.

- D.4.11 The indication of the impact of adopting alternative plausible assumptions might need to include matters such as:
- the degree of comfort with which any required actuarial opinion or certificate can be provided; and
 - whether selection of alternative **material** assumptions within the ranges of plausible assumptions would have prevented the provision of any required actuarial opinion or certificate.

D.4.12 **Aggregate reports** shall indicate the extent of any change in the value of the interests of any group of **beneficiaries** affected by the **transformation**, and the circumstances in which the interests of that group are adversely affected.

- D.4.13 Indications might need to include:
- the range of potential gains or losses for any such group; and
 - the key characteristics of any group of **beneficiaries** for whom the **transformation** is expected to have a significantly different effect from that on other groups;
 - the circumstances in which the potential effect is most favourable for any group of **beneficiaries** and those in which it is least favourable for any group of **beneficiaries**.

D.4.14 **Aggregate reports** shall indicate the benefits to be gained by any group of **beneficiaries** affected by the **transformation** and the advantages to the party proposing that the **transformation** should proceed.

D.4.15 Indications might need to include:

- a commentary on the effect on security of benefits of a change in **pension scheme** sponsor or **insurer**; and
- the financial effect on the **insurer** or the sponsor of the **pension scheme** and whether it can be expressed as an estimated amount, a reduction in volatility or in some other way.

D.4.16 **Aggregate reports** which include an opinion on the fairness of the **transformation** shall:

- a) indicate the information on which the opinion is based;
- b) describe the rationale for the opinion; and
- c) state that the principles of this standard have been applied in reaching that opinion.

D.4.17 The relevant information to take into account will be a matter for judgement. It might need to include the information described in paragraphs D.4.12 to D.4.15.

A MEMBERS OF THE BOARD AND WORKING GROUP

THE BOARD FOR ACTUARIAL STANDARDS

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