



BOARD FOR ACTUARIAL STANDARDS

THE DEVELOPMENT OF

**TECHNICAL ACTUARIAL STANDARD R:
REPORTING ACTUARIAL INFORMATION**

SEPTEMBER 2009

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1 INTRODUCTION

PURPOSE

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹.
- 1.2 In September 2009, after a process of consultation, the BAS published its Generic Technical Actuarial Standard (Generic TAS)² on *Reporting Actuarial Information* (TAS R).
- 1.3 This document reviews the considerations and arguments that were thought significant by the BAS in developing TAS R.

BACKGROUND

- 1.4 The BAS first proposed the development of a separate standard on the reporting of actuarial information in its Consultation Paper *Towards a Conceptual Framework*, which was published in November 2007³.
- 1.5 That document also proposed that the BAS's standards would be of two types: generic, applying to a wide range of actuarial work, and specific, limited to a defined context. Generic standards would help to provide coherence and consistency across the range of actuarial work.
- 1.6 It also set out the BAS's proposals that standards be principles-based rather than rules-based, and that they address outputs and responsibilities, with output-based standards focusing on the users of actuarial services and their needs as decision makers.
- 1.7 Following consultation, the BAS decided to proceed with these proposals, and published an exposure draft of TAS R in April 2008. Although there was support for much of the substance of the proposed TAS, many of the consultation responses were critical of the structure of the TAS and its style. The BAS published a further exposure draft in March 2009.
- 1.8 In April 2008 the BAS also published a consultation paper on the *Structure of the new BAS Standards*, in which it set out its proposals to develop a suite of eight or nine TASs, of which three would be Generic TASs on *Data*, *Modelling*, and *Reporting Actuarial Information*. The responses to the consultation were generally positive, and the BAS decided to proceed with its proposals.
- 1.9 In September 2008 the BAS published a consultation paper on *Data*, and in November 2008 one on *Modelling*.

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in governance and corporate reporting.

² Generic TASs apply to all work specified in the Schedule to the BAS's *Scope & Authority of Technical Standards*. Specific TASs are limited to a specific, defined context.

³ All BAS publications are available from <http://www.frc.org.uk/bas/publications/>.

TAS R

- 1.10 In developing TAS R, the BAS considered the responses to all the consultations mentioned above, and to the discussion paper on *Mortality* that it published in March 2008. It also considered responses to informal consultations with the FRC's Actuarial Stakeholder Interests Working Group and a number of other individual stakeholders.
- 1.11 TAS R is the first standard to be developed by the BAS. In its development, we therefore had to consider the overall structure and style to be used for our TASs as well as the content of TAS R. Section 2 reviews the development of the structure and style, and sections 3 to 5 the development of the content.

2 STRUCTURE AND STYLE

INTRODUCTION

- 2.1 The structure and style of TAS R reflect the objectives and characteristics of our standards that are set out in our *Conceptual Framework*⁴. In particular, our TASs are written in a way which favours principles over prescriptive rules, and each TAS has its own specific objectives.
- 2.2 As set out in our *Scope & Authority*⁵, compliance with our TASs is mandatory for actuaries performing work within their scope. However, actuaries performing other work may choose to comply with them and so may those who are not actuaries. The purpose of TASs is to set out requirements that must be met in order to comply with them, not to explain best practice or recommend good practice.

STRUCTURE

- 2.3 TAS R has three parts. The first two parts cover its purpose and how it should be interpreted. The third sets out its requirements. Further information about the status and scope of the TAS, when it commences and its relationship with other TASs and with Guidance Notes is included in a rubric that precedes the content of the TAS.
- 2.4 The requirements of TAS R are set out in Part C: Reporting actuarial information. It has been suggested that Part C should reflect the structure that reports should take, or the process that should be used to put a report together. However, we do not ascribe an explicit pedagogical purpose to our standards. It is not our intent that TAS R should describe how a good report should be constructed; rather, it should set out requirements that a good report should meet.
- 2.5 The structure of Part C reflects the four main points in our Reliability Objective, which is the objective that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.⁶
- 2.6 We recognise that many of the requirements address more than one aspect of the Reliability Objective, and that to a certain extent the headings under which they appear are arbitrary.
- 2.7 We decided that all principles should be of equal status. The labelling of some principles, but not all of them, as "overriding" would imply that there is a hierarchy of principles; but it is not clear how such a hierarchy, if intended, would work. For example, it might be intended to suggest that in some circumstances the non-overriding principles could be in conflict with the overriding principles and, in such cases, the overriding principles should prevail. Alternatively, it might be intended to suggest that the non-overriding

⁴ The *Conceptual Framework for Technical Actuarial Standards*, published in July 2008.

⁵ The *Scope & Authority of Technical Standards*, published in July 2008.

⁶ *Scope & Authority*, paragraph 8.

principles are extensions of the overriding principles, adding detail but no new requirements. All text in TAS R therefore has equal status, unless stated otherwise.

- 2.8 The BAS considered whether TAS R should include an appendix setting out the considerations that had been found important in the development of the standard. It decided that, although a summary of the underlying rationale should be published, it should be as a separate document rather than as part of TAS R. This is that document.

STYLE

- 2.9 In drafting TAS R, the BAS has tried to tread the fine line between being clear about the requirements of the TAS and being unnecessarily prescriptive. After considering comments that were made on the April 2008 exposure draft, we decided that, for writing standards, clarity of expression and the substance of the text are more important than the tone in which the text is written.
- 2.10 The use of the word “shall” to express requirements, and of “will need to” to describe the implications of those requirements, reflects that decision and is intended to provide clarity about what TAS R requires, and is consistent with its mandatory nature.
- 2.11 Many of the requirements are for explanations, rationales, descriptions or indications. These terms were chosen because they can be interpreted quite broadly, and therefore the level of detail that they require is a matter for judgement. Explicit principles are set out using the word “shall”: for example, that an indication of the nature and extent of any uncertainty shall be provided to the user of actuarial information. The detailed decision about how to implement those principles is left to the practitioner preparing the report.
- 2.12 TAS R is focused on outcomes, and therefore primarily imposes requirements on reports, rather than on those preparing the reports. It is written in a way that allows compliance by those who are not actuaries as well as by actuaries.
- 2.13 The whole of TAS R is subject to the provision in the *Scope & Authority* that it is only material departures that need be disclosed. There is an explicit statement to this effect in Part B of TAS R, and the word “material” is therefore used sparingly throughout part C. Similarly, Part B states that the requirements should be interpreted proportionately, and the word “proportionate” is not used in the remainder of the text.

3 PURPOSE OF TAS R

PURPOSE

- 3.1 All the BAS's standards will serve the overall purpose set out in our Reliability Objective, that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.⁷
- 3.2 Our standards are intended to ensure the quality of actuarial work that the users receive, whoever performs the work. Actuaries performing work that is not designated as being within their scope may choose to comply with them, and people doing actuarial work who are not actuaries may well be required by others to meet the same standards. The purpose of TASs is to set out requirements that must be met in order to comply with them, not to explain best practice or recommend good practice.
- 3.3 We considered that the Reliability Objective, although directly relevant to reporting, was insufficiently specific to serve as the purpose of TAS R. We therefore identified the characteristics of reports that in our view are the most important in supporting the Reliability Objective, and used them to construct the purpose of TAS R.
- 3.4 As stated in paragraph B.1.6 of TAS R, the interpretation of TAS R is governed by its purpose. If it appears that any provision in TAS R conflicts with its purpose, then that provision is being misinterpreted.
- 3.5 Several other possibilities were considered for the purpose, including:
- information should include an indication of the uncertainty within it;
 - material information should not be obscured by the inclusion of irrelevant or immaterial information; and
 - information should be proportionate to the scope of the work and the expected benefit to the user.
- 3.6 We decided that the inclusion of information about uncertainty should be a principle within TAS R, rather than being part of its specific purpose. It is in any case part of the overall purpose, as it is included in the Reliability Objective. It also supports the part of the purpose that says that sufficient information should be included to enable users to judge the relevance of reports.
- 3.7 Similarly, there is a principle in TAS R that says that material information should not be obscured. It supports the part of the purpose that says that information should be presented in a clear and comprehensible manner.
- 3.8 Finally, the BAS believes that it is important that actuaries (and others complying with its standards) do not act disproportionately, and in particular that they do not use BAS standards as an excuse for doing so. It believes that

⁷ *Scope & Authority*, paragraph 8.

the best way of ensuring this is to explain that BAS standards should not be interpreted disproportionately. We do not believe that proportionality is a specific objective that compliance with our TASs should be intended to achieve.

IMPLICATIONS

- 3.9 Both the BAS's Reliability Objective and the purpose of TAS R address actuarial information and the reliance its users can place on it. The BAS believes that it is the information on which decisions are based, rather than (or as well as) the records of those decisions, that is important in this context. This led us to frame TAS R in terms of that information, rather than in terms of formal reports.
- 3.10 TAS R therefore specifies requirements to be met by the totality of information that is given to users, rather than requirements to be met by individual documents. We recognise that there are many different patterns of interaction between practitioners and the users of the information that they produce, and believe that TAS R should apply to all of them.

4 INTERPRETATION OF TAS R

INTRODUCTION

- 4.1 Part B of TAS R consists of two sections. The first describes how the TAS should be interpreted and the second defines a number of terms that are used in the remainder of the TAS.

INTERPRETATION

- 4.2 The text in section B.1 of TAS R is intended to assist practitioners to make judgements about how to comply with the standard.
- 4.3 Many of the responses to our consultations and the discussions we have had with practitioners indicate that there is a tendency to interpret TAS R as requiring more work and more detailed work than is our intention. In section B.1 we have therefore emphasised:
- the provision in the *Scope & Authority* for immaterial departures;
 - that the standard should not be interpreted disproportionately; and
 - the scope for interpretation in the details of the principles.
- 4.4 We believe that it would not improve the clarity of TAS R to repeat the word “material” in every principle. We have therefore explicitly reminded its readers that the standard should be read in the context of paragraph 23 of the *Scope & Authority*, which permits immaterial departures.
- 4.5 The BAS believes that it is important that actuaries (and others complying with its standards) do not act disproportionately, and in particular that they do not use BAS standards as an excuse for doing so. We have taken care to ensure that it is not necessary to perform work that is disproportionate to the needs of the users in order to comply with TAS R, and have explicitly reminded readers of the standard that it should not be interpreted disproportionately.
- 4.6 Throughout TAS R we have used words such as “indicate” and “explain” in order to avoid being prescriptive about the type of analysis or level of detail that is required. We have emphasised that these are matters for judgement.

DEFINITIONS

- 4.7 Section B.2 defines a number of terms used within the text of the standard. Many of the definitions will appear in other TASs.

Reports

- 4.8 The definitions of “aggregate report”, “component report” and “report” give effect to the BAS’s intention that TAS R should apply to the totality of information on which users base their decisions.
- 4.9 It has been suggested that the terms we have used are misleading, because most people understand the word “report” to mean a formal report. We do think that this is not necessarily the case, and that these were the terms that best described our intentions.

- 4.10 It has also been suggested that the terms will be obscure to the users of actuarial information. We do not accept this criticism, because there is no need for the users of actuarial information to encounter them. Although aggregate reports will need to specify their component reports, so that users are aware of which information is relevant to their decisions, there is no requirement to use the terms “aggregate report” or “component report” when doing so.
- 4.11 The BAS believes that it is important that users can refer back to relevant information over the whole of the decision making process. We have therefore limited the information that can contribute to compliance with TAS R to information that is given to a user in permanent form. Information that is given orally, or in another non-permanent form, does not constitute a component report and cannot therefore contribute to compliance.
- 4.12 It has been suggested that draft reports should be excluded from the definition of a component report, and that preparers should be allowed to specify whether or not a particular document constitutes a component report.
- 4.13 Component reports are the building blocks of aggregate reports. Many of the requirements in TAS R can be satisfied by including information in a component report. However, TAS R addresses all the actuarial information on which users base their decisions. A simple declaration that a document is not a component report cannot make the information that it contains immaterial – either the information could affect the users’ decisions or it could not. Allowing documents to be excluded would open the door to the promulgation of misleading, inaccurate or obfuscatory information. We do not believe that it should be up to those responsible for preparing reports to decide whether the reports should comply with our standards.
- 4.14 This reasoning applies to draft reports that are given to users. The main concerns expressed by respondents were that draft reports might include incorrect or misleading information and that they should not be used as the basis for decisions.
- 4.15 We appreciate that draft reports may be unsuitable for use as the basis for decisions, but do not think that that is a good reason for excluding them from the definition of a component report. If they contain information that could influence the users’ decisions, and that information is incorrect or misleading, it is important the users are made aware of the shortcomings. This can easily be done by notifying the user that a new document replaces an earlier one, and listing the principal differences.

Materiality

- 4.16 The BAS’s *Scope & Authority*⁸ defines materiality in the context of departures from TASs but does not define it in the context of other matters. There are a number of aspects of reporting which might be material (or immaterial) and so it is important that the term is defined consistently for all the contexts in which it might be used. The definition in Part B of the text extends the definition to cover the relevant aspects, while remaining consistent with the definition in the *Scope & Authority*.

⁸ Paragraph 23 of the *Scope & Authority*.

- 4.17 The BAS's definition of materiality is consistent with that in international accounting standards, which is:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements.⁹

- 4.18 Some concerns have been expressed to the BAS about the use of the phrase "could influence the decisions ...", on the grounds that it extends the concept of materiality too broadly. It has been suggested that a better definition would use "is likely to influence ..." or "could reasonably influence ...". We believe that "is likely to influence" would be much too narrow a definition, as its most obvious meaning would cover only those matters that were more likely than not to influence the decision. The use of the word "reasonably" would also present problems of interpretation.

Users

- 4.19 Some concerns have been expressed to the BAS about the definition of users of actuarial information. It has been suggested that reports should primarily be focused on the needs of clients, and that TAS R extends the duty of care owed by actuaries. It was also suggested that it might be impractical to write a report in such a way that it would be understood by all the intended users.
- 4.20 In many cases the use of and reliance on actuarial information are not confined to those paying for its preparation. We believe that all the intended users, regardless of their commercial relationship with those responsible for preparing the report, should be able to rely on the information.
- 4.21 We believe that the definition in Part B of TAS R is suitable for use across the whole range of actuarial work, but recognise that there may be some circumstances in which it may need to be extended. For example, as it stands it does not necessarily cover all those to whom a report is available. We will address matters concerning particular reports in our Specific TASs, and may specify that their intended users should include particular groups of potential readers.
- 4.22 We wish not to favour one type of intended user over any other. We believe that it is important that they are all able to understand and rely on the actuarial information they receive. In some cases it may indeed be a challenge to write a report in such a way that it is readily understandable by all the intended users, but we have every confidence that it is a challenge to which actuaries and others complying with our standards are more than equal. Appendices, glossaries and summaries are among approaches that may prove useful. In some circumstances it may be appropriate to consider the issue of different reports to different users.

⁹ IAS 1.

5 PRINCIPLES

INTRODUCTION

- 5.1 Part C forms the body of TAS R and contains the principles that work that complies with TAS R must satisfy.

APPLICATION

- 5.2 Section C.2 of TAS R sets out some principles concerning the application of the standard.
- 5.3 As described in section 3, it is the BAS's objective that the information on which users base their decisions should comply with TAS R, and the principle in paragraph C.2.1 gives effect to this objective. It is of paramount importance that users should have reliable information at the appropriate time.

Information in a non-permanent form

- 5.4 Information that is given orally or in any other non-permanent form is not available for users to refer back to (see paragraph 4.11) and therefore cannot contribute to compliance with TAS R. However, material information should not be given in a non-permanent form if the same information given in permanent form would prevent compliance – for example by being misleading or contradictory, or obscuring material information. TAS R therefore requires that all material communications given orally or in another non-permanent form must be confirmed in a report (paragraph C.2.6).

Judgement

- 5.5 Because TAS R is principles-based, judgement will be required in order to apply it. The BAS believes that such judgement should be reasoned and justifiable (paragraph C.2.8). However, we accept that requiring a justification of all judgements would be unduly onerous, and so require only that it should be possible to justify judgements.

RELEVANCE

- 5.6 Section C.3 of TAS R sets out some principles concerning the relevance of the information that is given to users.
- 5.7 In the BAS's view, the relevance of information to a decision or piece of work depends on more than whether the information is in any way connected with the subject matter. It also depends on how germane the information is – whether it is likely to be useful in making the decision, for example. We believe that information that is connected, but unreliable or misleading, is not necessarily relevant.
- 5.8 The relevance of information to a particular matter is not always obvious without explanation and so TAS R requires that users should be able to judge the relevance of the information in an aggregate report. As part of this, they should be able to tell which information they should be taking into account.

Purpose of reports

- 5.9 A significant factor influencing the relevance of information is the purpose for which it has been prepared. Information that is highly relevant in one context may be at best irrelevant and at worst misleading in another context. TAS R therefore requires each component report to state to whom it is addressed and its purpose (paragraph C.3.3).
- 5.10 It has been suggested that this requirement is unnecessarily onerous, and that a component report would have to be a formal document of some kind in order to comply with it.
- 5.11 We do not accept these concerns. We believe that many emails already comply with this requirement. In some cases, it may be necessary to add a simple introductory sentence, for example making it clear that the addressee is receiving the email in their capacity as a trustee rather than as a representative of the scheme sponsor.
- 5.12 There is one aspect of the purpose of actuarial information that the BAS believes is particularly important. There are (at least) two contexts in which actuarial liabilities are calculated. The aim of a valuation exercise is to crystallise an amount which can be applied to a transaction or recorded in a formal document, whereas the aim of a planning exercise is to estimate an amount for budgeting or target-setting purposes. The actuarial assumptions that are appropriate for the two types of exercise may well be, and often are, different.¹⁰
- 5.13 However, the term “valuation” is sometimes used in legislation or regulation to refer to a planning exercise. This may be confusing for users of actuarial information, who often expect the term to be used with its usual connotations. TAS R therefore requires that the context of calculations should be made plain to the user (paragraph C.3.7). There is no requirement to use the terms “planning” or “valuation”, but we believe that it is nearly always misleading to use the term “valuation” to refer to a planning exercise.

Compliance with TASs

- 5.14 The knowledge of whether information complies with technical standards helps users to judge how much reliance to place on it. TAS R therefore requires disclosures of which TASs are applicable and which have been complied with (paragraph C.3.11). The *Scope & Authority*¹¹ sets out the disclosures that are required in the event of departures from TASs.

Subsequent events

- 5.15 The relevance of information often depends crucially on how up to date it is – for example, significant changes in asset values after the date at which the liabilities are assessed may render any statement of the surplus or deficit at that date either irrelevant or misleading, depending on the decisions to be made. TAS R therefore includes a principle that any material events that are known to have occurred since the effective date of the report should be reported to the user (paragraph C.3.13).

¹⁰ The distinction is discussed further in section 3 and Appendix A of the *Conceptual Framework*.

¹¹ Paragraphs 22 to 24 of the *Scope & Authority*.

TRANSPARENCY

- 5.16 Section C.4 of TAS R sets out a number of principles concerning the transparency of the information supplied to users.

Data

- 5.17 In an ideal world, complete and accurate data would always be available in precisely the form needed for the intended calculations. In practice, that is rarely the case. It may be necessary to form a view on whether the intended calculations can be performed using the data that is available, or whether the quantification methodology should be adjusted in order to allow for limitations in the data. If the data is unreliable, the resulting uncertainty will affect the results. TAS R therefore requires that the user is told what data has been used and its source, together with a description of any uncertainty in the data and an explanation of how the uncertainty has been handled (paragraphs C.4.1 and C.4.3).

Assumptions and rationale

- 5.18 Assumptions are crucial in actuarial work, and the assumptions that are used often have a significant effect on the results. In some cases the assumptions to be used are determined by others, such as pension scheme trustees or the directors of insurance companies. In other cases the assumptions are the responsibility of those performing the work. Sometimes the purpose of the actuarial work is to recommend assumptions to be used (rather than to perform any calculations using them). Because assumptions can have such a material effect on the results, TAS R includes requirements to state the material assumptions and describe the rationale for their selection (paragraphs C.4.4 and C.4.6).
- 5.19 The assumptions that are used often depend on the purpose of the work being performed. For complex pieces of work different assumptions may therefore be used or recommended for different parts of the work. For other pieces of work, the same assumptions may be used throughout. In either case, it might be difficult for the users to judge the consistency of assumptions, especially if they are reported on in different communications (or even in different parts of the same communication). TAS R therefore requires a statement of any differences between the assumptions used or recommended in different parts of the work, and a description of the rationale underlying any differences (paragraphs C.4.4 and C.4.6).
- 5.20 In the same way that we think it is important for users to understand the rationale behind the selection of assumptions, we also think that understanding the rationale underlying the calculations is important. TAS R therefore contains a principle that the rationale should be explained (paragraph C.4.6).

COMPLETENESS

- 5.21 Section C.5 of TAS R sets out some principles concerning the completeness of the information that is given to users.
- 5.22 Many of the matters covered in this section of TAS R also affect the relevance of the information, because incomplete (and hence unreliable) information may be of limited relevance when it comes to making decisions.

- 5.23 Although TAS R includes a number of principles covering specific aspects of actuarial work that should be covered in actuarial information, including risk, uncertainty, data, assumptions, calculations, probabilities, cash flows, comparisons with past reports and projections of future results, we decided that, for clarity, it should also include a principle that all material information concomitant with the scope of the work should be included (paragraph C.5.1).

Uncertainty

- 5.24 Uncertainty is a key aspect of most actuarial information, which nearly always concerns some aspect of the future. The BAS's Reliability Objective therefore has as one of its components that actuarial information should include information about uncertainty. TAS R is more specific than the Reliability Objective, as it contains a principle that both the nature and the extent of the uncertainty in the information should be covered (paragraph C.5.2). The BAS believes that it is vital that the users of actuarial information understand the uncertainties in the information on which they base their decisions.
- 5.25 There are many different ways in which this can be done, and the most appropriate way will depend on the context in which the information will be used. We have therefore not specified any particular mechanisms or techniques.

Risks faced by the entity

- 5.26 Similarly, the entities (such as insurers and pension schemes) with which actuarial work is concerned typically face a range of risks. Again, it is important that those making decisions based on actuarial information understand the relevant risks. However, there are many risks faced by entities that are not related to actuarial work. TAS R therefore includes a principle that actuarial information should cover the risks faced by the entity in relation to the work being performed (paragraph C.5.5). The BAS believes that it is important that users understand the nature and significance of the risk, and how it has been approached in the actuarial work, and has framed the principle accordingly.

Calculations

- 5.27 Nearly all actuarial information is based on calculations of one kind or another. We believe that it is important that users understand what calculations have been performed and the objective that they serve. TAS R therefore includes a principle to that effect (paragraph C.5.8). As well as contributing to the completeness of the information, this will also assist the user to judge its relevance and will increase transparency.

Cash flows

- 5.28 Many actuarial calculations involve the quantification of future cash flows. The BAS believes that a single value (such as the total discounted or undiscounted value of future cash flows) provides only limited information about a series of cash flows occurring over a period. For most of the entities with which actuarial work is concerned, such as insurers or pension funds, the ability to make liability payments as they become due is of paramount importance. Information such as the expected pattern of cash flows, both incoming and outgoing, therefore assists an understanding of the overall financial position of the entity. Depending on the context, any mismatches

between expected income and outgoings may be material to the decisions being made.

- 5.29 TAS R therefore includes a principle that the nature and timing of any cash flows that are quantified should be indicated to the user (C.5.10). It does not specify the form that the indication should take.

Probabilities

- 5.30 Probabilities also play a large part in actuarial work, and there is increasing pressure for more transparency in this area. In everyday usage, probabilities are applied in two different ways:

- a probability is applied to a large population, for example to estimate the likely number of car accidents over a given period; or
- a probability is applied to an individual member of the population, for example to make a statement about the likelihood that an individual child will grow to more than six feet tall.

- 5.31 Given accurate data, there is a strong chance that the estimate in the first case will be close to the actual outturn. But, in the second case, any individual member of the population can have only one outturn. It is therefore more difficult to check whether the second type of probability was assessed reliably, as a single outturn gives no information about the underlying probability. There is often confusion about the meaning of the second type of probability. For example, a 5% probability of becoming insolvent during the next year means that one in twenty of the equally likely scenarios that could play out over the year will result in insolvency. This is not the same as saying that insolvency is likely to happen in one out of twenty years.

- 5.32 Because of the importance of probabilities in actuarial work, and the scope for misunderstanding, TAS R includes a principle that the intended meaning of probabilities should be explained to the user of actuarial information, together with the nature of any statistics on which they are based (C.5.13). However, the BAS recognises that this would be unduly onerous in the case of probabilities such as mortality rates which have been adopted entirely from another source. Such probabilities should be treated as assumptions, and explained and justified accordingly.

Comparisons

- 5.33 Much actuarial work is performed at regular intervals: Scheme Funding exercises for pension schemes, and capital assessments and reserving exercises for insurers, are just a few examples. In such cases, the users' understanding of the work is often assisted by an analysis of the change in results between a previous exercise and the current one, showing how much is due to factors such as changes in assumptions and the differences between actual experience and the assumptions that were made.
- 5.34 TAS R therefore contains a principle requiring such a comparison (paragraph C.5.17).

Projections

- 5.35 A backward looking comparison is, in some ways, rather one sided, and so TAS R also includes a more forward looking principle that an indication of the likely results of future similar calculations should be provided to users (C.5.20).

- 5.36 This would provide a useful building block to the next set of calculations and aid the users' understanding. On the other hand, it has been pointed out that actual experience can diverge significantly from assumptions even over a relatively short time frame. It is to be expected that there will be periods of both favourable and unfavourable experience.
- 5.37 We accept this point, which is why we have not specified the form that the indication should take. There are many ways of indicating projected results, including purely textual descriptions of their anticipated evolution. In many cases this is likely to be the most useful information for users, as it would give them a baseline against which to compare the actual evolution of results in the future. For example, one of the pieces of information that might be useful to pension trustees is that, if nothing unexpected occurs, the discounted value of pension liabilities will increase over the next 20 years, say, as the effects of discounting them over a progressively shorter period outweigh the decrease in total undiscounted liabilities.

COMPREHENSIBILITY

- 5.38 Section C.6 sets out some principles concerning the comprehensibility of the information that is given to users.
- 5.39 In order to be useful, information must be understood by its intended users. The style, structure and content of reports should take into account the characteristics of their intended users. TAS R therefore includes a principle to that effect (paragraph C.6.1).
- 5.40 The misunderstanding of a report in any material way by its intended users is likely to have an adverse effect on the decisions that they make. The BAS believes that requiring those responsible for reports to determine whether or not the users have understood them would be unduly onerous, but that if evidence of a lack of understanding or a misunderstanding comes to light then it should be corrected. TAS R therefore includes a principle to that effect (paragraph C.6.4).

Obscuring material information

- 5.41 Among the criticisms that have been made of actuarial reports is that they are often unnecessarily detailed, supplying information that is of no use to the intended users. The BAS believes that this is a particular instance of a more general problem that may apply to actuarial reports: that, although they contain all the information that the intended users need, that information may be hard to find and difficult to identify. TAS R therefore includes a principle that material information should not be obscured by immaterial information (paragraph C.6.6).

Descriptions

- 5.42 Many terms used in actuarial work have no unique meaning. For example, "best estimate" may be used to denote a mean, a median or simply a best guess. "Prudent" is used in a number of regulatory and legislative contexts but rarely defined. In such cases there may be differences of opinion about the underlying meaning of the term in question. The BAS believes that it is important that those producing and using actuarial information are employing the same definition as each other. The users who make decisions based on the information also need to be confident that the practical application of the definition is appropriate for their purposes. TAS R

therefore includes a principle that the meaning of any description that is not uniquely defined should be given (paragraph C.6.8).

- 5.43 In many cases the principal part of the actuarial information takes the form of the results of calculations. If users are basing decisions on those results, it is important that they understand what they represent. For example, if a contribution rate is presented as a percentage of salary, it is important to know whether it is pensionable salary, basic salary or total salary. Similarly, the word “value” in isolation might mean market value, realisable value, fair value, book value or some other value. TAS R therefore includes a principle that an explanation should be given of what the results of any material calculations are intended to represent (paragraph C.6.10).

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