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Email to basstructure@frc.org.uk
The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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Dear Sir

Structure of new BAS Standards (and implications for adopted GNs): consultation paper

I am writing on behalf of the Association of Consulting Actuaries, in response to the Board for Actuarial Standards' consultation on the structure of new BAS Standards.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and Institute of Actuaries. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of defined benefit pension schemes.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

In summary, we support the direction the BAS continues to take in relation to BAS Standards, in particular the concentration on principles wherever possible. The overall structure broken into Generic and Specific standards is a sound, but ambitious goal. Necessarily we believe that some aspects such as mortality which lend themselves to Generic treatment will nevertheless need also to be considered under the Specific standard, as is envisaged in the preferred structure set out in 4.7. However we will reserve judgement on the ability to cover these aspects fully until receipt of the relevant consultation papers, without, we hasten to add, implying anything about the abilities of the drafters.

Finally before turning to the questions posed we must comment on the timescales which are for instance set out on pages 22 and 23 (5.16 and 5.19) relating to the programme for implementation. Many GNs will cease to apply from the third quarter of 2008 whereas replacement of others is set for completion no earlier than 4Q 2010. GNs provide much of the underlying principles and we therefore struggle to understand the length of time to produce these, especially given the time already expended on reviewing this very structure.

As said earlier we **strongly** support the approach, we now encourage a swifter implementation.

Our comments on the specific questions asked by the consultation can be found in the appendix to this letter.

We hope that you find our comments of assistance.

Yours sincerely

Phil Wadsworth MA FFA
Chairman
Consulting Practice Committee of the Association of Consulting Actuaries

Structure of new BAS Standards

Appendix - Questions

1. *Do respondents have any views on the proposals for generic standards and their contents, as set out in section 2? In particular, respondents are asked to comment on whether the proposed generic standards between them cover the principal concepts that are common across the main areas of actuarial work that fall within the scope of BAS Standards.*

   We consider the proposals to be sensible and agree that they cover the principal concepts. The statement in 2.6 amplified in 2.7 that the generic standards should include principles relating to materiality is welcome as is the proportionate regulation. It does of course need to be borne in mind that whilst the actuary can assess the effect of data inaccuracies on reports and their materiality in terms of the overall results the determination of what is material and what is not has in many cases to be determined by the client, (Trustees, Directors, etc) not the actuary. Therefore the final approach to incomplete or inaccurate data is many times jointly agreed with the client. The comments relate also to the choice of model under 2.8 and 2.9.

   Finally on section 2, covering mortality (as described in 2.13) in a Generic standard covering entities ranging from an insurance company with hundreds of thousands of years of experience to a small defined benefit pension scheme with say 12 members will be quite challenging.

   Prudence, is a tricky concept and we would encourage the drafters to not fall into the trap witnessed in other documents. It is often implied that to set a prudent basis requires the setting of each and every assumption to include a margin for prudence. That is patently not a correct approach and we are encouraged by the starting point of a best estimate case.

2. *Section 3 describes proposals for specific standards and their contents. In that context;*

   a. *Do respondents think that issues arising from different group structures can be incorporated into the proposed specific standards or that a separate standard is needed?*

      We believe that the issues can be incorporated into the proposed Specific standards. However we think there needs to be a consistency between what 3.2 c) envisages, the heading for 3.13 to 3.16 and the comments in 3.16. Similar to the headings of a) Long Term Insurance and b) General Insurance c) should be Retirement Provision. This could then include funding advice for defined benefit schemes, advices to defined contribution schemes, TMI as well as aspects of post retirement medical plans.

   b. *Do respondents agree that matters concerning post-retirement medical plans should be covered in the appropriate specific standards?*

      Yes

   c. *Do respondents agree that Skilled Person reports should be covered in the specific standard on business rearrangements?*

      Yes

   d. *What views do respondents have on whether there should be a separate standard covering actuarial information for financial statements?*

      We believe that most aspects of accounting relate specifically to the aspects of, life insurance, general insurance or retirement provision and similarities between these are more by accident than design. Accordingly we believe they should be treated within each Specific standard. Given the structure suggested in section 4 the reference to accounting aspects can be consistently and readily identified.

3. *Section 4 describes criteria that the structure of the new book of standards should meet, and proposes a structure.*

   a. *What views do respondents have on the two criteria?*

      The criteria suggested in 4.4 are we believe necessary and sufficient.

   b. *What views do respondents have on the preferred structure and its ease of use?*

      The structure is entirely logical. We would only envisage issues as to what is covered under M for example on mortality and under 105,305 in the Specific standards and how these can be consistently maintained and updated.

4. *Do respondents have any comments on the proposed treatment of the adopted GNs that is described in section 5?*

   We do not have any comments on the proposed treatment of the adopted GNs as described in section 5. Necessarily in moving from one structure to another it is difficult to get precise mapping and also, and again necessarily, there will be periods during which it may be felt either no or several standards are in place. For that reason we would encourage early drafting and consultation. As an example GN9 is timetabled to be fully replaced in Q1 2010. However many aspects will have been covered in the reporting generic standard which is concurrently being exposed with this consultation. Equally a report drafted under GN9 in say 2009 but which is only fully signed off in 2010 may require revision to meet the later Pension Specific Standard. Given the principles based approach now being adopted we would trust that this brings no significant need for revision to work in progress, failing which thought needs to be given to transitional arrangements.

5. *Do respondents foresee any particular problems entailed by the disapplication of the following GNs:*

   a. *GN3, GN4, GN10, GN11, GN13, GN17, GN19, GN39, GN42, GN49 and GN51 in the third quarter of 2008?*

      No

   b. *GN22 on 1 November 2008?*

      No

6. *Do respondents have any comments on the overall timetable proposed in section 6, or on the order in which standards will be developed?*

   We agree with the overall structure of the timetable and the preparation of Generic standards ahead of the Specific standards. We would however question, and this may be a matter of resource, whether concurrent preparation could not be achieved. Equally we are concerned at the overall timetable covering 2½ years.

   We have no other comments.

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