

The Director
Board for Actuarial Standards
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Dear Sir

Exposure Draft: Reporting Actuarial Information

PwC supports the BAS's objectives in setting a generic reporting standard. Although we do have some reservations about the current wording and the length of the standard, we broadly welcome the policy decisions included in this Exposure Draft following the consultation on the Conceptual Framework.

In particular we agree that there are good reasons for the decision not to require either cashflows or the probability of the assets being insufficient to meet the liabilities to be set out in all reports.

Summary

We feel that the majority of the objectives could be met with a shorter standard with direct language that focuses on specific actions the report writers need to take to ensure compliance. High standards are rightly expected when communicating actuarial information to clients that they will use to help them make their decisions. The needs which drive a standard on reporting actuarial information are:

- **Clarity** - The standard should distinguish between mandatory requirements and the sections that provide additional guidance, comments or amplification (for example by bold font for the mandatory requirements, or by inclusion in a separate best practice TAS). As well as assisting the author of reports, this should lead to practical benefits in enforcing the standard. The Exposure Draft carries around 100 separate apparently mandatory elements and it appears these will be added to by any requirements from TASs on actuarial advice or specific types of report. Having too many requirements carries the danger of making full compliance less likely to easy to achieve.
- **Generality** - The standard should only contain principles which are relevant to all or the majority of the types of written report containing actuarial information. There appear to be numerous comments around particular circumstances, e.g. for reports for planning or reports with specific audiences in mind say, with relevance to a specific current area of practice.

Communication is a two-way process and its overall quality of cannot be controlled entirely via compliance processes governing written communication. It is inevitable that the standard will not cope with all circumstances, so we suggest that, if the actuary feels it necessary to depart from the requirements, this should be allowed but the report should be required to set out what requirements were not followed and explain the reasons for the departure.

- ***Flexibility to a client's circumstances*** - The standard should explicitly state that a client's wishes are paramount in deciding what information he or she requires to be included in a report. We suggest that, where the actuary feels a client's request is inappropriate, the report should set out the nature of the actuary's concern. By way of a common example, we feel strongly that the standard should not prevent the actuary providing advice to clients in a responsive manner or operating in fast-evolving circumstances. Decisions may need to be made by an actuary's client before a fully compliant report can be readied, for example in the context of a commercial deal. Whilst we recognise the warnings against obscuring information go some way to addressing this issue, we felt this did not add enough flexibility for this type of situation and we expect that clients will often be frustrated by the constraints of the standard as it stands.

Our responses to the four areas for consideration raised in Part III of the Exposure Draft are given in the Appendix. Please contact me if you would like to discuss our comments in more detail.

Finally, we would also like to draw the BAS's attention to the Government's Code of Practice on Guidance which contains sensible practical advice to help standard setters producing Guidance.

Yours sincerely



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Partner

1. The definition of a “report”

This question mainly relates to Sections 1-4 of the TAS. The definition of a report itself appears sensible.

The TAS adopts some definitions from the Conceptual Framework, but other important definitions are not adopted; the definitions of *actuarial information* and *actuarial advice* should also be adopted, as currently these are only included in a consultation document.

We note that the current definition given for “*report writer(s)*” may include non-actuaries working in conjunction with actuaries. The BAS should set out explicitly in this TAS how it intends to handle the joint-responsibility for the inclusion of actuarial information in reports.

2. The approach to “compound” and “repeat” information

This question mainly relates to Section 8 of the TAS, and we feel the approach proposed appears sensible.

Confusingly in paragraph 8.5 the repetition of previously included information is described in one phrase as being “compliant with this standard”. This appears contrary to the message being conveyed and we recommend that the wording should consistently say that such information is not required in order for a report relying on repeat information to be compliant.

3. The text of the exposure draft as a means of implementing the policy decisions

We feel that the same aims could be achieved with a slightly shorter standard. The nature of the language is a significant issue: in many areas the standard is repetitive, discursive and/or unfocussed, and more clarity, particularly on the essential items, is needed.

The implications for users of each part of the standard should be unambiguous wherever possible. As noted earlier, use of bold type [and/or a separate best practice TAS] would assist greatly.

Section 3 includes a definition of “materiality”. We suggest the inclusion of the phrase “or misleads” in this definition, as this would be wider and more appropriate.

Section 5 and 6 covers the quality of communication and the complexity of communications. In one comment, the BAS criticises the actuarial profession’s reputation on communication. We are firmly of the view that this is inappropriate content for a TAS.

Moreover, we feel the BAS should be in a position to recognise the strong defence that can and should be made. Advice around complex issues can be difficult to understand due to the very nature of the issues. Communication is strictly neither a technical nor an ethical preserve and effective communication is always a two-way process.

*“Complex problems have simple, easy-to-understand, wrong answers”~
(H L Mencken)*

Consequently, we feel that paragraphs 6.2 to 6.7 should be deleted and left up to the individual actuary to exercise judgement and apply experience in a way that suits their style of communication. There is unlikely to be any objective evidence of a recipient’s understanding once the standard of communication in a report comes under question by the recipient themselves. Paragraph 6.1 and arguably 6.5 should be retained and included in Section 5.

Section 7 covers communicating quantitative aspects of actuarial work. We support the requirements in this section in general, but feel the problems with the style continue in this section. As an example of what could be achieved throughout the TAS, we suggest the following text in place of paragraphs 7.26 to 7.29:

“7.26 The following items should be disclosed:

- a) for any results presented as values, a statement whether it is a market value, realisable value or specifying what other type of value it is; and
- b) a statement of the nature of any results and how they are to be interpreted, for example valuations, planning or some other specified type of result with any further explanation necessary to ensure the user of the actuarial information can interpret the result in its correct context”

Explanation: Without this information it will not be clear to a user of actuarial information whether it is correct to interpret a value as market value or realisable transaction value.”

Section 9 covers the use of judgement in applying the standard. This section does not add to the report in our view and should be removed. The exercise by actuaries of personal judgement is a matter for them and their profession and in cases of dispute whether judgement has been properly exercised may be properly based on legal interpretation.

As noted, our comments on Sections 1 to 4 and Section 8 are given in the answers above.

4. The BAS’s assessment that the proposals are free from any (material) costs, whilst generating benefits to users of actuarial information.

We are pleased the BAS has recognised the problems with requiring cashflow information and probability of the assets being insufficient as standard. We would also like to point out that it is possible to carry out an actuarial calculation without producing a set of cashflows, as this is a point which is not acknowledged.

However, we did not agree with the BAS’s comments about automatic cost savings and off-the-shelf assumptions for smaller pension schemes. These schemes can also often be highly unusual in nature, and the assumptions may need to be chosen with more care or as much care as a larger scheme.

In our view, the length and style of the TAS is also a problem in relation to costs. The reasons for this are as follows:

- the standard as it stands already carries around 100 separate paragraphs and sub-paragraphs;
- it is not clear where these 100 elements carry different statuses and there is a risk that they are all interpreted as mandatory when this is unlikely to be the BAS’s intention given the discursive nature of many of the comments;
- including this number of points is excessive when drafting and checking written reports; and
- it should be remembered that there will be further requirements from future TASs on actuarial advice or specific types of report which will both add to the requirements, but which may also be a suitable place to deal with the more specific circumstances of particular types of report.