



BOARD FOR ACTUARIAL STANDARDS

**TECHNICAL ACTUARIAL STANDARD D:
DATA**

SIGNIFICANT CONSIDERATIONS

NOVEMBER 2009

CONTENTS

<i>Section</i>	<i>Page</i>
1 Introduction	3
2 Structure and style	5
3 Purpose of TAS D	7
4 Interpretation of TAS D	9
5 Principles	11
<i>Appendix</i>	<i>Page</i>
A Members of the Board for Actuarial Standards	14

1 INTRODUCTION

PURPOSE

- 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.
- 1.2 In November 2009, after a process of consultation, the BAS published its Generic Technical Actuarial Standard (Generic TAS)² on *Data* (TAS D).
- 1.3 This document reviews the considerations and arguments that were thought significant by the BAS in developing TAS D.

BACKGROUND

- 1.4 In our consultation paper *Towards a Conceptual Framework*, which was published in November 2007³, we proposed that our standards would be of two types: generic, applying to a wide range of actuarial work, and specific, limited to a defined context. Generic standards would help to provide coherence and consistency across the range of actuarial work.
- 1.5 That document also set out our proposals that standards be principles-based rather than rules-based, and that they address outputs and responsibilities, with output-based standards focusing on the users of actuarial services and their needs as decision makers.
- 1.6 In April 2008 we published a consultation paper on the *Structure of the new BAS Standards*, in which we set out our proposals to develop a suite of eight or nine TASs, of which three would be Generic TASs on *Data*, *Modelling* and *Reporting Actuarial Information*. The responses to the consultation were generally positive, and we decided to proceed with our proposals.
- 1.7 In September 2008 we published a consultation paper on *Data*, followed by an exposure draft of TAS D in May 2009.
- 1.8 We published exposure drafts of our Generic TAS on *Reporting Actuarial Information* (TAS R) in April 2008 and March 2009, followed by TAS R in September 2009. In November 2008 we published a consultation paper on *Modelling*, followed by an exposure draft of our Generic TAS on *Modelling* (TAS M) in May 2009.
- 1.9 We aim to ensure that our standards are consistent with the wider strategic aims established by the FRC including its *Actuarial Quality Framework*, which was issued in January 2009 following a discussion paper in May 2008.

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

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 All BAS publications are available from <http://www.frc.org.uk/bas/publications/>.

TAS D

- 1.10 In developing TAS D, we considered the responses to all the consultations mentioned above, and to the discussion paper on *Mortality* that we published in March 2008. We also considered responses to informal consultations with the FRC's Actuarial Stakeholder Interests Working Group and a number of other individual stakeholders.
- 1.11 TAS D is the second standard to be developed by the BAS. The overall structure and style to be used for our TASs were established in the development of our first standard, TAS R, and are reviewed in section 2. Sections 3 to 5 review the development of the content.

2 STRUCTURE AND STYLE

INTRODUCTION

- 2.1 The structure and style of TAS D (and all Generic TASs) reflect the objectives and characteristics of our standards that are set out in our *Conceptual Framework*⁴. In particular, our TASs are written in a way which favours principles over prescriptive rules, and each TAS has its own specific objectives.
- 2.2 As set out in our *Scope & Authority*⁵, compliance with our TASs is mandatory for actuaries performing work within their scope. However, actuaries performing other work may choose to comply with them and so may those who are not actuaries. The purpose of TASs is to set out requirements that must be met in order to comply with them, not to explain best practice or recommend good practice.

STRUCTURE

- 2.3 TAS D has three parts. The first two parts cover its purpose and how it should be interpreted. The third sets out its requirements. Further information about the status and scope of the TAS, when it commences and its relationship with other TASs and with Guidance Notes is included in a rubric that precedes the content of the TAS.
- 2.4 All principles in TAS D are of equal status. The labelling of some principles, but not all of them, as “overriding” would imply that there was a hierarchy of principles; but it is not clear how such a hierarchy, if intended, would work. For example, it might be intended to suggest that in some circumstances the non-overriding principles could be in conflict with the overriding principles and, in such cases, the overriding principles should prevail. Alternatively, it might be intended to suggest that the non-overriding principles were extensions of the overriding principles, adding detail but no new requirements. All text in TAS D therefore has equal status.
- 2.5 We considered whether TAS D should include an appendix setting out the considerations that had been found important in the development of the standard. We decided that, although a summary of the underlying rationale should be published, it should be a separate document rather than part of TAS D. This is that document.

STYLE

- 2.6 In drafting TAS D, we have tried to tread the fine line between being clear about the requirements of the TAS and being unnecessarily prescriptive. We consider that, for writing standards, clarity of expression and the substance of the text are more important than the tone in which the text is written. We therefore use the word “shall” to express requirements, and “will need to” to describe the implications of those requirements, in order to provide clarity about what TAS D requires. The use of these words is consistent with TAS D’s mandatory nature.

⁴ The *Conceptual Framework for Technical Actuarial Standards*, published in July 2008.

⁵ The *Scope & Authority of Technical Standards*, published in July 2008.

- 2.7 Some of the requirements in TAS D are for assessments or descriptions. These terms were chosen because they can be interpreted quite broadly, and therefore the level of detail that they require is a matter for judgement. Explicit principles are set out using the word “shall”: for example, that the definitions of data items shall be documented.
- 2.8 TAS D is focused on outcomes, and therefore primarily imposes requirements on the treatment and documentation of data rather than on those using the data. It is written in a way that allows compliance by those who are not actuaries as well as by actuaries.
- 2.9 The whole of TAS D is subject to the provision in the *Scope & Authority* that it is only material departures that need be disclosed. There is an explicit statement to this effect in Part B of TAS D, and the word “material” is therefore used sparingly throughout part C. Similarly, Part B states that the requirements should be interpreted proportionately, and the word “proportionate” is not used in the remainder of the text.

3 PURPOSE OF TAS D

PURPOSE

- 3.1 All our standards will serve the overall purpose set out in our Reliability Objective, 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.⁶
- 3.2 Our standards are intended to ensure the quality of actuarial work that the users receive, whoever performs the work. Actuaries performing work that is not designated as being within their scope may choose to comply with them, and people doing actuarial work who are not actuaries may well be required by others to meet the same standards. The purpose of TASs is to set out requirements that must be met in order to comply with them, not to explain best practice or recommend good practice.
- 3.3 We determined that the purpose of TAS D should be to assist the achievement of the Reliability Objective insofar as the quality of actuarial information depends on the data that is used to produce it. TAS D therefore focuses on two aspects of the preparation of data: its scrutiny and checking, and actions taken where shortcomings are identified. The purpose of TAS D, in paragraph A.1.2, makes this explicit.
- 3.4 TAS D will help to promote actuarial quality by addressing two of the drivers of quality identified in the FRC's *Actuarial Quality Framework*. The *Framework* notes that actuarial methods provide a positive contribution to actuarial quality where they incorporate checks on the reliability and usefulness of data. TAS D supports this directly. The *Framework* also notes that the communication of actuarial information provides a positive contribution to actuarial quality where it includes discussions with clients or employers to establish a common understanding about the quality of their data. Although TAS D does not directly address reporting, compliance with its principles will facilitate such discussions.
- 3.5 We consider that it is important that actuaries (and others complying with its standards) do not act disproportionately, and in particular that they do not use BAS standards as an excuse for doing so. We consider that the best way of ensuring this is to explain that BAS standards should not be interpreted disproportionately (paragraph B.1.3). Proportionality already underlies all the FRC's work, along with the other better regulation principles: accountability, transparency, consistency and targeting. We therefore do not consider that it would be helpful to identify proportionality as a specific objective that compliance with our TASs should be intended to achieve.
- 3.6 As stated in paragraph B.1.6, the interpretation of TAS D is governed by its purpose. If it appears that any provision in TAS D conflicts with its purpose, then that provision is being misinterpreted.

⁶ *Scope & Authority*, paragraph 8.

IMPLICATIONS

- 3.7 Both our Reliability Objective and the purpose of TAS D address the reliability of data used in actuarial information and the reliance its users can place on it. We consider that appropriate assessment of data is integral to ensuring the quality of actuarial information that is based on that data.
- 3.8 TAS D therefore specifies requirements to be met by checks on the reliability of data and the documentation of the treatment of the data including adjustments made because data is inadequate or incomplete.

4 INTERPRETATION OF TAS D

INTRODUCTION

- 4.1 Part B of TAS D consists of two sections. The first describes how the TAS should be interpreted and the second defines a number of terms that are used in the remainder of the TAS.

INTERPRETATION

- 4.2 The text in section B.1 of TAS D is intended to assist practitioners to make judgements about how to comply with the standard.
- 4.3 Many of the responses to our consultations and the discussions we have had with practitioners indicate that there is a tendency to interpret our standards as requiring more work and more detailed work than is our intention. In section B.1 we have therefore emphasised:
- the provision in the *Scope & Authority* for immaterial departures;
 - that the standard should not be interpreted disproportionately; and
 - the scope for interpretation in the details of the principles.
- 4.4 TAS D is intended to be a truly generic standard, capable of being applied to a broad range of actuarial work. Current practice varies by area of work, and a principle that is consistent with current practice in one area may well require significant changes of practice in another area. The introduction of TAS D will, we hope, result in more consistent practice across all areas of work to which it applies. If it appears to practitioners that a principle would be so easy to comply with that it would have little effect on the quality of their actuarial work, they should not assume that they should interpret the principle in such a way that it would be difficult to comply with.
- 4.5 We do not consider that it would improve the clarity of TAS D to repeat the word “material” in every principle. We have therefore explicitly reminded its readers that the standard should be read in the context of paragraph 23 of the *Scope & Authority*, which permits immaterial departures (paragraph B.1.2).
- 4.6 We consider that it is important that actuaries (and others complying with its standards) do not act disproportionately, and in particular that they do not use BAS standards as an excuse for doing so. We have taken care to ensure that it is not necessary to perform work that is disproportionate to the needs of the users in order to comply with TAS D, and have explicitly reminded readers of the standard that it should not be interpreted disproportionately (paragraph B.1.3).
- 4.7 Throughout TAS D we have used words such as “indicate” and “explain” in order to avoid being prescriptive about the type of analysis or level of detail that is required. In paragraph B.1.4 we have emphasised that these are matters for judgement.

DEFINITIONS

- 4.8 Section B.2 defines a number of terms used within the text of the standard. Many of the definitions will appear in other TASs.

Reports

- 4.9 The definitions of “aggregate report”, “component report” and “report” give effect to our intention that our standards should apply to the totality of information on which users base their decisions.
- 4.10 In particular TAS D will apply to all data used in any actuarial information which is presented to a user in either a component report or an aggregate report.

Materiality

- 4.11 The definition of materiality in our standards is consistent with that in international accounting standards, which is:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Assessing whether a matter could influence the decisions to be taken by users and so be material requires the consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states in paragraph 25 that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.’ Therefore, the assessment will need to take into account how users could reasonably be expected to be influenced in making decisions.⁷

- 4.12 Our definition 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.

⁷ IAS 1.

5 PRINCIPLES

INTRODUCTION

- 5.1 Part C forms the body of TAS D and contains the principles that work that complies with TAS D must satisfy.

APPLICATION

- 5.2 Section C.2 of TAS D sets out some principles concerning the application of the standard.
- 5.3 As described in section 3, it is our objective that the data used in the preparation of actuarial information presented in a report should comply with TAS D, and the principle in paragraph C.2.1 gives effect to this objective.

Judgement

- 5.4 Because TAS D is principles-based, judgement will be required in order to apply it. We consider that such judgement should be reasoned and justifiable (paragraph C.2.2). We accept that requiring a justification of all judgements would be unduly onerous, and so require only that it should be possible to justify judgements.

REPORTING

- 5.5 Section C.3 of TAS D notes that TAS R contains principles for matters which should be reported to users in respect of data, and that Specific TASs may also do so.
- 5.6 The reliability of actuarial information depends on all the data that is used in its preparation, whatever the source. Paragraph C.3.2 acts as a reminder of this point, and that it applies to the principles concerning data in TAS R.
- 5.7 TAS R includes a principle requiring the disclosure of any material uncertainty over the accuracy of the data (paragraph C.4.3 of TAS R). However, there is no requirement in either TAS D or TAS R to inform the user of any data problems that are not material to the work undertaken. Although we consider that the user (or other relevant party) should be informed of any such problems that are noticed, we consider that this is not a technical actuarial matter.

DOCUMENTATION

- 5.8 Section C.4 of TAS D sets out a number of principles concerning documentation relating to the treatment of data. The principles apply to documentation that is required by other principles in TAS D, and do not themselves impose any requirements for any matters to be documented.
- 5.9 The definition of documentation (in part B) makes it clear that documentation need not be provided to the users of actuarial information. However, we consider that the existence and preparation of documentation affect the quality of the information that is provided to users, and that requirements that some matters be documented are therefore desirable and proportionate.
- 5.10 Documentation may be prepared for many purposes, such as recording actions that were taken or judgements that were made or assisting others

who may perform tasks in future. Documentation that serves one purpose might be inadequate for another, so paragraph C.4.1 requires that documentation should include a statement of its purpose.

- 5.11 Similarly, there are many levels of detail at which documentation can be written. Paragraph C.4.1 therefore describes the type of reader for whom documentation should be written.

DATA

Data requirements

- 5.12 An early step in any actuarial work is to consider what data is required and how it might be obtained. We consider that it is not sufficient to assume that, for a task undertaken previously, a simple update of the data is all that is required. We consider that it is important that this step is always carried out, even if it results in the conclusion that no additional useful data can be obtained, or that a simple update is all that is needed. Paragraph C.5.1 of TAS D contains a principle to that effect.
- 5.13 There are many different ways in which the data requirements can be assessed. The most appropriate way will depend on the context in which the information will be used. We have therefore not specified any particular mechanisms or techniques.

Data definitions

- 5.14 Uncertainty about what data represents can cause errors. We consider that it is important that there is clarity in this area and that definitions of data should be documented (paragraph C.5.3).

Validation

- 5.15 Actuarial information will be sufficiently reliable for the user's decision making only if the data to be used in preparing it is sufficiently accurate and complete.
- 5.16 It is important that investigations to assess whether data is sufficiently accurate and complete for the intended purpose are undertaken. TAS D contains a principle (paragraph C.5.6) to that effect.
- 5.17 We have not specified the checks that should be performed, as different checks will be appropriate in different circumstances. However, we consider that it is important that a record of the checks that have been performed is kept, and paragraph C.5.7 contains a principle to that effect.

Incomplete or inaccurate data

- 5.18 It is often possible to increase the reliability of incomplete or inaccurate data by adjusting it or supplementing it in some way. We consider that in many cases this is both possible and desirable, but recognise that this is not always the case. Paragraph C.5.11 therefore contains a principle that an assessment should be made of whether this is possible, and paragraph C.5.12 specifies that the treatment of incomplete or inaccurate data should be recorded.
- 5.19 We recognise that there are many ways of addressing the problems caused by data that is inaccurate or incomplete even after it has been adjusted or supplemented. We consider that it is usually more appropriate to include explicit margins in the results (such as an explicit data deficiency reserve)

than to incorporate margins into assumptions. However, we accept that there may be circumstances in which users' needs are best served by the latter course of action, and that such judgements are better made by those preparing the information than by the BAS, as the former have better information about the particular context in which the adjustments may or may not be made. TAS D does not therefore include a principle that prohibits the use of margins in assumptions to address data problems.

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