ASSOCIATION OF
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The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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Dear Sirs

Response to Consultation Document - Exposure Draft Modelling

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the Exposure Draft issued by the Financial Reporting Council (FRC) in December 2009. 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, subject to the code of professional conduct of the Faculty and Institute of Actuaries. The FRC is responsible for the independent oversight of the UK Actuarial Profession and the setting of actuarial technical standards. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members 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.

Before responding to the questions as posed we would make one point. There is an acknowledgement that many respondents made comments on cost and the fact that these could be very significant in relation to existing models. The respondents, as shown in Appendix B, are all either insurance companies or pension consultancies and in particular no responses were received from the vast number of users of actuarial information. To what extent has the BAS sought to solicit their views before drawing the conclusion that the benefits outweigh the cost.

We now turn to the questions posed

Question 1 The proposed commencement date for TAS M

We are pleased that the Commencement Date for TAS M has been deferred, and provided that the final version is published shortly and involves no substantive requirements beyond those of the latest exposure draft, we consider that a commencement date of 1 January 2011 is manageable. Nonetheless, given the timeframe within which models are developed and changed, we still consider that separate dates for old and new models would have provided a better cost/benefit outcome for users of actuarial information.

Question 2 The requirements that the data used should be suitable for the purpose of the model and should be documented.

We have no comments to make.

Question 3 The requirements surrounding the removal of data points from the data that is used.

The requirements under C.4.11 are accepted, although this relies heavily on the existence of C.4.15 on materiality.

Question 4 The text of the exposure draft as a means of implementing the policy proposals presented in this document.

The following are points on the text which we believe are relevant in relation to implementation of the proposals.

We raised in our original submission our concerns over the very wide interpretation of a model. We remain unconvinced that the new proposed definition makes matters any clearer. Examples of what would and would not be considered to be covered in the final document would be helpful. Otherwise an actuary must assume that each and every calculation he performs is, or is part of, a model and needs to comply with TAS M and be subject to its full rigours, in particular documentation.

In C.3.17 it is proposed that “Implementations and realisations shall be reproducible”. We suggest that it is only necessary to require that “realisations shall be reproducible”. This is because it seems to us that realisations can only be reproducible if implementations are reproducible. If the BAS considers that it is possible for realisations to be reproducible without implementations being reproducible, then we are misunderstanding the definitions of implementations and realisations, which suggests that these definitions are not sufficiently clear.

We do not understand what C.4.13 adds to C.4.11.

In our initial response we set our concerns in requiring mandatory requirements in the area of "best estimates". The BAS position seems to have confirmed that best estimates (now called neutral estimates are always required in order to satisfy C.5.4). We are concerned that this is a “back door” approach to imposing on pension scheme actuaries a need to explain how technical provisions relate to a best estimate value of scheme benefits. We suggest from the feedback we have received that this requirement has been argued against in the consultation on TAS P, and on the assumption that C.5.4 would have the same effect in a pension scheme context, we consider C.5.4 is unacceptable. Furthermore it highlights that Generic Standards should not be used to impose on Specific Standards requirements which would be considered unacceptable had all standards been encompassed into one Specific TAS, much as GN9 applied in the 'old regime'.

We have no further comments

If you have any queries or wish clarification on any aspect of our submission please do not hesitate to contact us.

Yours faithfully

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Chairman
Consulting Practice Committee
Association of Consulting Actuaries