



**BOARD FOR ACTUARIAL STANDARDS**

**TECHNICAL ACTUARIAL STANDARD D:  
DATA**

**ANALYSIS OF RESPONSES TO THE MAY 2009  
EXPOSURE DRAFT**

**NOVEMBER 2009**

# CONTENTS

	<i>Page</i>
<b>I      Analysis of responses</b>	<b>xx</b>
1      Introduction	3
2      Responses to the exposure draft	5
3      Changes to the text	10
A      Members of the Board for Actuarial Standards	54
B      List of respondents	55
<b>II     Tracked changes from the exposure draft of TAS D</b>	<b>xx</b>
<b>III    Tracked changes from version 2 of the <i>Scope &amp; Authority</i></b>	<b>xx</b>
<b>IV    Tracked changes from version 1 of TAS R</b>	<b>xx</b>
<b>Appendices</b>	<b>54</b>
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## PART I

### ANALYSIS OF RESPONSES TO THE MAY 2009 EXPOSURE DRAFT OF

### TECHNICAL ACTUARIAL STANDARD D: DATA

# 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)<sup>1</sup>. In May 2009, it published an exposure draft of its Generic Technical Actuarial Standard (Generic TAS)<sup>2</sup> on *Data* (TAS D).
- 1.2 The consultation period ended on 28 August 2009. A total of 22 public responses<sup>3</sup> were received (see Appendix B). The proposals were also discussed with the FRC's Actuarial Stakeholder Interests Working Group. We thank all those who contributed.

## SUMMARY

- 1.3 In finalising the text of TAS D we have taken account of the comments we received in response to the exposure draft, as well as other comments that have been made to us in meetings. We have also considered the responses to other consultations, especially those on the exposure drafts of TAS M (*Modelling*) and TAS R (*Reporting actuarial information*).
- 1.4 The largest proportion of responses came from pensions practitioners, with fewer from practitioners in life and non-life insurance. Some respondents represented the views of two or three practice areas. There were no responses from the users of actuarial information, but the FRC's Stakeholder Interests Working Group considered the matter from a user perspective and gave useful input.
- 1.5 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it.
- 1.6 The principles in TAS D are substantially the same as those that appeared in the exposure draft, although the text has been amended in places in order to improve clarity.
- 1.7 Section 2 summarises the comments that we received in answer to the specific questions that were posed in the exposure draft. Section 3 explains the changes that we have made to the text that appeared in the exposure draft.
- 1.8 Part II of this document contains the final version of TAS D, marked up to show changes from the exposure draft.
- 1.9 As a result of the comments we received, we have also amended our *Scope & Authority of Technical Standards* (*Scope & Authority*) to clarify the definition of materiality. Part III of this document contains the affected pages of the *Scope & Authority*, marked up to show the changes from the previous version. We have also amended TAS R, for consistency. Part IV of this document contains the affected pages of TAS R, marked up similarly.

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

<sup>2</sup> 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.

<sup>3</sup> The responses are available at <http://www.frc.org.uk/bas/publications/pub2056.html>

## **REVIEW OF TAS D**

- 1.10 We recognise that our TASs may need amendment after they have been in operation for a period. We will develop mechanisms to obtain feedback from practitioners and users of actuarial information, and will conduct a formal review of each TAS at least every four years. At least every two years we will consider whether immediate changes are required.

## 2 RESPONSES TO THE EXPOSURE DRAFT

### INTRODUCTION

- 2.1 In this section we summarise the comments that we received on the exposure draft, and our reactions to them. In brief:
- The commencement date for TAS D will be 1 July 2010.
  - Instead of prohibiting the use of margins in assumptions to mitigate the effects of inaccurate or incomplete data, we note that TAS R requires transparency of the approach taken to uncertainty over the accuracy or completeness of data.
  - We have amended the definition of materiality in TAS D, TAS R and the *Scope & Authority*.

### COMMENCEMENT DATE

- 2.2 In the exposure draft we proposed that TAS D should apply to data used in the preparation of aggregate reports completed on or after 1 April 2010, and that any aggregate report completed from 1 November 2009 should include a statement of whether it complies with TAS D. Paragraphs 3.10 to 3.13 of the exposure draft explained our reasoning, and discussed how compliance might work in some cases.
- 2.3 There was no support from respondents for a mandatory statement of compliance before the commencement date, and we have not pursued this idea.
- 2.4 Most practitioners expressed concern over the proposed commencement date: they thought that 1 April 2010 was too early, and that it might create particular difficulties for some pieces of work. Some respondents suggested that there should be an initial trial period.
- 2.5 Several respondents from insurers considered that an April 2010 commencement date for TAS D would interact badly with the introduction of Solvency II, which, they argued, is placing significant pressure on resources. One respondent thought that many insurers would be unlikely to be able to run a project to review and amend their existing data extraction processes within the proposed timescale. It was also argued that the introduction of Solvency II will result in a number of existing data extraction processes being discarded within the next two or three years, and that they should not be subject to the requirements of TAS D. These respondents suggested that the commencement date for TAS D should be aligned with the introduction of Solvency II in 2012, or that existing data extraction processes should be excluded from the scope.
- 2.6 Other respondents from insurers either thought that the proposed commencement date would be not be problematic or that the commencement date should be at least one year after the publication of the final TAS.
- 2.7 A number of pensions practitioners also expressed a preference for a later commencement date. Their concern was that the proposed timing would lead to the retrospective application of the standard. Scheme Funding exercises can take up to 15 months from the valuation date and are usually performed triennially, so that exercises finishing in April 2010 could have effective dates

as early as January 2009. Moreover, other reports issued between Scheme Funding exercises are often based on reports from the previous exercise, which could have an effective date in 2007 or 2008. It was argued that the data used in such reports would have to be revisited in order to comply with TAS D.

- 2.8 Some pensions practitioners commented that they believed that there would no significant change in practice or procedure but that there would be work involved in confirming that this was the case.
- 2.9 We have considered the views of respondents carefully. We recognise that existing processes and internal standards will have to be reviewed over the next few months to ensure that data used in the preparation of aggregate reports completed after 1 April 2010 complies with TAS D. However, TAS D formalises the documentation of data and the data checking process. If data is currently undocumented, or there is no data checking process in place, we consider the principles in TAS D should apply sooner rather than later. If documentation and checking are currently occurring, then practitioners will have to make few changes to their procedures in order to comply with TAS D. TAS D does not stipulate that the documentation and checking it requires must be prepared or performed after the commencement date. Existing documentation or checks that have already been performed and documented can contribute to compliance.
- 2.10 We considered several options for the commencement date of TAS D, including a commencement date expressed in terms of the issue of component reports, the effective date of calculations and the date at which the work using data is performed. However, all the suggested alternative methods of defining the commencement date posed problems of their own, and we decided not to change our proposal to express the commencement date in terms of the issuing of aggregate reports.
- 2.11 However, as TAS D is being issued two months after TAS R we have postponed the commencement date from 1 April 2010 to 1 July 2010, so that data used in aggregate reports after that date will have to comply with the standard. We consider that, as there have been few substantive changes to the principles that were set out in the exposure draft, which was issued in May 2009, practitioners have received sufficient notice of our intentions for that commencement date to be realistic.
- 2.12 We are not introducing TAS D on a trial basis, or with any form of limited requirements for compliance. We consider that there should be clarity surrounding the need for compliance, and that half measures would not be helpful to users.

## **EFFECTS OF TAS D ON ACTUARIAL INFORMATION**

- 2.13 In paragraphs 1.11 to 1.16 of the exposure draft we discussed the expected effects of TAS D and asked for respondents' views on them.
- 2.14 Some respondents felt that TAS D would help to formalise current best practice. One respondent commented that TAS D would not fundamentally change the information users received and that the benefits to users would only be realised when there was a major problem with the data.
- 2.15 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.

## **ASSESSMENT OF LONG TERM COSTS AND BENEFITS**

- 2.16 In paragraphs 1.11 to 1.16 of the exposure draft we outlined our assessment that any long term costs associated with the implementation of TAS D would be justified by the resultant benefits to users of actuarial information.
- 2.17 Some respondents agreed with our statement, commenting that the implementation costs would be small.
- 2.18 A number of practitioners felt that the additional costs would be higher than our assessment due to the tight timescale that was proposed for implementation, while some felt that there would be increases in costs not recognised in our assessment due to the retrospective nature of the standard.
- 2.19 Overall, no convincing arguments were presented that the long term costs of compliance with TAS D will outweigh the benefits. It is however likely that there will be some short term costs arising out of the need for some practitioners to change their procedures.

## **TEXT AS A MEANS OF IMPLEMENTATION**

- 2.20 We asked respondents for their views on the text of the exposure draft as a means of implementing our policy proposals. Some respondents commented on specific parts of the text, while some commented on the text as a whole.

### **Interpretation**

- 2.21 Several respondents identified particular paragraphs that they felt needed clarification. In many cases, they suggested adding text to make it clear that requirements were to be interpreted in a proportionate way, or that they only applied to material matters.
- 2.22 We do not consider that the clarity of TAS D would be enhanced by using the words “proportionate” or “material” widely. Paragraph B.1.2 in the final text explains clearly that materiality should be understood, even where the term “material” is not explicitly used. Paragraph B.1.3 explains that all requirements are to be interpreted proportionately.
- 2.23 We have added an explanation (B.1.5 in the final text) that lists of examples are not intended to be exhaustive.
- 2.24 Some responses indicated to us that the respondents were not interpreting TAS D in the way we had intended. We gained this impression from comments that were made about the effort required to comply with some of the principles. We have made some changes to the text to clarify our intentions.
- 2.25 It appears that some of the misinterpretation may have occurred because some respondents thought that, if taken at face value, the principles would be so easy to comply with that they would have little effect on the quality of their actuarial work, and that this could not be what we intended. We

consider this is an effect of the extent to which TAS D is a truly generic standard, capable of being applied to a broad range of work. Current practice varies by area of work, and a principle that is observed in current practice in one area may well result in significant changes of practice in another. The introduction of TAS D will, we hope, result in more consistent practice across all areas of work to which it applies. We do indeed intend the principles in our standards to be taken at face value.

## Materiality

- 2.26 The definition of materiality in our standards is based on 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.<sup>4</sup>

- 2.27 A number of respondents expressed unease with the definition of **material** proposed in the exposure draft, which was:

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

- 2.28 Respondents to this and other consultations expressed concerns about how difficult it would be to apply the definition in practice, and the extent of judgement required in order to do so.

- 2.29 Some concerns were expressed about the use of the phrase “could influence the decisions ...”, on the grounds that it extends the concept of materiality too broadly. It has been suggested that a better definition would use “is likely to influence ...” or “could reasonably influence ...”.

- 2.30 Some respondents suggested that we should make it clear that our definition of materiality should be limited to decisions that could, at the time of the aggregate report, reasonably be expected to be made based on that report. Respondents were concerned that, as it stands, the definition covers decisions that may be very tangential to the intended purpose of the report.

- 2.31 Another suggestion was that judgements about materiality should be based on the facts and evidence available at the time. The words “at the time the

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<sup>4</sup> IAS 1.

work is performed” were included in the definition for just this reason, but evidently they were not thought to be clear enough.

- 2.32 We accept some of the concerns raised by respondents, and have therefore amended the definition of materiality to:

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.

- 2.33 This 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. It remains close to that used in international accounting standards.

- 2.34 At the same time we are amending the *Scope & Authority* to include the same definition (the previous version defined materiality only in the context of departures from TASs). We are also amending TAS R, so that the definition is consistent in all our standards.

### Documentation

- 2.35 One respondent commented that they could see no merit in the requirement in paragraph C.4.1 for documentation to state its purpose. As documentation, like a report, may be intended for a wide range of purposes (for example, to assist the user of the data or to assist somebody preparing similar data in the future), we consider that it is helpful for the purpose to be stated, so that any limitations in the documentation arising from a limited purpose can be understood.

### Margins

- 2.36 Several respondents expressed unease with the principle in paragraph C.5.14 of the proposed text which forbade the incorporation of margins into assumptions to mitigate the effects of inaccurate or incomplete data. They agreed that it would often be more appropriate to adjust the data or include contingency margins in the results, but thought that in some instances the incorporation of margins into assumptions would best serve the users’ needs. They argued that such judgements were 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.

- 2.37 We accept these arguments, and the final text includes no such principle. Paragraph C.5.15 of the final text notes that in some circumstances adjustments to assumptions or results may be used instead of or as well as adjustments to data. Paragraph C.3.2 of the final text points out that TAS R requires the approach taken to any uncertainties in the data to be reported, and that possible approaches include adjustments to assumptions or results.

## 3 CHANGES TO THE TEXT

### INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and other comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. They are described in this section. Part II contains a version of the final text that shows the changes from the text in the exposure draft. Changes to paragraph numbering are not shown. All references in this section are to the final version of TAS D, unless stated otherwise.
- 3.2 In the exposure draft we indicated our intention that TAS D would include an appendix reviewing considerations and arguments that were thought significant by the BAS in reaching its conclusions. We have decided not to include this appendix in the final document, but are publishing a separate document explaining the development of TAS D, including the significant considerations underlying the principles.
- 3.3 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.

### PART B: INTERPRETATION

- 3.4 Paragraph B.1.4 now emphasises that the level of detail required in documentation and reporting is a matter for judgement. Paragraph B.1.5 explains that lists of examples are not intended to be exhaustive.

### Definitions

- 3.5 The definitions of **aggregate report**, **component report**, **data**, **Specific TAS** and **user** are now the same as the definitions used in TAS R.
- 3.6 The definition of **materiality** has been changed as discussed in paragraphs 2.26 to 2.34 above.

### PART C: DATA

- 3.7 Paragraph C.1.5 has been expanded to give a clearer description of the contents of the standard.

### Reporting

- 3.8 Paragraphs C.3.1 and C.5.13 in the exposure draft now form paragraphs C.3.1 and C.3.2 in the final text.

### Documentation

- 3.9 Paragraph C.4.1 has been amended to make it clear that it applies to documentation that is required by TAS D, and that it is the purpose of the documentation (rather than that of the data) that should be stated. Paragraph C.4.1 does not itself require the documentation of any matters.
- 3.10 Paragraph C.4.2 has been amended to make it clear that documentation need not be prepared especially for the purpose, but may include documents prepared for other purposes.

### **Data requirements**

- 3.11 Paragraph C.5.1 has been amended for clarity, and paragraph C.5.2 has been amended to clarify our view that null assessments count as assessments.

### **Data definitions**

- 3.12 Paragraph C.5.5 has been added to make it clear that there are many ways of documenting data definitions.

### **Validation**

- 3.13 Paragraph C.5.6 has been amended to take account of comments made that the determination of whether data is sufficiently accurate, relevant and complete need not be a binary decision.
- 3.14 Paragraph C.5.7 has been amended to reduce the amount of detail required by TAS D.
- 3.15 Paragraph C.5.9 has been amended to recognise that there may be external factors that limit the extent of the checks that are possible or desirable.

### **Incomplete or inadequate data**

- 3.16 Paragraph C.5.15 replaces paragraphs C.5.14 to C.5.16 of the exposure draft, which have been deleted (see paragraphs 2.36 to 2.37 above).

## PART II

TRACKED CHANGES FROM THE MAY 2009 EXPOSURE  
DRAFT OF  
TECHNICAL ACTUARIAL STANDARD D:  
DATA



## PART III

# TRACKED CHANGES FROM VERSION 2 OF SCOPE & AUTHORITY OF TECHNICAL STANDARDS



## PART IV

# TRACKED CHANGES FROM VERSION 1 OF TAS R: REPORTING ACTUARIAL INFORMATION



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## B LIST OF RESPONDENTS TO THE MAY 2009 EXPOSURE DRAFT

### **Professional and trade bodies**

Association of Consulting Actuaries

Society of Pension Consultants

Association of British Insurers

The Actuarial Profession

### **Insurers, consultants and actuaries**

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