



BOARD FOR ACTUARIAL STANDARDS

**TRANSFORMATIONS TECHNICAL ACTUARIAL STANDARD
ANALYSIS OF RESPONSES TO THE JUNE 2010 EXPOSURE DRAFT**

DECEMBER 2010

CONTENTS

	<i>Page</i>
I Analysis of responses	2
1 Introduction	3
2 Responses to the exposure draft	6
3 Changes to the text	9
4 Transition from the actuarial guidance notes	14
II Tracked changes from the exposure draft of the Transformations TAS	15
Appendices	31
A Members of the Board for Actuarial Standards	31
B List of respondents to the June 2010 exposure draft	32

PART I

ANALYSIS OF RESPONSES TO THE JUNE 2010
EXPOSURE DRAFT OF
THE TRANSFORMATIONS TECHNICAL ACTUARIAL
STANDARD

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 June 2010, it published an exposure draft of its Specific Technical Actuarial Standard (Specific TAS)² on Transformations (the Transformations TAS).
- 1.2 The consultation period ended on 27 August 2010. A total of 20 public responses³ were received (see Appendix B). 16 of the responses were from actuarial firms and insurance companies. Four responses were from professional organisations. We also received some confidential responses. The Financial Reporting Council's Actuarial User Committee provided input to the consultation. After the consultation closed we met with a number of practitioners and users to discuss specific points relating to the responses. We thank all those who contributed.

SUMMARY

- 1.3 In finalising the text of the Transformations TAS 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.
- 1.4 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it. The principles in the Transformations TAS 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.
- 1.5 There were three substantive areas of concern to practitioners:
- Many practitioners still considered that the justification for a single separate Transformations TAS was unproved. They argued that there is limited common ground between pensions and insurance transformations, and preferred incorporating new principles into the Insurance and Pensions TASs, or producing two separate TASs covering transformations. We did not fully accept their arguments. Moreover, one of the key considerations in our decision to develop a separate TAS was that it facilitated the earlier issue of the Pensions and Insurance TASs and enabled us to issue all three Specific TASs (on Pensions, Insurance and Transformations) by the end of 2010. We intend to consider the interrelationship of the TASs as part of a review once the full initial set of TASs is published.

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

² See section 8 of the BAS's *Scope & Authority of Technical Standards*.

³ The responses are available at <http://www.frc.org.uk/bas/publications/pub2348.html>.

- There was demand from practitioners for more clarity on what constitutes actuarial work. Although the precise delineation will always remain a matter for professional judgement, we have nevertheless added text which is intended to clarify our intentions. Further explanation of our thinking is in *Transformations Technical Actuarial Standard: Significant Considerations*, which is being published at the same time as the Transformations TAS, and which echoes the views expressed in relation to the Pensions and Insurance TASs.
 - Pensions practitioners in particular expressed concern about the references to assessments security or of the financial circumstances of the sponsoring employer, arguing that such assessments are beyond the skills and competencies of many actuaries, and that compliance with the TAS might breach the requirement in the Actuaries' Code that members should not act unless they have an appropriate level of knowledge and skill. We do not accept these arguments because the Transformations TAS does not require this work to be carried out. In addition, TASs apply to the work being performed rather than to those performing the work, and may therefore cover actuarial work that is not performed by actuaries.
- 1.6 Section 2 of this paper covers the main issues raised in response to the consultation as well as some general points. Section 3 explains the changes that we have made to the text that appeared in the exposure draft. Section 4 considers the transition from the existing technical guidance notes.
- 1.7 Part II contains the final version of the Transformations TAS, marked up to show changes from the exposure draft.

ASSESSMENT OF COSTS AND BENEFITS

- 1.8 Section 6 of the exposure draft presented our assessment of the costs and benefits associated with the introduction of the Transformations TAS. We recognised that compliance with the TASs in Transformations work might require additional analysis and reporting resulting in an increase in the longer term cost of carrying out actuarial work. However, we thought that such increases would be modest in the context of the scale of, and budgets associated with transformation work. We also expected that the additional cost of transition to the Transformations TAS would be modest. We considered that the benefits would justify any additional costs.
- 1.9 Few practitioners commented specifically on the assessment, but those that did generally agreed with our assessment of the costs of complying with the TASs. In particular, there was agreement that the TAS might impose additional analysis in some cases, although some practitioners questioned whether this additional work would be valued by users.
- 1.10 We note the concerns expressed by practitioners, but continue to consider that the benefits will justify any additional costs.

COMMENCEMENT DATE

- 1.11 In the exposure draft we proposed that the Transformations TAS should apply to work within its scope performed for aggregate reports completed on or after 1 October 2011.

- 1.12 Most practitioners thought that the proposed commencement date was reasonable provided the TAS was published promptly and without significant changes from the exposure draft. We have therefore decided that the commencement date of the Transformations TAS will be 1 October 2011.

REVIEW OF THE TRANSFORMATIONS TAS

- 1.13 We recognise that our TASs may need amendment after they have been in operation for a period. We are developing 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 some of the most significant comments that we received on the exposure draft, and our reactions to them. In brief:

- Respondents felt that there was too much uncertainty about what constitutes “actuarial work” for the purpose of determining whether work is within the scope of the Transformations TAS.
- Many practitioners expressed concern about the references to assessment of security or of the financial circumstances of pension scheme sponsors or insurers, noting that this may be beyond the capabilities of some actuaries.
- Some practitioners felt that the specific requirement to consider whether data quality might reflect the interests of the party proposing the transformation might have an adverse effect on their relationship with that party.
- The requirement to consider the impact of a transformation on parties other than those directly affected was considered excessive by some respondents. They argued that this might extend the terms of the work they had been asked to complete without the approval, or even knowledge, of the party commissioning the work.

DEFINITION OF ACTUARIAL WORK AND ACTUARIAL INFORMATION

2.2 Several practitioners thought that the proposed text was insufficiently clear about what constituted actuarial work. They wanted examples of what work is within the scope of the TAS and what work is not. These comments echo comments we received during consultations on other TASs.

2.3 The TAS includes a description of some of the factors that might be taken into account when determining whether work is actuarial work (paragraph B.1.4). In addition the TAS includes examples of work that is and work that is not actuarial work.

2.4 We consider that the key test is whether it is reasonable for any of the intended users to expect the work to involve the application of actuarial techniques. Criteria that might be used to judge whether work is actuarial work include:

- If users are relying on the fact that the work requires actuarial skills – for example modelling work which involves mortality or discounting, or aspects of a role which is reserved to actuaries – and the work is therefore commonly performed by actuaries (see paragraph 11 of the *Scope & Authority*), it is actuarial work.
- If the work is presented (for example in a report) as actuarial, or as involving the use of actuarial techniques, other than through an incidental reference, it is actuarial work.
- If users understand that work has been done by an actuary acting in a professional actuarial capacity, it is actuarial work.

- 2.5 Inevitably there will be some pieces of work which do not precisely fit these criteria and about which judgement will be required. However, we consider that the decision whether such work is actuarial work or not rests with the intended users. If practitioners have doubts over whether the work they are required to do is actuarial work then they should ask for clarification from the intended users.
- 2.6 The *Significant Considerations* document gives further details of our thinking.

ASSESSMENT OF FINANCIAL STRENGTH

- 2.7 Paragraphs D.4.3 and D.4.11 refer to the impact of changes in the financial circumstances of the pension scheme sponsor or insurer. Paragraph D.4.3 states that changes to material risks (which have to be indicated to users) might include such matters. Paragraph D.4.11 notes that indications of the impact of the transformation might include a commentary on the effect on the security of benefits of a change in pension scheme sponsor or insurer, and the financial effect of the transformation itself on the sponsor or insurer.
- 2.8 Several pension practitioners pointed out that assessment of financial strength is often beyond the competencies of pension actuaries. They further commented that the Actuaries' Code specifically prohibits actuaries from giving advice in areas of work for which they are not qualified⁴, and expressed concern that the TAS might place them in conflict with the Actuaries' Code.
- 2.9 We consider this not to be the case. The TAS states that changes in financial circumstances of the party responsible for providing the benefit might lead to changes in the risks to benefits, and suggests that a report might include a reference to this. However, it does not require an assessment of financial strength to be carried out. Practitioners might consider it appropriate to report on the significance of possible changes in financial strength. If this is the case, and, if they are not qualified to carry out an assessment themselves, they might suggest that users commission an assessment from somebody else.
- 2.10 In any event, the TASs address actuarial work, rather than actuaries. Those complying with them need not be actuaries, and some of those practitioners performing actuarial work, whether actuaries or not, might be competent to assess the financial strength of the relevant parties.

DATA CHALLENGES

- 2.11 Paragraphs D.3.1 and D.3.2 refer to the quality of data. Specifically, paragraph D.3.2 requires practitioners to be alert to the possibility that the provider of the data may have an interest in presenting it in a way which supports their case. This does not imply that all parties will try to skew the data, but might, for example, mean that a less than full effort has been made to fill any gaps in the data, or to investigate any inconsistencies or queries.

⁴ Actuaries' Code paragraph 2.2 a).

- 2.12 Some respondents argued that this requirement is unnecessary, on the grounds that TAS D already requires checks to be carried out on the data which take account of the source of the data and the scope of the work. They argue that this recognition of context means that any data used for a transformation will be subject to particularly thorough checking anyway, and that the requirement in paragraph D.3.2 is therefore redundant.
- 2.13 Other respondents expressed concern that any implication of mistrust in data provided by a client would undermine the relationship between practitioners and their clients.
- 2.14 We consider that there is benefit to both users and practitioners in clarifying how a principle in a Generic TAS should apply in specific contexts. In the case of transformations, we consider that doubts about the accuracy or detail of the data may be particularly significant, because of the possible impact on the assessment of the effects of the transformation on beneficiaries and other parties.

SCOPE OF ANALYSIS

- 2.15 Some of the principles in Section D require the consideration of groups of beneficiaries and other parties who are not directly affected, or whose interests are not the concern of the party commissioning actuarial work within the scope of the Transformations TAS.
- 2.16 Paragraph D.4.2 concerns any changes in material risks arising from the transformation and paragraph D.4.10 addresses the assessment of the impact of the transformation on beneficiaries. In the exposure draft, both paragraphs referred to all groups of beneficiaries affected by the transformation. Some practitioners commented that these paragraphs might therefore require them to carry out actuarial work outside the scope agreed with their clients.
- 2.17 We agree that the TAS should not extend the scope of the work beyond that required by users, and have therefore modified the text to ensure that only those classes of beneficiaries within the scope of the work are covered (paragraphs D.4.2 and D.4.10).
- 2.18 However, we consider that users should be made aware of the limitations of the information that they are given, so that they can consider whether they should commission additional work or extend the scope of the work carried out. We have therefore introduced a requirement for the report to identify any known groups of beneficiaries which have been excluded from the analysis (paragraph D.4.1(a)). We have also suggested that, notwithstanding the scope of the work, actuarial information might need to at least indicate the changes to material risks affecting beneficiaries outside that scope.

3 CHANGES TO THE TEXT

INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. Some changes have been made to ensure consistency with the Pensions and Insurance TASs which have been issued since the exposure draft was published. The changes made 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.
- 3.2 We are publishing a separate document, *Transformations Technical Actuarial Standard: Significant Considerations*, explaining the development of the Transformations TAS, 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.
- 3.4 All references in this section are to the final version of the Transformations TAS, unless stated otherwise.

Introductory rubric

- 3.5 The specification of the commencement date has been amended to make it clear that the Transformations TAS applies to both Reserved Work and aggregate reports completed on or after the commencement date, which is 1 October 2011.
- 3.6 The description of the relationship with other TASs has been amended to make it clear that Generic TASs apply to all work within the scope of the Transformations TAS.

PART A: PURPOSE

Purpose

- 3.7 Paragraph A.1.2 has been amended to clarify that the Transformations TAS relates solely to actuarial information, since users will often rely on work carried out by other experts, in particular legal work and assessment of covenant.
- 3.8 Some respondents suggested removal of the term “cash flows” from the purpose of the TAS. They argued that there are some transformations, particularly in insurance, in which information about cash flows to beneficiaries would be irrelevant, for example if policyholders’ entitlements are to short term payments. However, we consider that in many such cases a brief comment on the impact on cash flows might help users to appreciate the impact on beneficiaries. We also note that the purpose of the TAS does not impose any explicit requirements.

- 3.9 Some respondents suggested that the terms “fairness” and “security” should not appear in the purpose of the TAS, because they are irrelevant to much of the actuarial work that is performed. Although there is by no means always a requirement for practitioners to opine on fairness, the actuarial information provided is likely to support or inform decisions by other parties who have to do so. Again, we note that the purpose of the TAS does not impose any explicit requirements.

PART B: INTERPRETATION

- 3.10 Paragraph B.1.3 has been extended to emphasise that proportionality is a matter for judgement, and to give some examples of matters that might be taken into account when making that judgement. Paragraph B.1.4 has been included to explain what might constitute actuarial work for the purpose of the Transformations TAS. Both these paragraphs are consistent with similar paragraphs in the Pensions and Insurance TASs.

Definitions

- 3.11 The following definitions have been removed since they are not used in the TAS: actuarial factors, implementation, measure, method, and neutral.
- 3.12 The definition of “governing body” has been modified to refer explicitly to trustees of occupational pension schemes and administering authorities of sections of the Local Government Pension Scheme. The same definition is used in the Pensions TAS.
- 3.13 The definitions of “insurance transformation” and “insurer” have been changed to those used in the Insurance TAS.
- 3.14 A new definition for “Part VII transfer” has been inserted to avoid the need to repeatedly provide a reference for this in the text.
- 3.15 The definition of “pension transformation” has been amended to restrict coverage to accrued benefits. The same definition is used in the Pensions TAS.

PART C: SCOPE

- 3.16 As identified in the exposure draft, information for a single party in a Part VII transfer or Scheme of Arrangement is subject to the requirements of the Insurance TAS. There may be cases in which Reserved Work is initially performed in order to support the insurer considering the transformation, but the results of the work are provided to the courts after it has been decided to proceed with the transformation. If the work that was performed initially for the insurer was not within the scope of the TAS, it would be brought within the scope after it was performed, with no opportunity for the practitioner to reconsider whether or not it complies with the TAS. Reserved Work performed solely for one party has therefore been brought within the scope of the TAS, and paragraph C.1.2 remains unaltered. In most cases such Reserved Work addresses issues of policyholder protection anyway.
- 3.17 The words “and assets” have been removed from paragraph C.1.7, recognising that it is the transfer of liabilities which is of direct concern in a transformation.
- 3.18 Paragraphs C.1.8 has been added to clarify that actuarial work for a receiving scheme in a transfer of pension benefits is within scope.

- 3.19 Paragraph C.1.10 has been added to clarify that transfers from one personal pension to another are not within scope. Such transfers rarely involve actuarial information.
- 3.20 Paragraph C.1.12 has been added to clarify that summary reports prepared by the courts in a Part VII transfer are not within scope.
- 3.21 Paragraph C.1.15 has been redrafted to incorporate the following paragraph from the exposure draft. It clarifies that the actuarial work relating to policyholder benefit reductions is specifically that covered by the Financial Services and Markets Act 2000.

PART D: GENERAL PRINCIPLES

- 3.22 Several respondents asked whether the reference to work that is also within scope of the Pensions and Insurance TASs in paragraph D.1.2 would fit better within section C. We have retained the wording in section D for consistency with the Pensions and Insurance TASs, but will reconsider the matter when we review the full suite of TASs.

Judgement

- 3.23 Paragraph D.1.4 has been amended to give examples of when judgement might be needed.
- 3.24 Paragraph D.1.5 has been added. It states that the standard does not require the documentation or disclosure of judgements concerning its application or the application of other standards to work within the scope of the standard unless stated otherwise. This is consistent with judgements required concerning the application of other TASs.

Assumptions

- 3.25 Several respondents felt that the term “proper emphasis” was not sufficiently clear, or that it should be defined in section B. We consider that actuarial information should be produced with the appropriate emphasis on the interest of all parties. Practitioners may legitimately decide that some parties’ interests should be accorded zero weight but this should be a conscious decision, rather than a default for those parties outside the direct scope of the work. The *Significant Considerations* document expands on this point.
- 3.26 The *Scope & Authority* explains that departures from the requirements of a TAS are permitted if compliance would result in a failure to meet legal obligations for Reserved Work. Paragraph D.2.1 has been extended to clarify that paragraphs D.2.2 to D.2.5 (selection of assumptions placing proper emphasis on the interests of parties to the transformation) do not apply when assumptions are determined by regulation.
- 3.27 An additional bullet point has been added to paragraph D.2.4 to allow expressly for the circumstance when there is insufficient information available about the interests of some parties to make any objective allowance for their interests when deciding on assumptions.
- 3.28 Paragraph D.2.5 has been introduced to provide a non-exhaustive list of parties whose interests need to be given proper emphasis.

- 3.29 Paragraph D.3.3 of the exposure draft repeated text from TAS M concerning the grouping and subdivision of data, and paragraph D.3.4 of the exposure draft explained how grouping and subdivision should be applied in transformations. These paragraphs have not been included in the TAS as we agreed with respondents' views that they added nothing to the TAS.

Reporting

- 3.30 Paragraph D.4.1 has been added to the TAS to require reports to specify their limitations in terms of the groups of beneficiaries covered and the nature of the assessment impact. This change was introduced alongside the relaxation of the requirement to consider all beneficiaries (described in paragraphs 2.15 to 2.18 above).
- 3.31 The paragraphs concerning cash flows now appear in the section headed "Assessment of impact".
- 3.32 Paragraph D.4.2 has been amended to clarify that the focus of the TAS is on the changes to material risks arising from transformations, rather than the nature of the material risks themselves. We have also introduced sub-paragraph b) to clarify that the TAS only requires reporting of the changes in material risks for beneficiaries included within the scope of the actuarial work requested.
- 3.33 An incorrect reference to Schemes of Arrangement in paragraph D.4.4 has been removed.
- 3.34 Paragraph D.4.8 has been added to clarify that the TAS does not prescribe the number or nature of alternative assumptions to be considered, but leaves it to the judgement of practitioners. This allows reporting on sensitivity to be limited if it is evident that the results are very insensitive to the choice of assumptions, or if the scale of the work is small, or if the timescale for the work prevents more detailed analysis. The *Significant Considerations* document explains that, in any event, at least some comment needs to be made on the sensitivity of the results to alternative assumptions.
- 3.35 Some pensions practitioners suggested that the term "degree of comfort" was potentially troublesome when indicating the impact of alternative assumptions (paragraph D.4.9), because by definition, if a certificate is given, the actuary must be comfortable that it is correct to do so. We consider that there is a valid and important difference between the situation in which analysis on a wide range of assumptions would support the giving of the certificate, and a situation in which the certificate can only be granted if a particular set of assumptions is used – even when that set of assumptions is within a range considered to be appropriate. We have therefore retained this term.
- 3.36 The section on assessment of impact has been revised to combine most of the requirements from paragraphs D.4.1, D.4.2, D.4.12 and D.4.14 of the exposure draft. Paragraph D.4.10 permits reporting to be limited to the impact on beneficiaries within the scope of the actuarial work requested, and sub-paragraphs a) to e) expand on the particular impacts which need to be reported.

- 3.37 The final bullet point in paragraph D.4.11 has been shortened to remove the prescription about how the financial effect on the pension scheme sponsor or insurer should be described. This paragraph contains examples of indications of impact and we agree with respondents' comments that it is not necessary or appropriate to specify how the financial effect on the insurer or pension scheme sponsor might be described.
- 3.38 Some insurance practitioners suggested that paragraph D.4.12 (the requirement to indicate material changes to cash flows) should be restricted to pension transformations. They argued that if changes to cash flows in insurance transformations are favourable they are likely to be outside the scope of the work requested, and if they are adverse the transformation is unlikely to proceed anyway. We are not convinced that this argument is universally true but, if it is correct, the current wording would have no impact on insurance transformations work anyway.
- 3.39 The third bullet point in paragraph D.4.12 has been changed to provide an additional example of the material changes to cash flows which might need to be indicated in reports.
- 3.40 Several respondents thought that the requirement to indicate the advantages to the party proposing that the transformation should proceed, as set out in paragraph D.4.14 of the exposure draft, was too onerous, since that information might not be known, and arguably strays into ethical issues. We agree and have changed this to requiring an indication of the rationale for the proposed transformation (paragraph D.4.13).
- 3.41 Paragraph D.4.14 has been amended because actuarial reports on pension transformations seldom require an explicit opinion on fairness, but are restricted to confirming whether certain requirements have been met. The amended wording clarifies that if any actuarial opinion is provided, users need to understand the basis on which that opinion is given. The Significant Considerations document goes on to explain that because such work is restricted in scope, several of the principles in the Transformations TAS may be considered immaterial, and users therefore need to know which principles have been applied, and which not.

4 TRANSITION FROM THE ACTUARIAL GUIDANCE NOTES

INTRODUCTION

- 4.1 Section 5 of the exposure draft described our intentions for the transition from the adopted Guidance Notes relevant to the Transformations TAS. Respondents were generally happy with our proposals, which focused on GN16.
- 4.2 The GNs contain both technical and ethical requirements, as well as guidance on relevant legislation. Many of the technical requirements are superseded by principles in our TASs. However, our TASs do not cover ethical and professional matters, and do not provide guidance on legislation.
- 4.3 Our current intention is to withdraw GN16 with effect from 1 October 2011, when the Transformations TAS becomes effective. The withdrawn GN will remain available on our website. This issue remains under consideration however, pending legislation that is proposed to take effect from April 2011 (described in paragraph 4.7 below).

GN16

- 4.4 GN16 (*Retirement Benefit Schemes - Transfers Without Consent*) provides guidance to actuaries who provide certification in respect of bulk transfers made without members' consents.
- 4.5 It was suggested that some of the contents of GN16 should be adopted by the Actuarial Profession, and that the Profession should maintain a link to the opinion obtained from Counsel by the Faculty and Institute of Actuaries in 2005 regarding the "broadly no less favourable than" test. We have passed these comments on to the Actuarial Profession.
- 4.6 Several respondents expressed concern about the proposed withdrawal of GN16 as it contains wording of the certificate which actuaries use to certify that members' benefits after a proposed bulk transfer are broadly no less favourable than before. The DWP has published draft regulations⁵ which prescribe the form of the certificate. It is intended that the regulations will be effective from 6 April 2011. It was suggested that some of the contents of GN16 should be adopted by the Actuarial Profession, and that the Profession should maintain a link to the opinion obtained from Counsel by the Faculty and Institute of Actuaries in 2005 regarding the "broadly no less favourable than" test. We have passed these comments on to the Actuarial Profession.
- 4.7 We intend to withdraw GN16 when the Transformations TAS comes into force. If the draft regulations referred to in the above paragraph are brought into effect unchanged in April 2011, this will mean that the current version of GN16 will not be entirely consistent with regulation from 6 April 2011 until October 2011 when it is withdrawn. We believe that the application of GN16 during this period remains largely self-evident and do not intend to make any changes. We will alert the Profession to the issue.

⁵ The Occupational and Person Pension Schemes (Miscellaneous Amendments) Regulations 2011 – Consultation on draft regulations October 2010.

PART II

TRACKED CHANGES FROM THE JUNE 2010 EXPOSURE DRAFT OF THE TRANSFORMATIONS TECHNICAL ACTUARIAL STANDARD

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 [Reserved Work completed on or after, and](#) 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 [TASs apply](#) 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

<i>Part</i>	<i>Page</i>
A Purpose of the Transformations TAS	19
A.1 Purpose	19
B Interpretation	20
B.1 Interpretation of the text	20
B.2 Definitions	20
C Scope	24
C.1 Work within the scope of this standard	24
D Principles	26
D.1 Introduction	26
D.2 Assumptions	26
D.3 Data	27
D.4 Reporting	28

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 actuarial information, including information on ~~cash flows, risk, and~~ uncertainty, and cash flows to enable them:

- to make an informed decision; and
- to assess the impact, including fairness, security and level of benefits, of the transfer or modification 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. What work is proportionate is a matter for judgement and might depend on factors such as the expertise of users in the matters being reported on and their needs.
- B.1.4 Part C of this standard includes references to actuarial work. What constitutes actuarial work depends on matters such as whether users would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. Some work performed by actuaries might not be actuarial work.
- B.1.5 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.1.6 Lists are not intended to be exhaustive.
- B.1.7 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.
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² Paragraph 23 of the **Scope & Authority**.

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.
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 insurer , 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	The trustees of an occupational pension scheme or the administering authority of a section of the Local Government Pension Scheme. 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' <u>consents</u> in the contract terms of a portfolio of insurance contracts or in the <u>with-profits</u> principles <u>contained set out</u> 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	A representation of some aspect of the world which is based on simplifying assumptions. 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.
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.
<u>Part VII transfer</u>	<u>An insurance business transfer scheme in accordance with Part VII of the Financial Services and Markets Act 2000.</u>
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 <u>accrued</u> benefits of some or all of the members of a pension scheme , <u>without the consents of those members</u> .
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 ~~concerning that concerns insurance transformations or pension transformations or insurance 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.~~

Pension transformations

C.1.5 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** ~~in connection with~~ concerning 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~~ concerning the modification of the accrued 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 the **governing body** of a **pension scheme** in wind up that concerns the transfer of liabilities ~~and assets~~ to an **insurer** without the consents of those members.

C.1.8 The work described in paragraph C.1.5 includes actuarial work for the governing bodies of the transferring or receiving pension scheme.

C.1.9 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 or commutation) before and after the transfer, modification or wind-up.

C.1.10 The work described in paragraphs C.1.5 to C.1.7 does not include work in connection with a transfer from one personal pension scheme to another.

Insurance transformations

C.1.11 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.1.12 The work described in paragraph C.1.11 does not include the summary of the scheme report that is required under section 109 of the *Financial Services and Markets Act 2000* as part of the application for a **Part VII transfer**.

C.1.13 This standard shall apply to actuarial work performed in an **insurance transformation** for a policyholder advocate in an inherited estate reattribution.

C.1.14 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 under section 113 and section 376 of the *Financial Services and Markets Act 2000* that: a) ~~in the opinion of the actuary ought to be made as a result of a business transfer; or~~

C.1.15 ~~b) are deemed necessary for the successful continuation of that part of the insurer's business where the insurer is in liquidation.~~

~~C.1.14~~ ~~The work described in paragraph 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 ~~for 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. It applies to the work specified in Part C.
- D.1.2 All work that is within the scope of ~~this standard~~~~the Transformations TAS~~ is also within the scope of either the Specific TAS on Pensions or the Specific TAS on Insurance. ~~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 might be needed on matters such as: ~~the nature of information required to carry out an exercise~~.
- whether the work is actuarial work;
 - the derivation of assumptions; and
 - the selection of models.
- D.1.5 This standard does not require the documentation or disclosure of judgements concerning its application unless stated otherwise.

D.2 ASSUMPTIONS

- D.2.1 The selection of assumptions shall place proper emphasis on how the **transformation** affects the interests of all relevant parties, except when the choice of assumptions is determined by legislation or other regulations.
- 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~~scope of 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~~scope of the actuarial information requested;

- the interests of some parties to the **transformation** may not be sufficiently clear to take into account;
- 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.2.5 Relevant parties whose interests need to be given proper emphasis in the selection of assumptions might include:

- all groups of **beneficiaries**;
- the sponsors of the transferring and receiving **pension schemes**;
- the trustees of the transferring and receiving **pension schemes**; and
- **insurers**.

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

Relevance

D.4.1 Aggregate reports for transformations shall include:

- a) descriptions of any groups of **beneficiaries** for whom the impact of the **transformation** has not been considered; and
- b) a statement of whether any assessment of change in the amount, value or security of the benefits of any group has been restricted to adverse impacts only.

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.4.2 **Aggregate reports** shall indicate how the **transformation** might lead to state the nature of any changes in the **material** risks to the benefits of the different classes of **beneficiaries**:

- a) who are affected ~~directly~~ by the **transformation**; and
- b) who are included within the scope of the actuarial work requested.

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

D.4.3 Changes to **material** risks might include:

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

D.4.4 Some **aggregate reports** The information that is provided might need to include descriptions of the **material** risks being faced by those **beneficiaries** who are not directly affected by the **transformation**, such as:

~~D.4.6 Aggregate reports in which it might be appropriate to include the **material** risks in paragraph include:~~

- reports Advice on the possible reaction of other parties which are provided for the party proposing a **pension scheme** transfer without consent, which address the possible reaction of other parties; 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.4.5 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.4.6 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.4.7 **Aggregate reports** shall indicate the impact on the actuarial information of adopting alternative plausible assumptions.

D.4.8 The number and nature of alternative assumptions to be considered are a matter for judgement.

D.4.9 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.

Assessment of impact

D.4.10 **Aggregate reports** shall ~~indicate the extent of any change in the value of the interests of~~ describe the impact of the transformation on any groups of beneficiaries, within the scope of the actuarial work requested, who are affected by the transformation, by indicating:

- any **material** changes to the cash flows to beneficiaries resulting from the transformation;
- the extent of any potential reduction in the amount of the benefits;
- the potential for any change in the likelihood of receipt of payments;
- the circumstances in which the benefits of the groups would be adversely affected; and
- the quantifiable advantages which might be gained by any groups of beneficiaries.

~~D.4.11, and the circumstances in which the interests of that group are adversely affected.~~

D.4.11 Indications of the impact of the transformation might need to include:

- the range of potential gains or losses for any such group;
- the key characteristics of any groups 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 and least favourable for any group of **beneficiaries** ~~and those in which it is least favourable for any group of beneficiaries;~~
- 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.4.12 Material changes to cash flows 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 potential for bonus payments for with-profits policies.

D.4.13 **Aggregate reports** shall indicate the ~~benefits to be gained by any group of beneficiaries affected by the transformation and the advantages to~~ rationale of any party proposing that the **transformation** should proceed.

Reports including opinions

~~D.4.14~~ 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.4.14 **Aggregate reports** which include an opinion on whether, from an actuarial perspective, the transformation meets the criteria needed to proceed, 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 which of that the principles of this standard have been applied in reaching that opinion.

D.4.15 The relevant information on which to base an opinion to take into account ~~is will be~~ a matter for judgement. It might need to include the information described in paragraphs ~~D.4.10~~ D.4.13 to ~~D.4.13~~ D.4.15.

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TEL: +44 (0)20 7492 2300

FAX: +44 (0)20 7492 2301

WEBSITE: www.frc.org.uk

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