ASSOCIATION OF ACA CONSULTING ACTUARIES

An approach to applying the reporting principles within Technical Actuarial Standards

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Each Technical Actuarial Standard (TAS) published by the Board for Actuarial Standards (BAS) contains a number of principles, all of which need to be considered when carrying out actuarial work that is within the scope of that TAS.

There are more than 60 principles within TAS R, D, M and the Pensions TAS. More principles will be contained within the Transformations TAS.

This document sets out an approach actuaries may wish to use. It has been developed primarily with TAS R in mind, but it is likely to have wider application to the reporting aspects of TAS M and the Pensions TAS [1]. It does not seek to address documentation or other principles set out in TAS D, TAS M and the Pensions TAS. It does not address the Transformations TAS which has not been published by the BAS at the time of preparation of this document, nor does it address the Insurance TAS.

1. TAS principles

It is our understanding that the principles set out in all of the TASs are only applicable where relevant in the specific context. Where they are, a *materiality* judgement needs to be made as to whether to apply the principle. If the judgement is that it should be applied, then the actual application of it should be done in a proportionate way. Both the materiality and the proportionality judgements must be exercised in a reasoned and justifiable manner.

A definition of "material" is set out in the Scope & Authority and in each TAS, but proportionality is not defined. For both terms, judgement is required.

2. Materiality

"Material" is defined as follows:

> *"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."*

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[1] But noting that the reporting principles contained within section E.3 (the Scheme Funding Report) of the Pensions TAS are somewhat different in that they are to be regarded as "material" with the level of detail being a matter of judgement.

For TAS R the consequence of this definition is a focus on ensuring that all relevant topics are covered in the *aggregate report* so that the *user* is equipped to take the *decision*.

Sections B.1.2 of each of the generic TASs and the Pensions TAS enables a principle in the TAS to be ignored if it is felt that it would not have a material effect. In the context of TAS R this would be a material effect on the *decision*.

3. The approach

Following the approach outlined in 1. above each principle can be assessed in turn and categorised into one of the following three groups:

(a) The principle is not applicable.

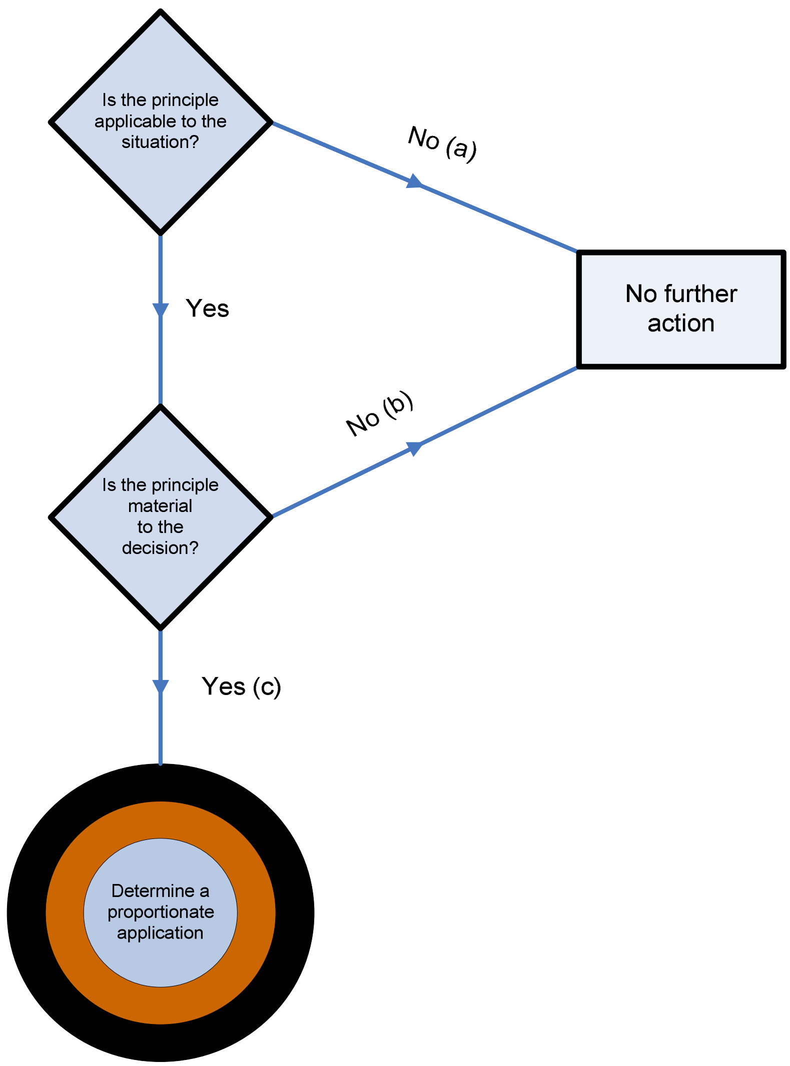
(b) The principle is applicable but its inclusion is not *material* to the *decision* to be taken by the *user*.

(c) The principle is applicable and its inclusion is *material* to the *decision* to be taken by the *user*.

Category (a) would largely be a matter of fact; (b) and (c) would require more judgement. In exercising the judgement it will be important to reflect on the *decisions* for which the actuarial information is being supplied and make sufficient enquiries of the *user*, especially if time has moved on since the work was commissioned.

Only items falling within (c) need be considered further. For each of these, judgement would need to be exercised as to what is a proportionate application of that principle.

The process is demonstrated by the following flowchart:



The appendix to this document illustrates the application of this system through an example.

For some *Reserved Work* it is feasible that there might be no substantive reporting principles that fall within (c) above – such as under TAS R for work that does not lead to any *decision* by a *user*. For such work, the question arises as to whether there is any need to include specific statements normally required by TAS R, such as those relating to the purpose of the report and to compliance with TASs. Although it would appear justifiable to take the view that if nothing else in TAS R is material then neither is the statement in relation to TAS R, it may still be appropriate for the *user* of the report to be informed that the work is within scope of TAS R and it complies (because none of the requirements are *material*).

4. What about proportionality?

Applying the proportionality principle is a little more tricky.

To date the BAS has not provided a definition of proportionality in any of its TASs, nor in its Scope & Authority document. *Proportionality* is, however, referred to in sections B.1.3 of TAS R, TAS D and the Pensions TAS and section B.1.4. of TAS M. Each section states:

> *"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."*

The Pensions TAS also says *"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."* It is understood that the BAS will extend this wording to the generic TASs in due course.

There appear to be two possible interpretations:

- The first statement taken at face value is quite clear that a principle that is otherwise *material* can be disregarded (without further consideration or comment) in the situations mentioned above.

  For example, one may be able to argue that, although a number of principles (particularly within TAS R) are *material* to the *decision*, the *decision* itself is immaterial to the *user*. Given this, one can choose not to apply certain principles.

  A possible caveat to this approach is that professionally one would want to ensure that whoever is impacted by the *decision* to be taken by the *user* is not adversely affected by this course of action.

- An alternative viewpoint is that, whilst materiality operates like an "on/off" switch, proportionality is akin to applying a dimmer switch once the light has been turned on (except that although the light can be turned down, it can never be entirely switched off). This would mean that having decided a principle is material, it would not be appropriate to use the proportionality argument to justify then doing nothing, thereby ignoring the principle.

  This approach is not supported by any explicit wording in the TASs.

As to what is appropriate in any given matter, this will be driven by the individual circumstances applying to that *user*, to that *decision*, at that time. It is not possible to give any generalisations as to what is proportionate in this document and the Working Group reminds actuaries that, as with many aspects of applying TASs, they will need to apply their own judgement.

Advising on pension scheme commutation factors

An actuary is providing advice on a set of commutation factors for a new pension scheme. The advice is *Reserved Work* because the Trust Deed requires the trustees to obtain such advice and the advice has to be obtained from a fellow of the UK Actuarial Profession. The trustees are responsible for setting the final commutation factors and the employer has no discretion over commutation terms.

In this case, the *user* is the trustees as they have a decision to make – to decide on the final commutation factor assumptions. The scheme administrator will "use" the table of commutation factors based on the agreed assumptions and the sponsoring employer may also make use of the factors, but neither have a *decision* to make based on the advice that will only be sent to the trustees and so are not *users* in the BAS TAS context.

Set out below is a possible categorisation of a subset of the TAS R principles. It is provided only as an illustration and is not intended to be definitive.

Category (a) – principles that are not applicable

Compare with previous aggregate reports provided for a similar purpose (C.5.17): not applicable as this is the first time the commutation factors have been set for the new pension scheme.

State any differences between the assumptions used or recommended in different parts of the work (C.4.4b): not applicable as only one set of assumptions have been used in this case.

Category (b) – principles that are applicable but their inclusion is not material to the decision to be taken by the user

Project results for future corresponding calculations (C.5.20): the commutation factors are to be reviewed every three years, but it was not judged to be material to provide an estimate of future commutation factors. (Although some trustees would wish to see projections of the possible development of the factors, to gauge the impact of future improvements in longevity for example, in this case the trustees have decided that for this exercise they are content to select the factors based on the current, short-term position because they have power to set the factors and review them periodically.)

Category (c) – principles that are applicable and their inclusion is material to the decision to be taken by the user

State purpose, users and who commissioned the work (C.3.3): this important principle is expected to be material for all work. Compliance should be straight-forward in most cases and would not be limited in its application through a proportionality argument.

State capacity in which addressees or users are expected to use the work (C.3.6): it was judged material and proportionate to explain that the actuary is only advising on the assumptions and that the trustees are responsible for setting the final factors.

Describe rationale for assumptions used (C.4.6): this was judged material as the trustees are responsible for the final factors. It was judged proportionate to provide a brief description of how the assumptions were derived and how they compare to those in the Statement of Funding Principles, drawing out the reasons for the small number of differences.