ASSOCIATION OF
aca
CONSULTING ACTUARIES

St Clement's House, 27-28 Clement's Lane, London EC4N 7AE
Tel: (0) 20 3207 9380 Fax: (0)20 3207 9134 EMail: acahelp@aca.org.uk
Web: www.aca.org.uk

1 March 2010

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Sirs

Response to Consultation Document - Transformations

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.

Our detailed responses to the questions raised by the BAS are set out below. Our key points are summarised below.

- Many if not all of the proposed requirements of the Transformations TAS could be (and perhaps should be) adequately covered by the pensions TAS and the insurance TAS. It is not clear what is special or different about actuarial work carried out for transformations compared with actuarial work carried out for other purposes to require separate guidance.

- Second the regulatory and legislative requirements in the pensions and insurance areas are so fundamentally different that trying to combine both in the same document is either impractical or it leads to 2 separate documents within the one "binder". This aspect reinforces the view in the previous bullet.

We now turn to the questions posed

1 Do respondents agree that the benefits of a separate transformations TAS outlined in 1.24 outweigh the benefit of one fewer Specific TASs?

We are unconvinced that the benefits of a separate transformations TAS outlined in 1.24 are substantive. In particular we remain to be convinced that the same issues arise for users in relation to pensions and insurance transformations. We would therefore advocate that the requirements for transformations are incorporated into the pensions and insurance TASs.

2 Will the proposed purpose of the transformations TAS that is set out in paragraph 2.5 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

Yes. We support the objectives set out in 2.5.

3 Do respondents agree that the areas of work listed in paragraph 4.56 should be within the scope of the transformations TAS?

We agree that items a), b), and c) should be within scope as they are associated with reserved work. We advocate care in the drafting of the TAS to avoid any interpretation/contradictions with relevant legislation.

We have reservations about d) being within scope, partly because it is not reserved work and it will mean actuaries and non actuaries competing for such work on a “non-level playing field. We are also concerned that such work could vary substantially from case to case and what may be reasonable requirements for one case may be unreasonable for another case.

4 Should the areas of work listed in paragraph 4.57 be within the scope of the transformations TAS?

We agree that these should be within scope as they are associated with reserved work.

5 Do respondents agree that the areas of work listed in paragraph 4.58 should not be within the scope of the transformations TAS?

We are comfortable that this work should not be within the scope.

6 Do respondents agree that information provided for one party to a scheme of arrangement should be within the scope of the insurance TAS?

We are comfortable that this work should not be within the scope. Indeed is this not covered by question 5?

7 Is there any other work which is not mentioned that should be within the scope of the transformations TAS? (section 4)

No

8 Do respondents have any comments on the proposal concerning data that is presented in paragraph 5.4?

Paragraph 5.4 says that data should be “challenged”. As far as we are aware this suggests a more onerous check on data than required in earlier the TAS D. It is almost suggesting a starting point that data is incorrect until proven correct. Is this intentional? Is it a shift in approach, and if so, why? Second if this is a new general principle then it should be incorporated into TAS D.

9 Are there any other data issues which respondents consider should be covered by principles in the transformations TAS? (section 5)

No

10 Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, and in particular on the principles proposed in paragraphs 6.5, 6.7, 6.10, 6.13 and 6.19?

Paragraph 6.7 says that assumptions "….. should be derived from all available and relevant historical information …..". The use of the word "all" makes this impossible to comply with.

Second it further says "….analysis of whether the future might differ from the past…." The future will almost always differ from the past. The important aspect is to put bounds on the expected outcomes.

We are concerned that the principle set out in paragraph 6.19, whilst very laudable is too vague, and open to interpretation with the benefit of hindsight.

11 Are there any other principles on the selection of assumptions which respondents believe should be in the transformations TAS? (section 6)

No

12 Are there any specific issues relating to modelling and calculation work for actuarial information provided for transformations which respondents believe should be covered by principles in the transformations TAS? (section 7)

No

13 Do respondents have any comments on the proposed principles on reporting in paragraphs 8.5, 8.6 and 8.7?

We support the principles set out in paragraphs 8.5 and 8.6.

We are sceptical as to whether reporting "the range of plausible assumptions" as required by paragraph 8.7 necessarily demonstrates the neutrality of the chosen assumption. Indeed, the idea that "<u>the</u> range of plausible assumptions" can be defined is questionable.

14 Do respondents believe that reports should include an opinion on the fairness of a transformation together with a rationale for that opinion? (paragraphs 8.8 to 8.9)

We do not support this requirement. The brief for the actuary is very specific and a further requirement for the actuary to express an opinion on fairness is unacceptable. Whether the actuary chooses to do so or the client requires him to do so should be left to the parties, or regulation/ legislation.

15 Are there any other principles on reporting which respondents believe should be in the transformations TAS? (section 8)

No

16 Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9?

No

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

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