



**BOARD FOR ACTUARIAL STANDARDS**

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

**ANALYSIS OF RESPONSES TO THE MARCH 2009  
EXPOSURE DRAFT**

**SEPTEMBER 2009**

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## PART I

### ANALYSIS OF RESPONSES TO THE MARCH 2009 EXPOSURE DRAFT OF

### TECHNICAL ACTUARIAL STANDARD R: REPORTING ACTUARIAL INFORMATION

# 1 INTRODUCTION

## CONSULTATION AND RESPONSES

- 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)<sup>1</sup>. In March 2009, it published a second exposure draft of its Generic Technical Actuarial Standard (Generic TAS)<sup>2</sup> on *Reporting Actuarial Information* (TAS R).
- 1.2 The consultation period ended on 29 May 2009. A total of 27 public responses<sup>3</sup> were received (see Appendix B). The proposals were also discussed with the FRC's Actuarial Stakeholder Interests Working Group. We thank all those who contributed.

## SUMMARY

- 1.3 In finalising the text of TAS R we have taken account of the comments we received in response to this version and the previous version of the exposure draft, as well as other comments that have been made to us in meetings. We have also considered the responses to other consultations, especially those on *Modelling* and *Data*.
- 1.4 The largest proportion of responses came from pensions practitioners, with rather fewer from practitioners in life and non-life insurance, and even fewer from the users of actuarial information. Some respondents represented the views of two or three practice areas.
- 1.5 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it. A number of respondents welcomed the revised style of the exposure draft.
- 1.6 The principles in TAS R are substantially the same as those that appeared in the exposure draft, although the text has been amended in places in order to improve clarity.
- 1.7 Section 2 summarises the comments that we received in answer to the specific questions that were posed in the exposure draft. Section 3 explains the changes that we have made to the text that appeared in the exposure draft, and comments on some of the suggestions that we have not accepted.
- 1.8 We also consulted on proposed changes to the Schedule to the *Scope & Authority*<sup>4</sup>. There was widespread support for the proposals, although some respondents expressed reservations. As a result, we have modified our proposals. Section 4 summarises the comments that we received on the *Scope & Authority* and describes how we have responded to them.

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

<sup>2</sup> 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.

<sup>3</sup> The responses are available at <http://www.frc.org.uk/bas/publications/pub1795.html>.

<sup>4</sup> *Scope & Authority of Technical Standards*, July 2008.

- 1.9 Part II of this document contains the final version of TAS R, marked up to show where changes have been made from the exposure draft. Part III of this document contains the amended version of the *Scope & Authority*, marked up to show where changes have been made from the previous version (which was issued in July 2008). Formatting changes are not marked.

#### **REVIEW OF TAS R**

- 1.10 We recognise that our TASs may need amending after they have been in operation for a period. We will develop mechanisms to obtain feedback from practitioners and users of actuarial information, and will conduct a formal review of each TAS at least every four years. At least every two years we will consider whether immediate changes are required.

## 2 RESPONSES TO THE EXPOSURE DRAFT

### INTRODUCTION

- 2.1 In this section we summarise the comments that we received on the exposure draft, and our reactions to them. In brief:
- The commencement date for TAS R will be 1 April 2010.
  - The structure of compliance will be based on the concepts of “component reports” and “aggregate reports”.
  - TAS R should prevail in the light of any conflict with adopted Guidance Notes.
  - The additional requirements that we proposed in the exposure draft form part of the final TAS.

### COMMENCEMENT DATE

- 2.2 In the exposure draft we proposed that all aggregate reports completed after 1 April 2010 should comply with TAS R. Paragraphs 3.1 to 3.6 of the exposure draft explained our reasoning, and discussed how compliance might work in some cases.
- 2.3 A number of practitioners expressed concern over the proposed commencement date; they thought that 1 April 2010 was too early, and that it might create particular difficulties for some pieces of work. Other respondents, including some practitioners, supported the proposed date. Some respondents suggested that there should be an initial trial period.
- 2.4 Many of those suggesting a later date were pensions practitioners. Their concern was that if TAS R were to apply to reports completed on or after 1 April 2010 then this would result in the majority of the large number of Scheme Funding reports for periods ending 31 March 2009 and 6 April 2009 having to comply. As TAS R is not being published until after work on these exercises has started, there was a concern that some of the work that had already been performed might not be compliant and that this would result in extra costs to users.
- 2.5 Others who expressed preference for a later commencement date were some of those working in the Lloyd’s market. Their concern was that the proposed timing would cut across the period when Lloyd’s reports and Statements of Actuarial Opinion are normally completed and this may lead to some reports for the period ending 31 December 2009 being prepared under the existing GN regime and some under TAS R.
- 2.6 We have considered the views of respondents carefully. We recognise that existing processes and internal standards will have to be reviewed over the next few months to ensure that aggregate reports completed after 1 April 2010 will comply with TAS R. However, it is clear that it is important that users are supplied with complete and reliable actuarial information before they make decisions. If this is not currently happening, we believe it would be wrong to delay the introduction of TAS R. If it is already happening, then practitioners will have to make few changes to their procedures in order to comply with TAS R.

- 2.7 Although some respondents argued for a later commencement date no evidence was supplied to us that compliance would not be possible or that it would result in substantial additional costs to users. By publishing TAS R now, we are giving practitioners over six months to make their final preparations. Moreover, the exposure draft was published in March 2009, over a year before the proposed commencement date.
- 2.8 We are not introducing TAS R on a trial basis, or with any form of limited requirements for compliance. We believe that it is important that there is clarity surrounding the need for compliance, and that half measures would not be helpful to users.
- 2.9 We are therefore adopting the commencement date that we proposed for TAS R: aggregate reports completed on or after 1 April 2010 will have to comply.

### **Scheme Funding**

- 2.10 Although Scheme Funding exercises with effective dates of 31 March 2009 and 6 April 2009 may not be fully completed until after 1 April 2010 this does not mean that all work in connection with those exercises will necessarily have to comply with TAS R. Trustees may take a number of decisions during the Scheme Funding process, many of which might occur before 1 April 2010. The aggregate reports for those decisions would not have to comply with TAS R. It is only aggregate reports that are produced after the commencement date that need comply.
- 2.11 We recognise that some component reports issued before 1 April 2010 may form part of aggregate reports that are completed after that date, and that they would therefore have to comply. We note, however, that the requirements placed on individual component reports by TAS R are lighter, and we believe that compliance with these requirements will be possible. We expect that most component reports already comply with the principal requirement, to state to whom they are addressed and their purpose.
- 2.12 Whether the final Scheme Funding report, which is issued at the end of the process, constitutes an aggregate report in and of itself depends on the precise circumstances. If it does, its purpose is likely to be limited: for example, it cannot be used as the basis for decisions about the assumptions to be used, as those decisions must be made much earlier in the process. Practitioners will have to use their judgement about the decisions that the report is intended to support, and hence about which matters are material. However, the Scheme Funding report may form a component report for other, later, pieces of work.
- 2.13 In addition, practitioners should note that our consultation paper on *Pensions* proposes a number of assumptions that should be made about the intended users of Scheme Funding reports, which will affect the manner in which they will have to comply with TAS R after the introduction of the Specific TAS on pensions.

### **Lloyd's reports**

- 2.14 We checked with practitioners in the Lloyds market, and few thought that any significant difficulties would be caused by the commencement date being during the Lloyd's reporting season. Aggregate reports for reserving decisions that are taken before 1 April 2010 will not have to comply with TAS R.

- 2.15 In many cases, a formal report is issued only after the decision has been taken. Whether such a report constitutes an aggregate report in and of itself depends on the precise circumstances. If it does, its purpose is likely to be limited: for example, it cannot be used as the basis for decisions about the levels of reserves, as those decisions will have already been taken. Practitioners will have to use their judgement about the intended users of the report (which may include regulators) and the decisions that the report is intended to support, and hence about which matters are material. However, the reserving report may form a component report for other, later, pieces of work.

## **DEFINITIONS OF “AGGREGATE REPORT” AND “COMPONENT REPORT”**

- 2.16 Paragraphs 3.19 to 3.21 of the exposure draft explained the introduction of definitions of “aggregate report” and “component report”. In summary, an aggregate report is the totality of material information presented to the users in respect of a piece of work; a component report is an individual communication containing material information. We emphasised that most of the proposed requirements of the TAS apply to aggregate reports rather than to individual component reports.
- 2.17 Most respondents thought that the definitions would help us to make TAS R accomplish our Reliability Objective by addressing the information that is received by users of actuarial information before they make decisions. However, some respondents, mainly practitioners, had concerns about some aspects of the definitions.
- 2.18 Some respondents thought that the terms would 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.

### **Component reports**

- 2.19 A number of the responses concerned the definition of a component report, whether draft reports should count as component reports, and whether preparers should be allowed to specify whether or not a particular document constitutes a component report.
- 2.20 Although we have changed the definition of a component report to make it clear that it is the document that is the report rather than the information within it, we have made no substantive changes.
- 2.21 In particular, we believe that there would be significant problems if those responsible for reports could specify that a document should not count as a component report, or if draft reports were excluded.
- 2.22 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

- 2.23 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.
- 2.24 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 those that are given to users 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 that 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. Any document that is given to a user necessarily forms part of the communication chain with that user, and should be of a high quality.
- 2.25 Some concerns were also expressed about our proposal that component reports should state to whom they are addressed and their purpose. Some respondents thought that this would mean that an email could not be used, as a more formal document would be necessary.
- 2.26 We do not accept these concerns. In some cases, the subject line of the email and the salutation would be sufficient to comply with the requirement. In other cases, a simple introductory sentence might be necessary, for example making it clear that the addressee was receiving the email in their capacity as a trustee rather than as a representative of the scheme sponsor.

### **Aggregate reports**

- 2.27 Some respondents thought that the definition of aggregate report lacked clarity, and seemed to think that an aggregate report would have to be a single document. We are making no such stipulation, as we believe that requiring a single document in all cases would be unnecessarily burdensome.
- 2.28 Although TAS R does not itself impose any requirement for an aggregate report to be presented in a single document, it does not remove any requirements that may be imposed by regulation or legislation. It may influence the contents of such reports. Whether it does so will depend on the purpose of the report, who its intended users are and the decisions that it is intended to support. In many cases the intended users will include regulators as well as those to whom the report is addressed.
- 2.29 Specific TASs may impose further requirements on aggregate reports and may, in some circumstances, require that an aggregate report is issued as a single document.
- 2.30 Some respondents had doubts about who would have responsibility for an aggregate report, pointing out that in practice there may be more than one person responsible for different parts of the project. Paragraphs 25 to 28 of the *Scope & Authority* explain that somebody is responsible for a report, or part of a report, if they have the authority to determine (or to veto) its content, whether or not somebody else also has the same authority. Although we make no stipulation that there should be a single person responsible for an aggregate report, in practice there will be a single person or a small group of people who share responsibility.

## **EFFECTS OF TAS R ON COMMUNICATIONS**

- 2.31 In paragraphs 1.8 to 1.12 and 3.40 to 3.46 of the exposure draft we discussed the expected effects of TAS R and asked for views on these effects in terms of the content, form and timing of communications for users of actuarial information.
- 2.32 Some respondents felt that TAS R should help to improve communications and would help to encourage the development of best practice. One respondent commented that TAS R would not fundamentally change the information users received but others thought there would be changes.
- 2.33 Many respondents felt that under TAS R more reports would be produced and that the reports would be longer. Some thought that there would be a tendency to avoid informal emails in favour of more formal documents, and a resulting reluctance to put information in writing.
- 2.34 This is to misunderstand the requirements of TAS R. The oral communication of material information cannot contribute to compliance. TAS R imposes no requirements on the form or level of formality of written communications, except that they should include a statement of to whom they are addressed and their purpose. We do not believe that such statements need be long or formal in order to comply with TAS R (see paragraph 2.26).
- 2.35 One respondent felt that there would be a tendency to include additional items that might be considered material rather than risk excluding them due to immateriality. We do not think that this should necessarily be the case. Including items in case they are material may well conflict with the requirement that material information is not obscured by immaterial information. We expect practitioners to use their judgement in the context of their knowledge of the intended users.

## **ASSESSMENT OF LONG TERM COSTS AND BENEFITS**

- 2.36 In paragraphs 3.40 to 3.46 of the exposure draft we outlined our assessment that any long term costs associated with the implementation of TAS R will be justified by the resultant benefits to users of actuarial information.
- 2.37 There was little consensus from respondents on this assessment. Some respondents agreed with our statement while others felt that they could not comment until the full impact of all the TASs is understood.
- 2.38 A number of practitioners felt that the additional costs would be disproportionate for smaller pieces of work. Their argument is that complying with TAS R will significantly increase the minimum levels of work that must be performed.
- 2.39 We do not accept that argument. The requirements of TAS R have been framed to allow compliance to be proportionate. They allow compliance to be through the provision of either qualitative or quantitative information, and leave the level of detail provided up to the judgement of the practitioner. We do not believe that it is unreasonably onerous to require that complete and reliable actuarial information is provided in a timely fashion, or that the information should include information about the uncertainties in it. Indeed, an indication of the uncertainty is likely to be especially important for small pieces of work, which often use less sophisticated methods of analysis.

- 2.40 In particular, one respondent was concerned about pieces of work where clients have specifically requested an approximate answer. TAS R will not prevent such work being performed, but will help to ensure that the users of the resulting information are aware of the levels of uncertainty involved.
- 2.41 Overall, respondents have not presented convincing arguments that the long term costs of compliance with TAS R will outweigh the benefits. It is however likely that there will be some short term costs arising out of the need for many practitioners to change their procedures.

#### **CONFLICT WITH GUIDANCE NOTES**

- 2.42 In paragraphs 4.2 to 4.7 of the exposure draft we described how there will be a period during which for some work both TAS R and one or more of the adopted Guidance Notes (GNs) may be mandatory. We proposed that TAS R should prevail in the event of a conflict between it and any GN (both Recommended Practice and Practice Standard GNs).
- 2.43 Most respondents agreed with this proposal although some respondents expressed concern about the interaction between TAS R and GN9, *Funding Defined Benefits – Presentation of Actuarial Advice* or GN12, *General insurance business – actuarial reports*.

#### **GN9: Funding Defined Benefits – Presentation of Actuarial Advice**

- 2.44 GN9 imposes many requirements on the contents of the Scheme Funding report for defined benefit pension schemes. In paragraph 4.5 of the exposure draft we noted that TAS R would impose few requirements on any individual document, and stated our belief that little or no extra work would be needed in order for the Scheme Funding report to comply with TAS R as well as with GN9. We remain of that belief.
- 2.45 As we point out in paragraph 2.12, the Scheme Funding report serves a limited purpose – for example, it cannot be used to support the selection of assumptions by the trustees, as those decisions must have been taken before the Scheme Funding report is issued.

#### **GN12: General insurance business – actuarial reports**

- 2.46 GN12 imposes many requirements on formal reports in the field of general insurance, as well as giving guidance on the circumstances in which such reports should be prepared. TAS R does not impart any special status to formal reports and does not require that they are prepared.
- 2.47 Many of the formal reports required by GN12 are reports of record, recording decisions that have been taken and the reasons for taking them. They cannot therefore form part of the aggregate report for those decisions. A formal report required by GN12 may thus serve a comparatively limited purpose.
- 2.48 Paragraph 3.3 of GN12 requires that “the report should normally contain detail sufficient for another suitably experienced member to form an opinion on the original member’s key judgements and assess the reasonableness of the results”. In some cases this might appear to conflict with the requirement in paragraph C.6.6 of TAS R, that material information should not be obscured by immaterial information, because the information that would be required by another practitioner might be immaterial to the intended users of the report. However, we believe that it would usually possible to present the information required by GN12 in such a way that it does not obscure the

information required by TAS R, for example through the use of appendices or summaries.

## **ADDITIONAL REQUIREMENTS**

- 2.49 In paragraphs 4.8 to 4.18 of the exposure draft we proposed additional requirements for the written confirmation of oral information, disclosures of subsequent events, statements of the meanings of descriptions applied to the results of calculations, disclosures about cash flows, disclosures of the projected results of future calculations, and explanations of any differences between the assumptions used in different parts of the work.

### **Oral information**

- 2.50 We proposed a requirement to confirm in writing material information that is presented orally. Respondents generally supported this proposal. We have extended the requirement to cover all communications in a non-permanent form.

### **Subsequent events**

- 2.51 We proposed a requirement to report material changes or events that are known to have occurred since the effective date of the data on which a report is based. Several respondents expressed concern over this addition, as they felt that the extent of the requirement was not clear.
- 2.52 The requirement has been deliberately framed in order to be flexible. The extent of the information that will need to be provided about subsequent events is a matter for judgement, and may vary from a simple statement that a change or event has occurred through to a detailed quantitative analysis of its effects. We suspect that the former is rather more likely to be appropriate than the latter. There is certainly no need, as suggested by some respondents, to constantly update information whenever there is a change in a volatile market.
- 2.53 However, it is important that users of actuarial information are fully aware of its limitations, and we do not believe that a statement that any events that may have occurred after the effective date of the report have been ignored is sufficient. We believe that users should be made aware of any material events that are known to have occurred.

### **Meaning of descriptions**

- 2.54 We proposed the extension of the requirement to state the intended meaning of a description that is not uniquely defined to cover the results of calculations as well as assumptions. Some respondents supported this addition but others thought it either over-prescriptive or not clear.
- 2.55 In particular, several respondents thought that “prudent” should not be listed as an example of a term that needs explanation. One view that was expressed is that there is a difference between terms like “best estimate” and “central estimate”, where more than one definition is possible, and a term such as “prudent” where there is supposed to be an accepted underlying definition but it is the practical application of that definition to the individual circumstances that is variable. However, we doubt whether there is an accepted underlying definition in such cases.
- 2.56 We believe that comments such as this support our view that the meanings of descriptions need to be made clear. There may well be differences of opinion

about what the underlying meaning is, and it is important that those producing and using the 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.

### **Information about cash flows**

- 2.57 We proposed a requirement to indicate the nature of any cash flows being quantified, including their timing. There were few concerns about this proposal, although some respondents questioned the value of the information to users.

### **Projected results of future calculations**

- 2.58 We proposed a requirement to indicate the likely results of future calculations. Several respondents supported this proposal, arguing that it would provide a useful building block to the next set of calculations and aid the users' understanding.
- 2.59 However, a number of respondents expressed reservations. For example, it was pointed out that actual experience can diverge significantly from assumptions particularly over a relatively short time frame, especially in the context of life insurance and pension schemes. It is to be expected that there will be periods of favourable experience and vice versa. Some respondents thought that the effort required to produce any such figures would outweigh any possible benefit to users.
- 2.60 We deliberately did not propose a requirement for quantitative projections. As the proposed text pointed out, 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, it might be useful for the trustees of a pension scheme to be aware 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 (if, of course, this is what is expected to happen).

### **Differences between assumptions**

- 2.61 We proposed the addition of requirements to indicate and explain any differences between the assumptions used in different parts of the work being undertaken. Most of those respondents who commented on this proposal expressed their support.

### **TEXT AS A MEANS OF IMPLEMENTATION**

- 2.62 We asked respondents for their views on the text of the exposure draft as a means of implementing our policy proposals. Many respondents commented on specific parts of the text, while some commented on the text as a whole. A number of themes emerged.

### **Style and structure of TAS R**

- 2.63 There was widespread support for the overall style and structure of the exposure draft.

- 2.64 A couple of respondents thought that the proposed structure of TAS R would not be helpful to report writers. It was suggested that the structure should reflect the structure that reports should take, or the process that should be used to put a report together. It was also thought that some of the requirements should appear under different headings.
- 2.65 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. 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.
- 2.66 Some respondents were concerned that TAS R would be overly prescriptive, and that it would limit the scope for judgement to be applied by report writers. We do not agree with this assessment. Although TAS R does indeed impose a number of requirements on the contents of reports, it allows considerable latitude in the method of complying with those requirements. We recognise that the importance and relevance of different types of information vary according to the context and user of the information, and have framed TAS R accordingly. In many cases, a simple mention of the relevant matters might suffice.

#### **Definition of “users”**

- 2.67 A number of concerns were expressed over the definition of the users of actuarial information – “those people whose decisions a report is intended (at the time of writing) to assist”. Some practitioners thought that reports should primarily be focused on the needs of clients or were concerned that TAS R extended the duty of care owed by actuaries. Others, especially those working in pensions, were not sure how the definition would apply in the case of particular reports, especially Scheme Funding reports which are prepared for the trustees but are available to scheme members. Still others were concerned about reports that are prepared for one set of users (such as the board of a subsidiary) and then passed on to others (such as the group board). 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.
- 2.68 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.
- 2.69 We will address matters concerning particular reports in our Specific TASs. We have discussed Scheme Funding reports, for example, in our consultation paper on *Pensions*.
- 2.70 Those preparing reports should be clear about who the intended users are. In many cases they may not be limited to the formal addressees of the report. The users would not normally include those who do not see the report itself, but only other information based on it. For example, investors and equity analysts would usually not be among the intended users of a report used by the board of an insurance company in preparing its financial statements. However, report writers should take into account the uses to which the recipients will put the information that it contains, such as being used as the basis of information given to a group board by a subsidiary.

- 2.71 We do not wish 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 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.

### **Interpretation**

- 2.72 Many respondents identified particular paragraphs that they felt needed clarification. In many cases, they suggested adding text to make it clear that requirements were to be interpreted in a proportionate way, or that they only applied to material matters. Others were concerned that lists of examples might be interpreted as exhaustive, or made comments indicating that they had interpreted them as being exhaustive. Some respondents had interpreted the requirements for indications of various matters to mean that quantitative analyses would be required.
- 2.73 We do not believe that the clarity of TAS R would be enhanced by using the words “proportionate” or “material” in every sentence. Paragraph B.1.2 explains clearly that materiality should be understood, even where the term “material” is not explicitly used. We have added a paragraph (B.1.3 in the final text) explaining that all requirements are to be interpreted proportionately.
- 2.74 We have also added explanations (paragraphs B.1.4 and B.1.5 in the final text) that the form of any indications, explanations etc that are required is a matter for judgement, and that lists of examples are not intended to be exhaustive.

## 3 CHANGES TO THE TEXT

### INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and other comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. They are described in this section. Part II contains a version of the final text that shows the changes from the text in the exposure draft. Changes to paragraph numbering are not shown. All references in this section are to the final version of TAS R, unless stated otherwise.
- 3.2 In the exposure draft we indicated our intention that TAS R would include an appendix reviewing considerations and arguments that were thought significant by the BAS in reaching its conclusions. We have decided not to include this appendix in the final document, but are publishing a separate document explaining the rationale underlying the principles in TAS R.

### PART A: PURPOSE OF TAS R

- 3.3 Paragraph A.1.3 has been removed, and now appears as paragraph B.1.7.

### PART B: INTERPRETATION

- 3.4 Paragraph B.1.3, on proportionality, has been added (replacing paragraph C.2.11 of the exposure draft). A number of the definitions have been changed.
- 3.5 Paragraph B.1.4 explains that the form of any indications, explanations etc that are required is a matter for judgement. Paragraph B.1.5 explains that lists of examples are not intended to be exhaustive.
- 3.6 Paragraph B.1.7, which was paragraph A.1.3 in the exposure draft, now makes it clear that TAS R imposes few requirements about the way in which reporting takes place, as well as making few assumptions.

### Proportionality

- 3.7 We received many comments on our proposed principle on proportionality, in response both to the exposure draft and to other consultations.
- 3.8 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 the best way of ensuring this is to explain that BAS standards should not be interpreted disproportionately. Practitioners will need to use their judgement to determine what approach they use to comply with each requirement of the TAS, bearing in mind the particular circumstances of the case. Most of the requirements in the TAS are expressed in terms of indications, explanations and similar terms in order to allow scope for such judgements.
- 3.9 This point is addressed in paragraph B.1.3 of the final text. In due course we expect that it may be covered in the *Scope & Authority* (as it applies equally to all our TASs).

## Aggregate and component reports

- 3.10 The definition of a **component report** has been changed to make it clear that it is the documents containing the information, rather than the information itself, which constitute reports. The definition of an **aggregate report** has been slightly reworded to make it clearer that it is a set of **component reports** and to remove any suggestion that it is required to be a single document.

## Data

- 3.11 A definition of **data** has been added. It is the same definition that we expect to use in TAS D and TAS M.

## Materiality

- 3.12 A number of respondents expressed unease with the definition of **material** proposed in the exposure draft. Respondents to this and other consultations expressed concerns about how difficult it would be to apply the definition in practice, and the extent of judgement required in order to do so. Other respondents thought that the definition was too long, confusing, and internally inconsistent – it appeared to define materiality in different ways for departures from the TAS and for other matters such as assumptions and documentation.
- 3.13 Paragraph 23 of the *Scope & Authority* 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. We believe that the revised 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*. The definition is the same as that proposed in the exposure drafts of TAS D and TAS M.
- 3.14 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.
- 3.15 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.<sup>5</sup>
- 3.16 The BAS is therefore not currently proposing to change the definition of materiality in the *Scope & Authority*, which underwent consultation in 2008.

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<sup>5</sup> IAS 1.

### **Planning and valuation**

- 3.17 The requirement to include an explanation of whether each result is the outcome of a planning exercise, a valuation exercise or some other exercise was the subject of some comment by respondents, many of whom felt that these terms were a source of confusion and might not aid the users' understanding.
- 3.18 We have removed the definitions of these terms in order to lessen the implication that they are terms that are required to be used. We believe that it is most important that users are aware of the distinction between planning and valuation, but accept that the word "planning" may not be the most appropriate word to use for the former in all circumstances. However, we remain of the belief that it is nearly always misleading to use the term "valuation" to refer to a planning exercise.

### **PART C: REPORTING ACTUARIAL INFORMATION**

- 3.19 Sections C.3 to C.6 have been reordered to be consistent with the statement of the Reliability Objective.
- 3.20 A number of drafting changes have been made throughout Part C in order to improve clarity. In particular, the word "may" has been avoided in cases in which it might imply permission rather than possibility.
- 3.21 Paragraphs C.1.2 and C.1.3 have been added in order to make it clear that other TASs are likely to apply to work covered by TAS R. Paragraph C.1.2 in the exposure draft has been split into two paragraphs, C.1.4 and C.1.5. Paragraph C.1.5 has been changed to reflect the changed order of sections in Part C.

### **Application**

- 3.22 Paragraphs C.2.2 and C.2.5 have been amended to make it clear that, although individual component reports need not on their own comply fully with paragraph C.2.1 (in other words, they are not aggregate reports), they must still comply with the standard.
- 3.23 Paragraphs C.2.6 and C.2.7 have been amended to cover any non-permanent communications, rather than being limited to oral communications.

### **Relevance**

- 3.24 A sentence covering the need for aggregate reports to specify their constituent component reports has been moved from paragraph C.3.2 to C.2.3, and paragraph C.3.2 has been further amended to emphasise the need to make sure the user is aware of what relevant information they have received.
- 3.25 Paragraphs C.3.8 and C.3.9 have been added to explain the meanings of the terms "planning" and "valuation", as discussed in paragraphs 3.17 to 3.18.
- 3.26 Paragraph C.3.11 has been amended to make it clear that a statement is required of the TASs that apply and of those that have been complied with. Paragraph C.3.12 has been added as a reminder that the *Scope & Authority* sets out the disclosures that are required in the case of permitted or required departures.

## Transparency

- 3.27 Section C.4 was section C.6 in the exposure draft.
- 3.28 The second sentence of paragraph C.4.2 has been deleted as a result of the inclusion of a definition of **data**.

## Completeness

- 3.29 Paragraph C.5.1 has been added. It was pointed out that the exposure draft nowhere made it explicit that the aggregate report should include all the material information (concomitant with the scope of the work). It required all material information that is conveyed orally to be confirmed in writing (and thus to make its way into the aggregate report), but in theory it might have been possible for an important piece of information not to be mentioned. We think it unlikely, because of the explicit requirements for reporting on risk, uncertainty, data, assumptions, calculations, probabilities, cash flows, comparisons with past reports and projections of future results. However, we decided that adding the explicit principle would add clarity.
- 3.30 The word “inherent” has been removed from paragraphs C.5.2 and C.5.3. It was suggested, and the BAS agrees, that at best it was redundant and at worst it limited the uncertainty that should be reported on.
- 3.31 Paragraph C.5.5 has been amended to remove the reference to sources of risk or uncertainty. It was suggested, and the BAS agrees, that it is the risk or uncertainty itself that matters, rather than the source.
- 3.32 Paragraph C.5.6 has been added to improve clarity. Many responses indicated that the words “in relation to the work being reported on” in paragraph C.5.5 had been overlooked. This paragraph is intended to draw attention to them. It replaces paragraph C.5.6 in the exposure draft, which has been deleted.
- 3.33 Paragraph C.5.7 has been amended to make it clear that the significance of risks includes any actions or decisions that if taken might, for example, increase the probability of a risk crystallising or increase its possible impact.
- 3.34 Paragraph C.5.12 has been added, replacing much of the content of the first bullet point in paragraph C.5.11.
- 3.35 A sentence has been added to paragraph C.5.16 to point out that paragraphs C.4.1, C.4.4 and C.4.6 apply to any probabilities to which paragraph C.5.13 does not apply.
- 3.36 Paragraph C.5.18 has been amended to make it clear that a comparison with a previous aggregate report need be performed only if a previous report exists. The existence of an aggregate report does not depend on TAS R, as the definition of aggregate report does not depend on when the work was performed or decisions made.

## Comprehensibility

- 3.37 Section C.6 was section C.4 in the exposure draft.
- 3.38 The second sentence in the original version of paragraph C.6.4 has been removed, as it was already covered by the first sentence. A new second sentence has been added to cover the situation that it describes. Several respondents were concerned that practitioners would be expected actively to

seek evidence of misunderstanding or otherwise of reports, but we believe that the phrase “becomes aware of” implies no such requirement.

- 3.39 Paragraph C.6.8 has been reworded for clarity. It no longer mentions assumptions or results of calculations explicitly, but covers all material descriptions.

## 4 CHANGES TO THE SCOPE & AUTHORITY

### INTRODUCTION

4.1 In this section we discuss the comments that we received in response to our proposals to change the scope of the work to which Generic TASs will apply. We proposed two additions to the Schedule of our *Scope & Authority* to include the following in the definition of the specified work to which a Generic TAS applies:

“Reserved Work”

“Any other work which is presented as complying with TASs (whether by express statement or necessary implication).”

4.2 The Schedule currently defines the scope of Generic TASs as:

Work which falls within the scope of one or more Specific TASs.

4.3 We asked respondents for their views on whether the proposed additions to the Schedule of our *Scope & Authority* were desirable, and if so whether the suggested text achieved our aims.

4.4 On the whole, respondents agreed with the general approach to extending the scope so that Generic TASs would take effect before the Specific TASs are developed. However, there were some concerns about the specific proposals we put forward.

### RESERVED WORK

4.5 Reserved Work is defined in the *Scope & Authority*<sup>6</sup> in order to limit the departures that are permitted from TASs in various circumstances. In summary, Reserved Work is work that has to be done, and that has to be done by an actuary.

### Responses

4.6 It was suggested, and we agree, that whether work is Reserved Work or not is not always the most effective way of identifying the work that is most in need of standards. On the other hand, it is a distinction that already exists. There is a clear case for including Reserved Work within the scope of our TASs because the users of Reserved Work are likely to rely on the fact that it has been performed by an actuary. That is not to say that other work should be excluded: indeed, much more work is likely to be included as a result of its inclusion in the scope of Specific TASs.

4.7 Few serious reservations were expressed about extending the scope of Generic TASs to cover work that is Reserved Work by virtue of legislation or regulation. There were, however, a number of reservations about other Reserved Work – ie, work that is Reserved Work by virtue of private contract (such as provisions in the scheme documents of pension schemes, or insurance policy documents).

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<sup>6</sup> Reserved Work is defined in paragraphs 15 to 19. Permitted and required departures from TASs, and the associated disclosure requirements, are set out in paragraphs 20 to 24.

- 4.8 Some respondents were concerned that the definition of Reserved Work lacked clarity, and gave examples of potential ambiguities. In most cases, these examples are not Reserved Work, as they do not prescribe a qualification that must be held by the individual in question<sup>7</sup>. For example, policy documents might refer to the “Company’s Actuary” or the “Appointed Actuary” without defining the term (note that Appointed Actuaries no longer exist). Pension scheme documents often refer to “the Actuary” or “actuarial advice”, without specifying a particular qualification. We believe that the definition requires no amendment at this stage.
- 4.9 One or two practitioners were concerned that future documents might be constructed to avoid the creation of Reserved Work, thus diluting the intended scope. Indeed, one respondent envisaged that “many trustees might consider amending pension scheme rules to remove references to actuarial advice” in order to avoid the additional regulation and associated costs.
- 4.10 It appears to us unlikely that trustees would amend scheme documents in order to remove requirements for work to be performed by actuaries. Such amendments are likely to be very hard to justify to scheme members. We do not believe that compliance with our standards will be so onerous that those drafting new documents will use that as a reason for not requiring work to be performed by actuaries. On the contrary, we think it possible that, instead of creating Reserved Work, future documents will impose explicit requirements to comply with our TASs.
- 4.11 Other practitioners thought that under some circumstances the fact that the work is Reserved Work might be unknown to the actuary performing it. We do not accept this concern, as we consider that actuaries should make sure that they fully understand the basis on which they have been appointed.
- 4.12 A concern that deserves consideration is that Reserved Work created by virtue of private contract varies enormously, and by its very nature its scope is unknown to the BAS. The TASs may therefore include requirements that are completely inappropriate or disproportionate for some private Reserved Work.
- 4.13 However, we think that, on the whole, this is unlikely to be a problem. The Generic TASs, by their nature, make few assumptions about the type of work to which they apply. A failure to comply with a requirement that was totally irrelevant to the work in question would clearly be an immaterial departure (if would not affect the users’ decisions) and so would be permitted.
- 4.14 It was pointed out that the legal obligation creating the Reserved Work might prescribe the information that must be in a report or that must not be in a report. Such prescriptions could well conflict with requirements in TAS R. Other conditions imposed by the terms of the legal obligation could conflict with the requirements of other TASs. This is more likely to happen for Reserved Work by virtue of private contract, but is not impossible for Reserved Work by virtue of regulation or legislation.
- 4.15 This has exposed a lacuna in the Scope & Authority, which makes no mention of what should happen if the requirements in a TAS conflict with a legal obligation. This could be addressed by permitting departures in respect of

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<sup>7</sup> “... require the entity in question to commission the work from an individual who holds a prescribed qualification (usually Fellowship) from an Actuarial Body.” Paragraph 17 of the *Scope & Authority*.

Reserved Work if, by complying, the legal obligation that created the Reserved Work would not be met.

### **Action**

- 4.16 It is the BAS's view that the concerns that were raised are insufficient to outweigh the desirability of bringing Reserved Work into scope. We are therefore proceeding with our proposal to amend the Schedule of the *Scope & Authority* to bring all Reserved Work within the scope of the Generic TASs.
- 4.17 However, we recognise the difficulties that might arise in the event of a conflict between our TASs and the legal obligation giving rise to the Reserved Work. We also note that Reserved Work is a subset of Required Work, and that the same difficulties might arise for any Required Work.
- 4.18 We are therefore amending paragraph 24 of the *Scope & Authority* to permit departures that are required in order to meet the legal obligation that creates the Required Work. We are not consulting again, as we believe that the amendment is a proportionate response to the concerns expressed by respondents about our original proposal.
- 4.19 Part III of this document contains the amended version of the *Scope & Authority* showing the changes from the original.

### **WORK PRESENTED AS COMPLYING**

- 4.20 Many respondents (including public interest users) expressed strong support for the proposal to include within the scope of Generic TASs work which is presented as complying with TASs (whether by express statement or by necessary implication).
- 4.21 Others, mainly practitioners, had some concerns. Several respondents thought that "whether by express statement or by necessary implication" lacked clarity. One respondent was concerned that this might increase pressure on actuaries to comply with TASs, since use of a disclaimer would undermine users' confidence, whereas another felt that all actuarial work should disclose whether it complied or not. One respondent thought that the extension was unnecessary, as ethical or conduct standards would address explicit misstatements of compliance.
- 4.22 It was our intention that the amendment would cover, for example, the case where an actuary or anyone else appears to represent to clients or other users that information complies with "applicable standards". We are concerned that in such a situation users may believe that the work complies with TASs even if it does not.
- 4.23 Given the strength of support for this proposal, we are pursuing it in order to encourage wider adoption and ensure that users understand whether actuarial work complies with TASs or not. In the exposure draft, we avoided a prescriptive list of situations which would be covered, since we want to encourage the use of judgement and an assessment of the impact of actuarial work on users, although we did say that a disclaimer could be used in case of doubt.
- 4.24 The intended effect of our proposed wording was that it would neither be confined to cases of clear misstatements of compliance, nor be so open-ended that either full compliance or a disclaimer is required in all circumstances. However, we now believe that the words "or [by] necessary implication"

might be construed so narrowly as to capture only cases where the implication of compliance with TASs follows necessarily as a matter of pure logic.

4.25 We have therefore added the following text to the Schedule of the *Scope & Authority*:

“Any work which is presented as complying with TASs whether expressly or by implication.”

## PART II

### TRACKED CHANGES FROM THE MARCH 2009 EXPOSURE DRAFT OF

### TECHNICAL ACTUARIAL STANDARD R: REPORTING ACTUARIAL INFORMATION

DRAFT OF

TECHNICAL ACTUARIAL STANDARD R:  
REPORTING ACTUARIAL INFORMATION

# REPORTING ACTUARIAL INFORMATION (TAS R)

## Status

This standard (TAS R) is a Generic Technical Actuarial Standard (Generic TAS), as defined in the *Scope & Authority of Technical Standards (Scope & Authority)* of the Board for Actuarial Standards (BAS).

This standard should be read in the context of the *Scope & Authority*.

The *Scope & Authority* sets out circumstances in which material departures from this standard are permitted or required and the disclosures which are required in respect of them.

~~Appendix I 'The development of TAS R' reviews considerations and arguments that were thought significant by the BAS in reaching the conclusions on the document.~~

## Scope

This standard, as a Generic TAS, applies to the work specified in the Schedule to the *Scope & Authority*. The scope of this standard ~~may~~will be affected by any amendments to the Schedule to the *Scope & Authority*.

Specific TASs may include provisions that include or exclude particular categories of work from the scope of this standard ~~or other Generic TASs~~.

Wider adoption is encouraged.

## Commencement

This standard applies to aggregate reports completed on or after 1 April 2010.

Earlier adoption is encouraged.

## Relationship with other TASs and with Guidance Notes

This standard sets out principles to be adopted across the range of work to which it applies, as described above. Other Generic and Specific TASs may apply to work that is within the scope of this standard, setting out additional principles that should be adopted.

In the event of a conflict between this standard and a Guidance Note adopted by the BAS (as described in the *Scope & Authority*), this standard shall prevail.

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## A PURPOSE OF T A S R

### A.1 PURPOSE

A.1.1 The BAS’s Reliability Objective is 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.

A.1.2 The purpose of this standard is to assist the achievement of the Reliability Objective by ensuring that in the reporting of work within its scope:

- sufficient information is included to enable **users**<sup>1</sup> to judge the relevance of the contents of the **reports**;
- sufficient information is included to enable **users** to understand the implications of the contents of the **reports**; and
- information is presented in a clear and comprehensible manner.

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~~A.1.3 This standard makes few assumptions about the way in which reporting takes place. In particular, there is no assumption that all the information is contained in a single, formal, document. The definitions of the terms **aggregate report**, **component report** and **report** allow for the provision of information to **users** in a number of separate communications which, in aggregate, provide all the detail that is needed.~~

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<sup>1</sup> Terms appearing in **bold** in the text are explained in the Definitions set out in Part B.

## B INTERPRETATION

### B.1 INTERPRETATION OF THE TEXT

- B.1.1 All text in this standard has equal status unless stated otherwise. Paragraphs setting out explicit principles are emphasised with boxes for convenience.
- B.1.2 The **Scope & Authority**<sup>2</sup> states that a failure to follow the principles in this standard need not be considered a departure if it does not have a **material** effect. The contents of this standard should be read in that context, even where the term **material** is not explicitly used or where the word “shall” is used.
- B.1.3 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.
- B.1.4 The form that is taken by any explanations, rationales, descriptions, indications or other analyses required by this standard will need to depend on the scope of the work being performed and the benefit to the users. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.5 Lists of examples are not intended to be exhaustive.
- B.1.6 This standard should be interpreted in the light of the purpose set out in Part A.
- B.1.7 This standard makes few assumptions about and does not specify the way in which reporting takes place. In particular, there is no assumption or requirement that all the information is contained in a single, formal, document. The definitions of the terms **aggregate report**, **component report** and **report** allow for the provision of information to users in a number of separate communications which, in aggregate, provide all the detail that is needed.
- B.1.8 This standard applies to a wide range of **reports** that fall within its scope. It sets out principles for the content and presentation of **reports**, but ~~imposes no requirement for~~ does not specify any particular format, list of contents, order in which matters are addressed or number of **component reports** that should be used.

### B.2 DEFINITIONS

- B.2.1 Terms appearing in **bold** in the text are used with the meanings set out below. Some of the definitions are taken from the **Scope & Authority**.

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<sup>2</sup> Paragraph 23 of the **Scope & Authority**.

|                         |  |
|-------------------------|--|
| <b>aggregate report</b> | <u>The set of all <b>component reports</b> relating to a piece of work within the scope of this standard. The <b>aggregate report</b> for a <del>For each</del> decision taken by a <b>user</b> in connection with work within the scope of this standard <del>is</del>, the set of all <b>component reports</b> received by the <b>user</b> containing information <b>material</b> to that decision. <del>The <b>aggregate report</b> for a piece of work is the set of all component reports relating to that piece of work.</del></u>   |
| <b>component report</b> | <u>A document <del>Information which relates to work within the scope of this standard and which is</del> given to a <b>user</b> in permanent form <del>containing <b>material</b> information which relates to work within the scope of this standard.</del> A <b>component report</b> may be given to the <b>user</b> in hard copy or electronically. <del>Examples of <b>component reports</b> include</del> <u>Formal written reports, draft reports, emails and <del>copies of</del> presentations <del>are examples of <b>component reports</b>.</del> A <del>Possible contents of <b>component reports</b> may consist of</del> include tables, charts and other diagrammatic presentations as well as or instead of text. <del>Information in a <b>component report</b> may include references to other documents, such as minutes of meetings or public documents.</del> A <b>component report</b> may form part of one or more <b>aggregate reports</b>.</u></u> |
| <b>data</b>             | <u>Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder data, claims data, asset and investment data, operating data (such as administrative or running costs), benefit definitions and policy terms and conditions.</u>   |
| <b>entity</b>           | <u>The pension scheme, insurance company, fund or other <del>entity-body being reported on</del> that is the subject of the work being performed.</u>  |
| <b>Generic TAS</b>      | <u>A <del>Generic</del> Technical Actuarial Standard <del>as defined in</del> <u>which applies to all work specified in the Schedule to the Scope &amp; Authority.</u></u>   |
| <b>material</b>         | <u>A <del>departure from this standard</del> <u>matter is <b>material</b> if, at the time the work is performed, the effect of the departure <del>it</del> (or the combined effect if there is more than one <del>departure</del> information resulting from it) could influence the decisions to be taken by <del>users or the users'</del> understanding of the information on which decisions are based. Assumptions, calculations and other matters are <b>material</b> if they result in information whose disclosure or misstatement could influence the decisions or understanding of users. A matter that is immaterial when considered in isolation may be <b>material</b> when considered in conjunction with others.</u></u>  |
| <b>measure</b>          | <u>The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different <b>measures</b> of the same asset or liability may produce different results.</u>   |
| <b>method</b>           | <u>The mechanism that is used to quantify an (uncertain) asset or liability amount. Two different <b>methods</b> of calculating the same asset or liability <del>measure are intended to</del> <u>should</u> produce similar results.</u>  |

|                              |  |
|------------------------------|--|
| <b>planning</b>              | <del>The quantification of a provisional amount for budgeting or target setting purposes. Examples of <b>planning</b> exercises include calculating contribution rates for pension schemes or loss ratios for insurance pricing.</del>   |
| <b>report</b>                | An <b>aggregate report</b> or a <b>component report</b> .  |
| <b>Scope &amp; Authority</b> | The BAS's <i>Scope &amp; Authority of Technical Standards</i> .  |
| <b>Specific TAS</b>          | A <del>Specific</del> Technical Actuarial Standard <del>as defined in the <b>Scope &amp; Authority</b></del> that is not designated by the BAS as a <b>Generic TAS</b> . A <b>Specific TAS</b> is limited to a specific, defined context.  |
| <b>users</b>                 | Those people whose decisions a <b>report</b> is intended (at the time of writing) to assist. <del>Examples of possible users include</del> those to whom the <b>report</b> is addressed, regulators and third parties for whose benefit a <b>report</b> is written <u>are examples of possible users</u> . |
| <b>valuation</b>             | <del>The quantification of an amount which can be used in a transaction or recorded in a formal document. Examples of <b>valuation</b> exercises include calculating technical provisions for the financial statements of insurance companies, transfer values and surrender values.</del>                 |

## C REPORTING ACTUARIAL INFORMATION

### C.1 INTRODUCTION

- C.1.1 This Part contains principles that support the purpose of this standard as set out in Part A. It should be interpreted as described in Part B.
- C.1.2 [Work that is within the scope of this standard will also be within the scope of other BAS standards. In particular, the other Generic TASs, including those on Data and Modelling, apply to all such work.](#)
- C.1.3 [Other principles concerning reporting may be contained in Specific TASs.](#)
- C.1.4 Section C.2 describes how this standard should be applied.
- C.1.5 Sections C.3 to C.6 contain principles that contribute to the relevance, ~~transparency~~[comprehensibility](#), completeness and ~~comprehensibility~~[transparency](#) of **aggregate reports**.

### C.2 APPLICATION

|  |
|--|
| C.2.1 All <b>aggregate reports</b> relating to work within the scope of this standard shall comply with this standard. |
|--|

C.2.2 An **aggregate report** may consist of one or more **component reports**, each of which contributes to the compliance of the **aggregate report**. This standard does not require that any single **component report** [on its own](#) complies [fully](#) with paragraph C.2.1 unless ~~there are no other component reports in their~~ [is also an aggregate report. If there is only one report relating to a piece of work within the scope of this standard, that report is an aggregate report.](#)

C.2.3 The **aggregate report** for a decision or piece of work includes all **component reports** given to a **user** that contain **material** information. A **component report** cannot be excluded from the **aggregate report** if it includes **material** information relating to the decision or piece of work in question. [An aggregate report will need to specify its component reports clearly.](#)

C.2.4 **Component reports** issued after the relevant decisions have been made by **users** cannot contribute to compliance with this standard except as described in paragraph C.2.7.

C.2.5 This standard does not require that each [individual component](#) ~~report~~ accompanying the results of a single calculation which is one of a series of similar calculations, each addressing different individual cases, complies [fully](#) with paragraph C.2.1 [on its own](#). The **aggregate report** may include an earlier communication or an easily available document to which ~~the individual component report~~ [it](#) refers.

#### **Oral information in a non-permanent form**

|   |
|---|
| C.2.6 Any <b>material</b> information relating to work within the scope of this standard that is conveyed <del>orally</del> <a href="#">in a non-permanent form</a> shall be confirmed in a <b>report</b> . |
|---|

- C.2.7 If **material** information is conveyed orally or in any other non-permanent way it will need to be confirmed in a **report** as soon as practicable ~~even though that may be after the making of any decisions based on it~~. Such a **report** would contribute to compliance with this standard even though its delivery in permanent form may be after the making of decisions based on it.

### Judgement

- C.2.8 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

- C.2.9 ~~Examples of matters on which~~ judgement may be needed include on matters such as those concerning the extent of a piece of work, who the **users** of a **report** are, **materiality**, proportionality and the possible obscuring of **material** information by immaterial information.

- C.2.10 This standard does not require the documentation or disclosure of judgements concerning its application unless stated otherwise.

### Proportionality

- C.2.11 ~~An aggregate report shall be proportionate to the scope of the decision or piece of work to which it relates and the benefit users would be expected to obtain from the information contained in it, striking a balance between the interests of those who pay for the report and its users.~~

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## C.3 RELEVANCE

- C.3.1 An **aggregate report** shall include sufficient information to enable its **users** to judge its relevance to the decisions for which they use it.

- C.3.2 It will be necessary to ensure that each **user** is aware of which information ~~is~~ might be relevant to their decision(s), especially if different users have received different component reports. ~~An aggregate report may need to include an indication of its component reports~~ An aggregate report will need to indicate any, especially if parts of some component reports or parts of component reports which have been superseded or are no longer relevant, ~~or if different users have received different component reports~~.

### Purpose of reports

- C.3.3 An **aggregate report** shall ~~include statements of~~ its purpose, its **users** and who commissioned the work. A **component report** shall ~~include statements of~~ its purpose and to whom it is addressed.

- C.3.4 The purpose of any individual **component report** is not necessarily the same as the purpose of an **aggregate report** of which it forms a part. An individual **component report** may have a very limited purpose, such as clarifying a particular point in another **component report** or confirming a point that had previously been made orally, or may have several purposes, not all of which are also served by the **aggregate report**.

C.3.5 If a **report** is prepared, and the underlying work performed, in order to comply with legislative or regulatory requirements, a reference to the legislation may be sufficient as a statement of the purpose.

C.3.6 Statements of the addressees or **users** of a **report** will need to indicate the capacity in which they are being addressed or are expected to use the **report**. For example, the same person ~~may could~~ be both a director of a company and a trustee of a pension scheme sponsored by that company.

C.3.7 An **aggregate report** that includes the results of calculations of monetary amounts shall explain for each result whether it is the outcome of a planning exercise, a valuation exercise or some other exercise.

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C.3.8 A planning exercise involves the estimation of an amount for budgeting or target-setting purposes. Calculations made for trustees to set contribution rates for pension schemes or calculating loss ratios for insurance pricing are examples of planning exercises.

C.3.9 A valuation exercise involves the quantification of an amount for use in a transaction or recording in a formal document. Calculating technical provisions for the financial statements of insurance companies, calculating transfer values and calculating surrender values are examples of valuation exercises.

C.3.10 Regulations and other legal documents ~~may do~~ not always distinguish between planning and valuation exercises, using the term “valuation” for both. The explanations required by paragraph C.3.7 may need to include explanations of any differences between the terminology used in the **aggregate report** and that used in the governing documents.

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### Compliance with TASs

C.3.11 An **aggregate report** shall ~~include:~~

- a) ~~a statement of any state which~~ TASs ~~that~~ apply to the work that has been carried out;
- b) state any other TASs with which it is intended that the **report** shall comply;
- ~~cb) a statement of state~~ whether it complies with ~~this standard, and of any other TASs that have been complied with~~ those TASs; and
- ~~de) as required by the Scope & Authority, give~~ particulars of any **material** departures from the TASs referred to in a) and b) above.

C.3.12 The **Scope & Authority**<sup>3</sup> requires the identification of **material** departures from relevant TASs, and sets out further disclosures that are required.

<sup>3</sup> [Paragraphs 22 to 24 of the Scope & Authority.](#)

**Subsequent events**

C.3.13 An **aggregate report** shall ~~include an indication of~~indicate any **material** changes or events that are known by any person responsible<sup>4</sup> for the **aggregate report** to have occurred ~~between the~~since the effective date of the **data** and other information on which it is based ~~and the date of the last component report.~~

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**C.4 TRANSPARENCY****Data**

C.4.1 An **aggregate report** shall ~~include~~:

- a) ~~a description of~~describe any **data** or any other information used; and
- b) ~~a statement of~~state the source of the **data** or other information.

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C.4.2 Paragraph C.4.1 applies to all information used in the **aggregate report**, whether obtained from the **entity** or from other sources. ~~Examples of information that may be used include membership or policyholder data, claims data, asset and investment data, operating data (such as expenses), benefit definitions and policy terms and conditions.~~

C.4.3 If there is any **material** uncertainty over the accuracy of the **data**, an **aggregate report** shall ~~include~~:

- a) ~~a description of~~describe the uncertainty; and
- b) ~~an explanation of~~explain any approach taken ~~in the calculations or in the results~~ to ~~allowing for~~ the uncertainty ~~in the calculations or in the results.~~

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**Assumptions**

C.4.4 An **aggregate report** shall ~~include statements of~~state:

- a) the **material** assumptions on which any calculations or judgements are based; and
- b) any differences between the assumptions used or recommended in different parts of the work.

C.4.5 Paragraph C.4.4 applies to all **material** assumptions, whether they are implicit or explicit, qualitative or quantitative.

**Rationales**

C.4.6 An **aggregate report** shall ~~include~~describe the rationales for:

- a) any **material** assumptions used or recommended;
- b) any differences between the assumptions used or recommended in different parts of the work; and

<sup>4</sup> See paragraphs 25 to 28 of the [Scope & Authority](#).

c) the **measures** and **methods** used in any **material** calculations.

C.4.7 Rationales will need to distinguish between fact, judgements based purely on evidence and judgements influenced by personal opinion.

C.4.8 The assumptions, **measures** or **methods** to be used for some purposes may be specified in regulations (or in some other legal document governing the work) or they may be the responsibility of some other party (such as the **entity** or a **user**). In either case, a statement that a **report** is required to comply with regulations and does so, or that it complies with the other party's instructions, would constitute a sufficient rationale.

C.4.9 If the assumptions, **measures** or **methods** are considered to be **materially** inaccurate or inappropriate by a person responsible for a **report**, the **report** will need to include a statement to that effect, or other explanations in order to comply with paragraph C.3.1.

## C.5 COMPLETENESS

C.5.1 An aggregate report shall include all material matters relating to the work being reported on.

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### Uncertainty

C.5.2 An **aggregate report** shall ~~include an indication of~~indicate the nature and extent of any **material** uncertainty ~~inherent~~ in the information it contains.

C.5.3 ~~Inherent~~Uncertainty may concern the results of calculations, assumptions on which information is based, or other aspects. It may arise from random variations, lack of information, or other sources. The extent of any **material** uncertainty may itself be subject to uncertainty.

C.5.4 There are many ways of indicating the extent of uncertainty, ~~including such as:~~

- giving a range, measure of the value at risk, or other statistical calculation;
- showing the numerical consequences of changes in assumptions;
- presenting the outcomes of scenarios, possibly including extreme scenarios; and
- ~~a description of~~describing the uncertainty ~~together with an explanation of~~and explaining why it has not been quantified.

### Risks faced by the entity ~~being reported on~~

C.5.5 ~~An aggregate report shall include. If~~ for each ~~source of~~ **material** risk or uncertainty faced by the **entity** in relation to the work being reported on, an aggregate report shall state statements of the nature and significance of the risk, and ~~an explanation of~~explain the approach taken to the risk.

C.5.6 Whether a risk or uncertainty is related to the work being reported on is a matter for judgement. The level of detail required will need to take into account the scope of the work in order to comply with paragraph C.6.6.

C.5.7 The statement of the nature of the risk may need to distinguish those aspects that are quantifiable from those that are not. The significance of a risk includes ~~such~~ matters such as its relative importance to the **entity** compared to other risks and to the **entity's** capacity to bear risk, and any actions or decisions that would influence the probability of the risk crystallising or its impact. The approach taken to the risk includes ~~such~~ matters such as the assumptions that are made in relation to it and the effects of any actions taken to mitigate it.

~~C.5.6 The level of detail required will be a matter for judgement, and will need to take into account the scope of the work in order to comply with paragraphs C.2.11 and C.4.6.~~

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### Calculations

C.5.8 ~~An aggregate report shall include explanations of the following f~~For any **material** calculations that have been performed an aggregate report shall explain:

- a) the nature and objective of the calculations;
- b) ~~where applicable,~~ any specific **measure(s)** adopted; and
- c) the **methods** used to achieve the calculation objective.

C.5.9 ~~The calculations within the scope of p~~Paragraph C.5.8 applies to include any calculations that are used to derive **material** assumptions.

### Cash flows

C.5.10 An **aggregate report** shall ~~include an indication of~~indicate the nature of any future cash flows being quantified, including their timing.

C.5.11 ~~There are many ways of indicating the~~ timing of future cash flows, such as: may be indicated by

- ~~analysing presenting~~ their ~~discounted or undiscounted~~ values by period (either real or nominal) by period; ~~by~~
- providing a textual description (such as a statement of the period over which they are likely to be received or paid); and
- ~~by~~ stating their mean discounted term ~~or in some other way~~.

C.5.12 There are many ways of analysing the values of future cash flows by period. The values themselves could be either discounted or undiscounted, and either real or nominal. They could be ~~Values may be~~ presented in charts or other diagrams, in tables or within text.

## Probabilities

C.5.13 If an **aggregate report** includes probabilities it shall also ~~include explanations of~~ explain:

- a) the intended meaning of the probability;
- b) the nature of any statistics on which the probability is based.

C.5.14 The intended meaning of a probability depends on what it relates to (in statistical terminology, the population or sample space). Probabilities ~~may~~ can be applied to a large population – for example to estimate the likely number of car accidents over a given period – or to a particular member of the population – for example to make a statement about the likelihood that an individual company will become insolvent. In the latter case, the sample space for the probability consists of the possible future scenarios, only some of which will involve the company's insolvency.

C.5.15 Explanations of the nature of any statistics on which probabilities are based will need to distinguish between evidence of past events and research into expected future developments, and indicate how ~~directly comparable past events are to~~ similar the events now under consideration are to the past events.

C.5.16 Paragraph C.5.13 does not apply to probabilities such as mortality rates which have been adopted entirely from another source as assumptions for input into calculations. The aggregate report will need to comply with paragraphs C.4.1, C.4.4 and C.4.6 in respect of such probabilities.

## Comparisons

C.5.17 An **aggregate report** shall include a comparison with an **aggregate report** which has previously been provided for a similar purpose (if one exists), with explanations of any differences. The comparison shall cover assumptions, results of calculations, recommendations, and other **material** matters. The comparison of the results of calculations shall include a reconciliation of the two sets of results.

C.5.18 The similarity of the purposes of two **aggregate reports** (and hence the need for a comparison) is a matter for judgement, and will depend on such matters as whether the entities being reported on, or for whom the **reports** are intended, are the same.

C.5.19 The forms of the comparison and reconciliation and the level of detail at which they are presented are matters for judgement.

## Projections

C.5.20 An **aggregate report** that includes the results of calculations that are performed at regular intervals shall ~~include an indication of~~ indicate the projected results from future corresponding calculations.

C.5.21 There are many ways ~~Methods~~ of indicating the results from future calculations, ~~includes~~ such as:

- a statement of the results anticipated if experience is in line with the assumptions used for the current calculations;

- a chart of the anticipated pattern of results over a longer period; and
- a description of the anticipated evolution of the results.

C.5.22 The **aggregate report** will need to include explanations of any differences between the assumptions on which the current calculations are based and those used to project the results from future corresponding calculations.

## C.6 COMPREHENSIBILITY

### [Addressing users' needs](#)

C.6.1 The style, structure and contents of **reports** shall be suited to the skills, understanding and levels of relevant technical knowledge of their **users**.

C.6.2 **Reports** will need to address the needs of, and be understandable by, all their **users**, ~~however recognising they may have~~ varied ~~their~~ levels of relevant technical knowledge. This ~~may could~~ be achieved by, for example, providing more detailed explanations in addition to setting out the basic information, or by providing clear explanations of technical terms.

C.6.3 It may be convenient to use standard formats and wordings for **reports** covering similar work performed for different **users**. However, paragraphs C.6.1 and C.6.6 always apply. It may be necessary to depart from standard formats and wordings in order to avoid including information that is not **material** for some **users** and that obscures **material** information ([see paragraph C.6.6](#)), or to avoid the use of a style that is not ~~understandable readily understood~~ by some **users**.

C.6.4 If a person responsible<sup>5</sup> for a **report** becomes aware of any evidence of ~~a that report~~ not being understood by any **user** they shall provide clarification or correct ~~the misunderstandings~~. ~~If a person responsible for part of a report becomes aware of any evidence of any other part of that report not being understood by any user, they shall notify a person responsible for that other part of the report.~~ ~~If a person responsible for an aggregate report becomes aware of any evidence of a component report not being understood by any user they shall provide clarification or correct misunderstandings.~~

C.6.5 Whether the clarification ~~or correction~~ needs to be issued in a supplementary **component report** is a matter for judgement.

### **Obscuring material information**

C.6.6 A **report** shall not include information that is not **material** if it obscures **material** information.

C.6.7 The **materiality** of information depends, among other things, on the level of relevant technical knowledge of the **users**. For example, in many cases it is not necessary to know the details of the underlying calculations in order to understand their results or to make decisions based on the information.

<sup>5</sup> [See paragraphs 25 to 28 of the Scope & Authority.](#)

## Descriptions

C.6.8 An **aggregate report** shall ~~include a statement of state~~ the intended meaning of any **material** description which is not uniquely defined ~~and that is applied to any material assumption or the results of any material calculations.~~

C.6.9 Examples of descriptions that may not be uniquely defined include “best estimate”, “central estimate” and “prudent”. Descriptions could be applied to assumptions, results, or other matters.

C.6.10 An **aggregate report** shall ~~include an explanation of explain~~ what the results of any **material** calculations are intended to represent.

C.6.11 Explanations may be needed for matters such as:

- ~~Reports will need to be clear about matters such as~~ the totals to which percentages apply;
- ~~the~~ the definitions of any relevant dates or periods; ~~and~~ ~~and~~
- the nature of any result presented as a value (such as market values, realisable values, fair values, book values, surrender values and transfer values) ~~among others.~~

Approved on 14 September 2009.

Version                      Effective from

1                                      1 April 2010

## PART III

# TRACKED CHANGES FROM THE JULY 2008 VERSION OF SCOPE & AUTHORITY OF TECHNICAL STANDARDS



# **BOARD FOR ACTUARIAL STANDARDS**

## **SCOPE & AUTHORITY OF TECHNICAL STANDARDS**

~~JULY 2008~~ SEPTEMBER 2009

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# SCOPE & AUTHORITY OF TECHNICAL STANDARDS

As set out more specifically in this document, compliance with all relevant Technical Actuarial Standards is compulsory for Actuaries (as defined in paragraph 8) operating within the geographic scope of Technical Actuarial Standards (as set out in paragraph 13) and responsible for the work in question (as described in paragraph 27), except to the extent of any departures and exemptions permitted or required (as set out in paragraphs 23-24). Technical Actuarial Standards labelled “Generic” apply to work specified in the Schedule to this *Scope & Authority*.

## HISTORICAL CONTEXT

- 1 Following the Morris Review of the actuarial profession, published in March 2005, HM Treasury asked the Financial Reporting Council (FRC) to take on responsibility for setting technical actuarial standards.<sup>1</sup> The FRC created an operating body, the Board for Actuarial Standards (BAS), to fulfil that obligation. Further details regarding the role of the BAS, the composition of its Board and the nature of its work can be found on the FRC website at [www.frc.org.uk/bas](http://www.frc.org.uk/bas).
- 2 In addition to the technical actuarial standards under development by the BAS, there are a number of Guidance Notes (GNs) which were issued by the Actuarial Profession<sup>2</sup> before the BAS came into existence. With effect from 19 May 2006 (and, in some case, 6 April 2007), the BAS adopted a total of 37 of the Actuarial Profession’s GNs. A further eight GNs were retained by the Actuarial Profession and remain under their authority and control. The GNs adopted by the BAS can be found on the FRC website.
- 3 The 37 GNs adopted by the BAS will be deleted over time by the BAS as new standards are introduced to replace them. In the meantime, they continue to be known as GNs. Where necessary, the legacy GNs will be revised, remaining under the GN banner, if a change is deemed necessary before the replacement standard has been developed. Some of the legacy GNs may be deleted without replacement if the BAS determines the GN to be obsolete or out of scope.

## INTRODUCTION

- 4 Technical standards developed by the BAS are designated Technical Actuarial Standards (TASs).
- 5 This *Scope & Authority of Technical Standards* relates to such TASs and, where stated, to the GNs adopted by the BAS. This document explains the authority,

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<sup>1</sup> HM Treasury also asked the FRC to take on responsibility for oversight of the UK Actuarial Profession, which the FRC carries out through a separate operating body, the Professional Oversight Board. This document relates only to pronouncements of the BAS.

<sup>2</sup> The Actuarial Profession is the name by which the Institute of Actuaries and the Faculty of Actuaries are known when working together. At the time of writing this document, the Councils of the Institute and of the Faculty have recommended to their members a merger of the two bodies, but no decision has yet been taken. Pending any revisions to this document to reflect such a merger, references in this document to “The Actuarial Profession” and to an “Actuarial Professional Body” include any successor body.

scope and application of TASs and GNs. It also describes the procedure by which the BAS issues new standards.

- 6 TASs are developed in line with the *Conceptual Framework for Actuarial Standards* published by the BAS. As stated in that document, the *Conceptual Framework* itself is not a standard. The *Conceptual Framework* exists to provide coherence and consistency to TASs. The *Conceptual Framework* does not create or impose any requirements on actuarial work. It is only when material appears in a TAS (or in a GN) that it becomes a requirement. The Compliance section of this document addresses the status and enforceability of TASs and of GNs adopted by the BAS.
- 7 The BAS may make pronouncements other than TASs or legacy GNs, for example Statutory Money Purchase Illustrations (known as TM1) and, potentially, bulletins on emerging issues. This *Scope & Authority* applies only to TASs and GNs. The authority, scope and application of any other BAS pronouncements are, or will be, identified in those documents themselves (as they are in TM1).

## INTERPRETATION

- 8 The following terms have a particular meaning in this document, regardless of their meaning in other documents or in ordinary English usage.

**Actuarial Professional Body** means either or both of the Institute of Actuaries and the Faculty of Actuaries in Scotland and any successor body in the event of a merger (see footnote 2 on page 3).

**Actuary** means any individual who is subject to a disciplinary scheme of an Actuarial Professional Body.

**Specific Technical Actuarial Standard** (and **Specific TAS**) means any TAS which is not designated by the BAS as a Generic TAS.

Some TASs are designated as a **Generic Technical Actuarial Standard** (or **Generic TAS**). This designation indicates that the standard applies to work specified in the Schedule to this *Scope & Authority*.

**Reliability Objective** means 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.

**Required Work** has the meaning ascribed to it in paragraph 15 below.

**Reserved Work** has the meaning ascribed to it in paragraph 17 below.

**Required But Not Reserved** refers to work which falls within the class of Required Work, but is not Reserved Work.

- 9 These terms are used in this document with the initial letters capitalised. Italics are used for emphasis or, as will be clear in the context, to refer to the names of documents. In this document, italics do not denote defined terms. This is a departure from the practice adopted by the Actuarial Profession in its GNs, including those adopted by the BAS.

## AUTHORITY OF BAS PRONOUNCEMENTS

- 10 The authority of BAS standards derives from the powers of those bodies which decide to recognise BAS standards and adopt any or all of them as a requirement imposed on individuals or entities which the body in question has power over. Specifically:
- The disciplinary schemes of the Actuarial Professional Bodies and the Accountancy & Actuarial Discipline Board recognise the authority of BAS standards by providing that any departure from a BAS standard may amount to misconduct, rendering the Actuary liable to disciplinary action.
  - The regulatory regimes for pensions and for insurance have recognised certain BAS standards for the purposes of requirements imposed on the entities they regulate.
  - Compliance with BAS standards is likely to be taken into account when the adequacy of actuarial work is being considered in a court of law or in other contested situations.

## SCOPE AND APPLICATION OF TECHNICAL ACTUARIAL STANDARDS

- 11 Any TAS developed by the BAS will be targeted at work (or a class of work) that is commonly (but not necessarily exclusively) performed by Actuaries. The relevant area of work will be identified within the TAS.
- 12 Even though an entity, a firm or an individual who is not an actuary may not be obliged to apply BAS standards, the BAS recognises that:
- employers or clients of Actuaries may agree to make it a contractual condition that a particular piece of work be carried out in compliance with one or more stated TASs (which may be either Generic TASs or Specific TASs), so long as the standard(s) are relevant to the work;
  - other regulators may make it a requirement of their regulatory regime that an entity or an individual adopts one or more stated TASs (which may be either Generic TASs or Specific TASs), so long as the standard(s) are relevant to the work; and/or
  - entities or individuals who are not Actuaries may apply TASs voluntarily and, if they do so, may assert that the information they have produced complies with TASs published by the BAS.
- 13 The BAS develops TASs in the context of UK legislation and regulation. The geographic scope of TASs is, therefore, limited to work done in relation to the UK operations of entities and any overseas operations which report into the UK within the context of UK legislation or regulation. This definition of scope applies regardless of the location or domicile of the person carrying out the work.
- 14 If a TAS is applied in relation to work which falls outside the geographic scope described in paragraph 13, those making the decision to apply the TAS must take responsibility for ensuring that the TAS is appropriate in the local conditions.

## REQUIRED WORK

- 15 Some work carried out by Actuaries is undertaken in order that the entity commissioning the work complies with regulations, or with some other legal

obligation, that require the entity to have the work carried out (or make certain outcomes conditional on the work having been carried out). Such work is referred to in this *Scope & Authority* as Required Work.

- 16 For the purposes of this definition of Required Work:
- a) The term *regulation* is used with its ordinary English meaning of a rule or order issued by an appropriate authority. This definition embraces primary and secondary legislation (Acts of Parliament and Statutory Instruments) and also pronouncements by those with executive authority to make binding statements.<sup>3</sup>
  - b) The *legal obligation* referred to above is the obligation on the *entity* to commission the work, as found for example in a pension scheme trust deed or an insurance policy contract. It is not the obligation on the individual(s) who carry out the work. The creation of a contract between an entity and one or more individuals to carry out the work does not make the work “required”.

### RESERVED WORK

- 17 In some cases of Required Work, the regulations or other legal obligation require the entity in question to commission the work from an individual who holds a prescribed qualification (usually Fellowship) from an Actuarial Professional Body. Such work is referred to in this *Scope & Authority* as Reserved Work.
- 18 For the purposes of this definition, Reserved Work does not include:
- a) work assigned by regulations to the holder of a unique post;<sup>4</sup> or
  - b) monitoring the work of another Actuary.
- 19 There may, however, be circumstances where an entity is required to commission some Reserved Work and elects to commission a unique post-holder to carry out that work. That work remains Reserved Work and TASs apply to that work exactly as if the entity had elected to commission any other Actuary.

### COMPLIANCE WITH TECHNICAL ACTUARIAL STANDARDS

- 20 TASs are intended to assist in the achievement of the Reliability Objective. In applying TASs, it is important to be guided by the spirit and reasoning behind them, as well as following any detailed rules. The spirit and reasoning (as well as any rules) are set out in the individual TASs.
- 21 Compliance with all relevant TASs is compulsory for Actuaries, except to the extent of any departures permitted or required by paragraphs 23-24 below and disclosed in accordance with the requirements of paragraph 22.

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<sup>3</sup> This definition *includes*, for example, accounting standards. The definition does *not* include Codes of Practice published by the Pensions Regulator, but these Codes often refer to other documents (eg legislation and statutory instruments) which *are*, of themselves, regulations.

<sup>4</sup> A “unique post” is one for which the post mentioned in the regulations exists uniquely, for example the Government Actuary, PPF Actuary or Lloyd’s Actuary. Scheme Actuary and Actuarial Function Holder are not unique posts, because there are many of them, notwithstanding that each pension scheme or insurance company has only one.

- 22 Particulars of any material departure from a TAS should be identified in the document which communicates the results of the work to which the TAS applied. The reasons for the departure should be stated, together with the further disclosures required by paragraphs 24(b)(i~~ii~~) and 24(c)(ii). It is important that the document should not be passed on to intended users of the information without all the information relating to the departure being included. A statement to this effect should be included, in appropriate terms, in the document itself so that readers of the document are made aware of the point.
- 23 To the extent that departures from a TAS have an *immaterial* effect on the results of the work in question, they need not be considered as departures and they need not be disclosed. Unless defined otherwise in a TAS, a departure should be considered material if, at the time the work is performed, the effect of the departure (or the combined effect if there is more than one departure) could influence the decisions to be taken by the intended recipients of the work product.
- 24 Further departures from a TAS are permitted or required as follows:

**a) Reserved Work**

- (i) There may be extremely rare circumstances in which the Actuary responsible for a piece of Reserved Work concludes that compliance with all the requirements of a particular TAS would be so wrong or misleading that it would conflict with the Reliability Objective.

In such cases, the Actuary *should* depart from the requirements, but only to the minimum extent necessary to remove the conflict with the Reliability Objective. Informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with the actuarial and commercial characteristics of the circumstances concerned, as well as consistent with the Reliability Objective.

- (ii) In addition, there may be circumstances in which compliance with a TAS would result in a failure to meet the legal or contractual obligation that governs the Reserved Work. In such cases, the Actuary may depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.

**b) Work that is Required But Not Reserved**

- (i) The departures required in rare circumstances by paragraph 24(a)(i) above are required also in relation to work that is Required But Not Reserved.

- (ii) In addition, there may be circumstances in which compliance with a TAS would result in a failure to meet the legal or contractual obligation that governs the Required Work. In such cases, the Actuary may depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.

- (iii) In addition, there may be circumstances in which the Actuary responsible for a piece of work concludes that the objectives for which the work was commissioned would be better met by departing from

some of the requirements of a relevant TAS. In such cases, the Actuary *may* depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.

(iv~~ii~~) Where it is feasible to do so, without adding disproportionately to the costs, the document which communicates the results of the work should include a quantification of the effect of any departure permitted by paragraph 24(b)(ii) or, in the case of qualitative information, the implications of the departure.

**c) All other work**

- (i) The departures required in rare circumstances by paragraph 24(a)(i) above are also required in relation to all other work.
- (ii) The departures permitted by paragraph 24(b)(iii) above are also permitted in relation to all other work, provided that disclosures are made as set out in paragraph 24(b)(iv~~ii~~).
- (iii) In addition, those responsible for commissioning work may instruct the Actuary responsible for carrying it out to depart from specified (or all) requirements of TASs. Notwithstanding that those who commissioned the work instructed the departure(s), the disclosure requirements set out in paragraph 22 above still apply (but not those required by paragraph 24(c)(ii)).

**ACTUARIES WORKING IN CONJUNCTION WITH OTHERS**

- 25 As noted in paragraph 10, the authority of BAS standards derives from the powers of those bodies which decide to recognise BAS standards, not from the BAS itself. In some cases, the authority derives from the regulatory regime governing the entity which commissions work from the Actuary and the TAS applies, therefore, to the entity.
- 26 In other cases, however, for example in relation to disciplinary action taken by an Actuarial Professional Body, the authority is solely over Actuaries, not over the entity that commissioned the work from the Actuary. Where the authority is over the Actuary, not the entity, and one or more Actuaries work alongside non-Actuaries, the Actuaries are required to apply TASs only to the extent that one or more of the Actuaries is responsible for each part of the work for which a TAS is relevant.
- 27 For this purpose, an Actuary is defined as being “responsible” for (part of) the work, if he or she has the authority to determine, or to veto, the content of (the relevant part of) the final work product, whether or not any other individual also has an equivalent authority, or power of veto, over the work. This is a matter which, in the event of an allegation of misconduct or negligence, may have to be determined by the appropriate tribunal.
- 28 For the purposes of the BAS’s definition of “responsible”, being a signatory or a joint signatory of the work would normally be strong prima facie evidence that the individual had the authority to prevent, or to disclose, departures from TASs. But delegating the role of signatory to another person would not, of course, prove that someone other than the Actuary was responsible for the work.

**COMPLIANCE WITH LEGACY GUIDANCE NOTES**

- 29 The GNs published by the Actuarial Profession were classified as Practice Standard, Recommended Practice or a combination of the two. That same classification has been retained by the BAS unaltered in relation to the GNs adopted by the BAS and the meaning associated with those classifications remains unchanged, as set out below.
- 30 A GN adopted by the BAS and classified as Practice Standard is mandatory unless the Actuary can show that any departure from strict compliance with any aspect of the GN had been adequately disclosed and that there was reasonable justification for the course of action in question.
- 31 A GN adopted by the BAS and classified as Recommended Practice is not mandatory. The contents are recommendations only.

**THE DEVELOPMENT OF TECHNICAL ACTUARIAL STANDARDS**

- 32 Topics that become the subject of a TAS are identified by the BAS either from its own research or from external sources, including submissions from interested parties. In particular, the BAS liaises regularly with the Actuarial Profession regarding areas of practice for which new standards may be required.
- 33 When a topic is identified by the BAS as potentially requiring the issue of a TAS, the Board commissions its staff to undertake a programme of research and consultation. This programme involves consideration of and consultation on the relevant conceptual issues, existing pronouncements and practice in the United Kingdom and overseas and the economic, legal and practical implications of the introduction of particular actuarial requirements.
- 34 When the issues have been identified and debated by the BAS, a consultation paper is normally produced and notification of it is circulated to relevant parties, including actuaries and those who have registered their interest with the BAS.
- 35 In the case of a new TAS or substantial revisions to an existing TAS, the first consultation document normally identifies the relevant issues, together with one or more policy options and questions on which the BAS would like respondents to express their views. Once the BAS has given due consideration to the submissions received, it develops and publishes an exposure draft of the proposed content of the TAS. Respondents are invited to comment on the content and also to indicate their views on the time needed (if any) to prepare for implementation of the TAS.
- 36 Where exposure drafts would cause changes to be made to other previously issued publications, any such consequential changes will be identified.
- 37 The text of the proposed TAS will be refined in the light of feedback on the exposure draft. If the BAS deems it necessary, there may be a further period of public or selective exposure prior to the issue of the TAS. Once the text has been finalised and approved by the BAS, the TAS will be published including an announcement of the start date. As a practical matter, the start date will be set sufficiently into the future to enable those who will be affected by the standard to prepare for its implementation.
- 38 Written representations received in response to public consultations and exposure drafts are given full and proper consideration by the BAS, and will

be published on the FRC's website, unless the respondent requests confidentiality. Although the BAS weighs carefully the views of interested parties, the ultimate content of a TAS must be determined by the Board's own judgement based on research, public consultation and careful deliberation about the benefits and costs of providing the resulting information.

- 39 In the case of minor revisions to an existing TAS, or revisions required to reflect changes in external circumstances which leave no real scope for debate about the required revisions, the BAS may proceed straight to an exposure draft. In rare cases, where the revisions are of such a minor nature that even an exposure draft is unnecessary (for example because the change relates to a legislative cross-reference which has been altered), the BAS may proceed straight to an amended version of the TAS without any public consultation.

#### **UNFORESEEN CIRCUMSTANCES**

- 40 It is conceivable that unforeseen circumstances may arise in which it becomes a matter of some urgency that a new standard should be written or an existing standard amended. In the event of such an occurrence, the BAS will issue an "Urgent Issue TAS", adopting an expedited development process commensurate with the urgency of the circumstances (and an early review – see paragraph 47 below).
- 41 Unless stated otherwise in the Urgent Issue TAS, it will have the same scope and authority as set out in this document.

#### **TECHNICAL ACTUARIAL STANDARDS AND THE LEGAL FRAMEWORK**

- 42 In deciding the most appropriate treatment, the BAS must consider the environment in which its standards are to be applied. The legislation which reporting entities must comply with forms an important part of that environment. Accordingly, TASs are drafted in the context of prevailing United Kingdom legislation and European Union Directives with the aim of ensuring consistency between actuarial standards and the law. More specifically, the BAS will take account, where appropriate, of the regulatory requirements of the Financial Services Authority, the Pensions Regulator and any other relevant regulatory body.

#### **EARLY ADOPTION OF TECHNICAL ACTUARIAL STANDARDS**

- 43 Some individuals or entities may wish to comply with a standard in advance of the published start date. In some circumstances this is acceptable and is to be encouraged if the individual or entity concerned does not need the full amount of time allowed to prepare for implementation.
- 44 There are, however, occasions when early adoption is not appropriate. This would typically be the case when, for example:
- a) compliance with the new standard would put the entity in breach of the existing standard; and/or
  - b) a standard is to come into force in parallel with other events, such as a change in legislation, without which the adoption of the standard would be premature.
- 45 When announcing a new standard, the BAS will normally indicate whether early adoption is appropriate or not.

## REVIEWS OF EXISTING TECHNICAL ACTUARIAL STANDARDS

- 46 TASs are issued against the background of a business environment that evolves over time. Once published, the BAS will keep TASs under review. The BAS will liaise in particular with the Actuarial Profession, the relevant financial regulators and users for their comments on the continuing effectiveness of standards. The BAS welcomes comments from others who may wish to make direct representations.
- 47 It will normally be appropriate to allow new TASs a period in which to become established before commencing a review. For some standards, a substantial period of time may be needed before their effectiveness can be judged, but there may be reasons why an earlier review is appropriate in some cases, especially so in the case of an Urgent Issue TAS (see paragraphs 40-41 above).

## SCHEDULE

- 48 The Schedule referred to in the definition of “Generic TAS” in paragraph 8 of this *Scope & Authority* is set out on the following page.

Approved with effect from ~~31 July 2008~~ [30 September 2009](#).

| <u>Version</u> | <u>Effective from</u>    |
|----------------|--------------------------|
| <u>1</u>       | <u>31 July 2008</u>      |
| <u>2</u>       | <u>30 September 2009</u> |

## SCHEDULE

For the purposes of the definition of “Generic TAS” in paragraph 8 of this *Scope & Authority*, the specified work to which a Generic TAS applies is as follows:

Work which falls within the scope of one or more Specific TASs.

[Reserved Work.](#)

[Any work which is presented as complying with TASs whether expressly or by implication.](#)

Schedule approved with effect from ~~31 July-September 2008~~ [30 July-September 2009](#).

| <u><a href="#">Version</a></u> | <u><a href="#">Effective from</a></u>    |
|--------------------------------|--|
| <u><a href="#">1</a></u>       | <u><a href="#">31 July 2008</a></u>      |
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Government Actuary's Department

Pension Protection Fund

Society of Pension Consultants

The Pensions Regulator

The Actuarial Profession

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