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The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

basaccounts@frc.org.uk

Dear Sir or Madam

Actuarial information used for accounts and other financial documents

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the consultation paper *Actuarial information used for accounts and other financial documents*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Dr Claire Stone ACA
Manager, Audit & Reporting
Financial Services Faculty

T +44 (0)20 7920 8446
F +44 (0)20 7920 6009
E claire.stone@icaew.com

ICAEW REPRESENTATION

ICAEW REP 01/10

ACTUARIAL INFORMATION USED FOR ACCOUNTS AND OTHER FINANCIAL DOCUMENTS

Memorandum of comment submitted in January 2010 by The Institute of Chartered Accountants in England and Wales, in response to the Board for Actuarial Standards consultation paper, 'Actuarial information used for accounts and other financial documents' published in October 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Actuarial information used for accounts and other financial documents* published by the Board for Actuarial Standards (the Board).

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. The Institute's Financial Services Faculty was established in 2007 to become a world class centre for thought leadership on issues and challenges facing the financial services industry, acting in the public interest. It draws together professionals from across the financial services industry and from the 25,000 members specialising in the sector. This includes those working for regulated firms, in professional service firms, intermediaries and regulators.

MAJOR POINTS

5. We agree that a key question is whether there should be a separate Technical Actuarial Standard (TAS) for actuarial information used for accounts and other financial documents (paragraph 1.17). In our view, there is not a strong case for a separate Accounts TAS and we think the information should be within the scope of other TASs, including the forthcoming exposure draft pensions and insurance TASs. It may be preferable to condense the accounting principles and include them as brief stand-alone sections in the insurance and pensions TASs.
6. In the area of pensions, we note that the pensions TAS proposals specifically exclude accounting for pensions under International Accounting Standard (IAS) 19 and Financial Reporting Standard (FRS) 17, although it does refer to the triennial calculations actuaries perform for pensions scheme trustees and the Pension Protection Fund and Pensions Regulator. Rather than developing a new accounts TAS, we recommend that the Board provide guidance on actuarial pension information for accounts purposes in the pensions TAS.
7. In the event that the Board does decide to proceed with an accounts TAS, we consider it should avoid duplication of guidance in International Standards of Auditing (UK and Ireland) and Practice Notes issued by the Audit Practices Board.
8. As we will explain in the body of our response, the scope of the proposed accounts TAS is insufficiently clear. Were the Board to proceed with an accounts TAS there would need to be absolute clarity on scope.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Should there be a separate TAS for actuarial information used for accounts and other financial documents? Respondents are asked to consider the benefits to users of actuarial information (including the preparers of accounts and auditors) and to practitioners complying with BAS standards. (paragraphs 1.17 to 1.20)

9. We do not think that a separate TAS for actuarial information used for accounts and other financial documents is required. In our view, the range of TASs which the Board has developed to date and those it is currently working on, including on reporting, data, modelling, insurance and pensions are generally sufficient to meet the needs of both users and actuaries as far as accounts and other financial documents are concerned. One area we have identified where guidance may be insufficient is in relation to actuarially-generated accounting data used for pensions costs under IAS 19 and FRS 17, which we suggest should be dealt with by expanding the scope of the pensions TAS.

Q2: Will the proposed purpose of the TAS on actuarial information used for accounts and other financial documents that is set out in paragraph 2.7 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?

10. Paragraph 2.7 suggests that the accounts TAS should assist the achievement of the reliability objective by ensuring that investors, auditors and other readers of accounts and other financial documents can rely on and understand actuarial calculations used in those documents. It is in fact the role of directors, not of actuaries, to present information to investors. The expectation that readers of accounts should be able to understand actuarial calculations is high and one that most will not stretch to. Many users are likely to be content to understand key judgements, assumptions and sensitivities rather than getting into the detail of the calculations themselves. Indeed, financial statements are only required to give certain information in respect of actuarial data rather than the detailed calculations themselves.

Q3: Do respondents agree that the proposed scope of the accounts TAS should be the provision of actuarial information for the preparers or auditors of any accounts or related financial documents which are required by statute or other regulations (including stock exchange listing rules) but excluding those produced solely for the use of regulators? (paragraph 4.6) If respondents believe that the scope should be different they should set out their preferred approach with reasons.

11. The proposed scope of the accounts TAS is vague. For example, references both in the title of the consultation paper and within it to 'other financial documents' are unclear and could give rise to confusion. Regulatory returns for insurers are public financial documents but would be outside the scope of the TAS - it would be better if the title and scope clearly captured only the types of information that were actually within scope. Accordingly, if an accounts TAS were to be developed, better definitions would be needed to make the scope clear. We find it surprising that non-mandatory embedded values information is included, when the principle is to focus on information required by statute or other rules. In addition, we recommend that the term 'actuarial information' is defined to avoid ambiguity. See also our response to questions 5-7 below.
12. We consider there would be significant overlap between the insurance TAS and accounts TAS. This duplication is one of the reasons that leads us to question whether a separate accounts TAS is necessary.
13. Audit work is already covered by International Standards on Auditing (UK and Ireland) and Practice Note 20 *The Audit of Insurers in the United Kingdom (revised)*, and any guidance given by the Board should be consistent with advice already given by the APB.

Q4: Do respondents agree that provision of actuarial information for preliminary statements of annual results should be in the scope of the accounts TAS? (paragraph 4.27)

14. In the event that the Board decided to proceed with an accounts TAS, we agree that the provision of actuarial information for preliminary statements should be within its scope. The actuarial work should be completed before the preliminary statements are published.

Q5: Do respondents agree that provision of actuarial information for material which is made publicly available, but which is not required by any formal rules or regulations, should be in the scope of the accounts TAS? (paragraph 4.30)

Q6: Do respondents agree that provision of actuarial information for internal budgeting exercises should not be in the scope of the accounts TAS? (paragraph 4.35)

Q7: Is there any other work which respondents believe should be within the scope of the accounts TAS? (section 4)

15. Taking questions 5, 6 and 7 together, we find the consultation paper to be confusing as far as scope is concerned. If the provision of publicly available information were to be generally considered within scope, we would expect that the returns made to regulators which are publicly available would also be included. There is a lack of focus about what the objectives of the accounts TAS are, what the rationale is for the inclusion or exclusion of different 'financial documents' and how it is intended to tie in with existing standards.

Q8: Are there any data issues specific to accounts and other financial documents which respondents believe should be covered by principles in the accounts TAS? (section 5)

16. None identified.

Q9: Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, and in particular on the principles proposed in paragraphs 6.6, 6.9, 6.10, 6.13 and 6.17?

17. On the principle proposed in 6.10, we think that only taking into account information available at the effective date of the calculations is inconsistent with accounting standards, which require certain post-balance sheet events to be treated as adjusting.

Q10: Are there any other principles on the selection of assumptions which respondents believe should be in the accounts TAS?

18. The Board's standards will need to be address how an actuary will communicate significant uncertainties, such as a situation where a very wide range of assumptions can reasonably be made. We think that this matter is best dealt with in the reports TAS to ensure that the actuarial profession take the same approach in reporting for all aspects of their work, be that for accounts or other purposes.

Q11: Do respondents have any comments on the proposed principle regarding materiality levels for accounting purposes in paragraph 7.4?

19. We are concerned that the paper puts forward two different approaches to materiality. At 3.2, the 'vital concept' is defined in relation to how it may influence decision makers whereas at 7.4 materiality levels are determined in relation to the materiality levels for accounting purposes. We would prefer to see a consistent approach being taken by the paper, and would also want to see consistency with accounting and auditing standards.

Q12: Are there any specific issues relating to modelling and calculation work for actuarial information provided for accounts and other financial documents which respondents believe should be covered by principles in the accounts TAS?

20. No, we would expect other TASs to deal with such matters.

Q13: Do respondents have any comments on the proposed principles on reporting in paragraphs 8.4 and 8.6?

21. We support the proposed principles on reporting. In particular, we think that information on where within a range an assumption lies would be of interest. Indeed, the concept of ranges could be applied more widely. It would prefer to see principles on reporting included within the reports TAS than to have a new accounts TAS developed.

Q14: Are there any other principles on reporting which respondents believe should be in the accounts TAS? (section 8)

22. We think that users will be most interested in reporting. We would expect principles on reporting to be in the reports TAS. Again, this leads us to question whether there is a real requirement for an accounts TAS.

Q15: Do respondents have any views on whether accounts TAS should require the user to be given an indication of the time constraints for actuarial work in relation to reporting pensions costs for company accounts?

23. Formal pensions valuations are typically done once every three years and take up to a year to complete. For International Accounting Standard 19/Financial Reporting Standard 17 purposes roll-forward estimates are typically performed, which means that the accounting information is less up-to-date than the triannual valuation prepared for trustees. We do not think an indication of the impact of these time constraints on actuarial work would be helpful to most readers. It is important that users have confidence in the actuarial information in the financial statements. Further, given the wide public interest in pension liabilities communicated in financial statements, we consider that an extension to the pensions TAS should provide tangible professional guidance rather than the "health warning" on time constraints you have proposed for the accounts TAS.

Q16: Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9.

24. We have not considered the transitional arrangements.

Other comments

25. Whilst the consultation paper covers both life and general insurance, it appears to have been written mainly from a life insurance perspective, and we have the following observations:

- 1.10 states that 'the underlying calculations are carried out by a Reporting Actuary' but this isn't a requirement for non-life companies;
- 1.11 says that the actuary provides an opinion on the liabilities in a syndicate's accounts, whereas the opinion is on the syndicate return (and is a rather different sort of opinion to other actuarial opinions);
- 4.15 refers to these 'long term liabilities' under IFRS reporting but this section should cover both life and non-life;
- 4.19 the description of deferred acquisition costs accounting is wrong for a non-life company;
- 4.21 is correct if the above points are taken into consideration;
- 4.38 states that the reinsurance to close is just the incurred but not reported (IBNR) claims which is not the case.

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