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## ACA Meeting : BAS Consultation

### **A pensions perspective**

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# Past timeline

- December 2005: Paul Seymour appointed Chair of the Board for Actuarial Standards (the BAS)
- ...
- April 2006: The BAS started work
- May 2006: The BAS adopted profession's guidance
- ...
- ...
- ...
- April 2007: Preliminary consultation paper published

# Composition of the Board

## Aims & Objectives

### “c. Membership

The membership of the Board is chosen to represent a cross-section of groups with an interest in actuarial standards, and lay members.

Membership includes:

- Practising UK actuaries, covering different areas of actuarial practice
- Users of actuarial advice provided to:
  - insurance companies
  - corporate pension scheme sponsors
  - trustees”

## In practice...

- 14 members of the Board (plus observers), of which...
- 7 non-actuaries (fair enough)
- leaving 7 actuaries of which...
  - 4 work in insurance (OK)
  - 1 academic (understandable)
  - 2 ex-pensions with other responsibilities now
- Observers are:
  - DWP, HMT (x2)
  - Groupe Consultatif
  - FSA, tPR

# This consultation paper

## Towards a Conceptual Framework (or “not even...”)

- “Early consultation”
- “intend to publish the full consultation on our framework proposals this autumn”
- “interim paper”
- Three steps from reality
- Need worked examples / case studies

# Structure of the paper

- Section 1, Actuarial measurement standards: covers a range of ideas, principles and beliefs (12 pages)
- Section 2, Some key conceptual issues: 3-4 pages
  - Value
  - Risk and reward
  - Categorisation of risks
  - Forecasting
  - Mortality
- Section 3, Next steps and questions: 1 page
- Rest made up by Appendices: 20 pages

# Actuarial measurement standards (1)

- Actuarial practice is split “information” / “advice”
  - actuaries often stray beyond strictly “actuarial” matters
  - split is artificial / very unclear
  - where does fulfilment of statutory roles fit?
- BAS intend to focus on information first [Q1]
  - presumably guidance on advice will follow later...
  - section 1.6 implies scope *excludes* advice
- Needs of decision makers critical (decision usefulness) [Q2]

## Actuarial measurement standards (2)

- Commentary on prudence and risk management
  - could this be seen as a definition of the “prudence” enshrined in scheme funding legislation?
- The BAS makes a distinction between
  - prudence as “decision-makers’ attitude to risk”
  - and not being “an element of measurement”
  - do we agree? [Q3]
- Similar comments on “neutrality of measurement” and basic explanation of risk characteristics

# Actuarial measurement standards (3)

- New concept of SAPT – is this “useful”? [Q4]
  - Analogy made with ASB reporting standards and GAAP
  - How prescriptive will SAPT be?

*1.7.20: “As far as possible, standards should ensure that actuarial information does not differ significantly in terms of its content, how it is measured and how it is presented depending on the actuary who provides it”*

- Standard reports and Communications
  - the BAS seems to favour specific standards rather than the generic communication standard proposed by Morris
  - the BAS asks whether it should do both [Q5]

# Some key conceptual issues

- The only value is market value
  - presumably not referring to Technical Provisions?
  - does a short-term mark-to-market approach aid in the search for decision usefulness?
- Forecasting “is the process of estimating the future”
  - funding advice may be forecasting not valuation?
  - but forecasting sounds rather precise; might projection / budgeting / planning be better?

# Core principles

| FRC's remit for actuarial standards (Regulatory Strategy document)                                                                                                                                                   | Press release (BAS PN 2 – 27 April 2007)                                                                                                                                                                              | Consultation paper                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>■ <i>Relevance,</i></li><li>■ <i>Reliability,</i></li><li>■ <i>Transparency of assumptions,</i></li><li>■ <i>Completeness and</i></li><li>■ <i>Comprehensibility</i></li></ul> | <ul style="list-style-type: none"><li>■ <i>Objectivity</i></li><li>■ <i>Reliability and materiality,</i></li><li>■ <i>Relevance and decision usefulness,</i></li><li>■ <i>Consistency and comparability</i></li></ul> | <ul style="list-style-type: none"><li>■ <i>Decision usefulness,</i></li><li>■ <i>Standard reports,</i></li><li>■ <i>Appropriate measurement,</i></li><li>■ <i>Relevance, reliability, materiality and comparability</i></li></ul> |

- Recent legislative trends seem to be towards suitability and principles-based approaches; why not for actuarial guidance too?
- Could the introduction of a requirement for consistency and comparability be counter-productive in the pensions area?

# All Trustees are equal?

- Trustees are very diverse (individuals and groups)
  - They need education and direction
  - Their time is a limited resource
  - Most trustees are not professional
- Standardised information will not assist trustees in making effective decisions efficiently
  - May not be able to see the wood for the trees – eg, GN9?
- A generic principles-based communication standard (as envisaged by Morris) would work better

# Future timeline...?

- November 2007: Final framework consultation
  - January – May 2008: Draft first two SAPT Standards
  - May 2008: Framework Exposure Draft
  - First new guidance after that??
- 
- June 11 2007 Agenda: AOB item 12.1 – Amendment of GN11 – when will this emerge?
- 
- It appears that the focus on framework is at expense of day-to-day maintenance of current standards

# Conclusions

- Hard to infer implications of initial thinking
  - actuarial information vs. advice?
  - need concrete examples
- Worrying signs from a pensions perspective
  - lack of adequate representation
  - overly prescriptive “boiler-plate” reports
  - comparability and consistency do not support aims of relevance, comprehensibility and decision-usefulness
  - SAPT will add costs but not value
  - working party outputs on value vs. forecasting awaited
- Morris called for a generic communication standard – a principles-based approach would be beneficial
- Focus on framework is misplaced (do we need one at all?)