



The Actuarial Profession

making financial sense of the future

consultation response

**Board for Actuarial Standards
Structure of new BAS Standards (and
implications for adopted GNs)**

Comments from the Actuarial Profession

August 2008

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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1 August 2008

Reference: RM/KC/Consultation

Dear Sirs

**Structure of new BAS Standards (and implications for adopted GNs)
Response of the Actuarial Profession
Executive Summary**

We are generally supportive of the direction of the proposals for the specific standards, but are less so concerning the proposals for generic standards. In particular the generic standards have the potential to impose additional standards on members of the profession compared to non members performing similar tasks. Currently this is mitigated by the fact that the generic standards are only 'in force' when linked to work performed under a specific standard. Care should therefore be taken to ensure that there is clarity for the end user on the application of any standards. We are comfortable accepting the generic standards as setting out "best practice" (covering as they do tasks not exclusively performed by actuaries).

The move to a principles approach, from a prescriptive approach, is in line with the approach used in wider financial regulation, which we support. However the rules-based approach in the existing Guidance Notes might still be necessary in some cases, for example where standards relate to specific regulatory obligations. This will need to be dealt with on a standard by standard basis.

It is clear from the proposals that parts of the existing guidance notes which are primarily conduct or behavioural in content will not be included in the new BAS Standards. The Profession will consider whether or not it might be desirable to re-adopt these as Actuarial Profession Standards and will work with BAS to ensure this happens in an orderly fashion – in particular, we would not

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wish to have any gap in coverage, which could mean some slight change in the proposed timetable.

Responses to the questions posed in the consultation

- 1) *Do respondents have any views on the proposals for generic standards and their contents, as set out in section 2? In particular, respondents are asked to comment on whether the proposed generic standards between them cover the principal concepts that are common across the main areas of actuarial work that fall within the scope of BAS standards.*

The generic standards cover areas of work performed by non actuaries. Many companies will have their own standards in these areas. Also, there is increasing activity in the Regulatory arena in these areas (for example, the current proposals for Solvency II in Insurance include all the areas proposed for generic standards). Hence there is a risk that these standards will further complicate the control environment in these areas. Where there is a Regulatory standard or requirement for work and controls in the area of data, modelling, and reporting, having an additional Actuarial standard might not be appropriate, or add much value to the end user. We would be concerned if the generic standards imposed additional controls on actuaries performing work already defined in Regulation.

Whilst we understand that the generic standards are only to apply when the work is connected to work outlined in a technical standard, this subtlety will be hard to detect for an external user.

- 2) *Section 3 describes proposals for specific standards and their contents. In that context,*

- a) *Do respondents think that issues arising from different group structures can be incorporated into the proposed specific standards or that a separate standard is needed?*

As the standards will be principles based, focussing on generic types of risk (general insurance, life insurance) we do not believe it is necessary to have a standard for each type of group structure.

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b) Do respondents agree that matters concerning post-retirement medical plans should be covered in the appropriate specific standards?

The proposal to address standards for post-retirement medical plans in other appropriate standards would seem to be reasonable today, but if that proved not to be the case in the future, then we would support a separate standard

c) Do respondents agree that Skilled Person reports should be covered in the specific standard on business rearrangements?

This seems to be a sensible proposal

d) What views do respondents have on whether there should be a separate specific standard covering actuarial information for financial statements?

The vision to have a single body providing guidance for disclosure of actuarial information in financial statements is admirable, but almost certainly unachievable. Many of the reasons are given in the consultation document – the multitude of regulators and other bodies who would need to ‘cede’ their powers to BAS; the fact that BAS is only applicable to UK actuaries operating in the UK.

Where actuarial information is required in financial statements, the responsibility for defining what is to be disclosed lies with the body controlling that type of reporting. At this time, we see no role for BAS in this arena.

3) Section 4 describes criteria that the structure of the new book of standards should meet, and proposes a structure.

a) What views do respondents have on the two criteria?

We agree that ease of use by actuaries, and by users of actuarial information, are key criteria for the structure. We would add further that that it should also be easy to see what the standard was at any particular date in the past. Whilst the structure proposed would appear to adhere to these

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criteria, in the current technological age, it should not be too challenging to utilise search techniques on alternative structures. Thus whilst we agree the criteria, we are not wedded to the solution proposed.

b) What views do respondents have on the preferred structure and its ease of use?

The ease of use will be determined to a large extent by the sophistication of the technology behind it.

4) Do respondents have any comments on the proposed treatment of the adopted GNs that is described in section 5?

The proposals appear reasonable

5) Do respondents foresee any particular problems entailed by the disapplication of the following GNs:

a) GN3, GN4, GN10, GN11, GN13, GN17, GN19, GN39, GN42, GN49 and GN51 in the third quarter of 2008?

b) GN22 on 1 November 2008?

The Actuarial Profession may want to reinstate some of the disappplied GNs in their entirety, where the content is wholly related to conduct and behaviour. We would wish to ensure that there are no regulatory gaps and we shall work to ensure good co-ordination between our respective executives.

6) Do respondents have any comments on the overall timetable proposed in section 6, or on the order in which standards will be developed?

The timetable proposed is realistic. We would expect sufficient time at each step for consultation to take place, and feedback to be provided. It would be helpful if standards were set for the amount of time each stage in the process would have for consultation and feedback.

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Other comments

We recognise that BAS has a pure UK remit. We may have some further concerns regarding actuaries based in the UK but dealing with overseas matters e.g. GN13 and may respond further on this.

As failure to adhere to a BAS standard will be a basis for complaints against Actuaries, we assume appropriate legal advice is taken by BAS when drafting a standard, to ensure that the standard could be enforced by the disciplinary process of the Profession and AADB.

We hope that the foregoing is of interest to the BAS. If you require clarification on any of the aspects contained herein then please do not hesitate to contact me.

Yours sincerely

Richard Maconachie
Secretary
Professional Regulation Executive Committee

please reply to the Faculty, Edinburgh