INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

September 2013 Examinations

Subject SA4 – Pensions and other Benefits
Specialist Applications

Introduction

The Examiners' Report is written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

D C Bowie
Chairman of the Board of Examiners

January 2014

General comments on Subject SA4

This subject examines the ability of candidates to apply actuarial practice and concepts, together with specific knowledge of the UK pensions and employee benefit environment to potentially complex problems, integrating their analysis into a coherent whole, and evaluating and interpreting results to draw explicit conclusions.

The examiners therefore look for candidates to demonstrate their understanding of the syllabus by applying their knowledge and core actuarial skills to the specific situation that the examiners asked, having read the question carefully. Many of the unsuccessful candidates produce overly generalised answers relating to the subject matter of the question, reproduce non-specific core reading that does not directly relate to the question context, or focus on one aspect of the issue at length without covering the whole range of the question. This does not enable the candidates to achieve the required marks. **As stated last year, the examiners encourage future candidates to remind themselves of what they learned in the Core Actuarial subjects, and to use past paper questions to practice applying these skills to the specific scenarios tested.**

Good candidates demonstrate that they have structured their solutions well – this is a big advantage in making points clearly and without repetition. This also enables candidates to use the latter parts of questions to generate ideas for answers to the early parts (or use their solutions to earlier parts of questions to create a structure for latter parts). Time management is important so that candidates give answers to all questions that are roughly proportionate to the number of marks available.

Comments on the September paper

The overall standard of scripts was a little better than in the previous session, and this was reflected in a slightly higher pass rate. Candidates always appear to find the step up to a smaller number of more involved questions relatively difficult, finding the application aspects of the course harder to score well on. This is an area that SA candidates consistently need to work harder on in preparation. Breaking the question down into smaller parts, ensuring that answers specifically refer to the details of the question, using all of the information in the question pre-ambles will always score better.

1 (i)

- The scheme's statutory funding objective
- Any additional funding objectives
- The circumstances in which anyone other than the employer might contribute
- The circumstances in which payments may be made to the employer
- The extent to which discretionary powers have been taken into account
- The frequency of valuations
- When additional valuations might be carried out
- Policy towards cash equivalent transfers if a deficit exists
- How, and over what period, any deficit will be met
- Description of actuarial assumptions to determine technical provisions and for use in Recovery Plan

(ii) Work has to be done by qualified actuary
with scheme actuary certificate
certificate is renewed annually
with minimum CPD requirements

advice in the valuation is covered by TASs
Generic TASs R, M, D
(additional ½ mark for explanation of content of TAS R, M and D)
and Pensions TAS P

Also consider APS1 – Ethical Standards
And APS2 – Compliance Review
which states that the valuation work needs to be peer reviewed
by an actuary with comparable knowledge….

The actuary must certify that the technical provisions have been calculated in accordance with the regulations

Also consider the Actuaries Code
Consisting of a number of high level principles designed to protect the public interest

(iii) Assume contracted-in, or effects of contracting-out are ignored.

Assume that the scheme is funded using the projected unit method, and that the SCR is paid (i.e. there is no adjustment for the surplus)

Assume that the discount rate is set by reference to the assumed investment return

Assume 5% as weighted average of 5.5% and 4%, and estimate £4.25m non-increasing pensioner payroll, £5m total pensioner payroll.

Assume no movements, salaries, revaluation, pension increases in line with assumptions. Assume contributions paid on average half way through year.

Assume that cashflows (other than pensions in payment and contributions) are not significant.

Assume 1% change in net discount rate results in 16% change in pension liabilities for non-pensioners and 14% for pensioners. Assume actives have 15 years until retirement, deferreds 12 years

Ignore mortality pre-retirement
and any withdrawals from active/employed status
Assume mortality and other demographic assumptions have remained the same

2012 Roll forward

Assets – £165m × 1.05 + £10m × 25% × $1.05^{0.5}$ x $1.04^{0.5}$– £1m x$1.029^{0.5}$ × $1.05^{0.5}$ = £174.8m (1 mark)
Annuities – £60m × 1.04 – £4.25m × $1.04^{0.5}$ = £58.1m (0.5 marks)

Technical Provisions

Pensioners – £100m × 1.04 – £5m × $1.04^{0.5}$ x $1.029^{0.5}$= £98.8m (0.5 marks)
Active Members – £70m ×1.055 + £10m × 25% × $1.055^{0.5}$ x $1.04^{0.5}$= £76.5m (1 mark)
Deferred Members – £50m × 1.055 = £52.8m (0.5 marks)

Surplus – 174.8+58.1-98.8-76.5-52.8=£4.8m (0.5 marks)

2013 Basis Change

Change in i for annuities = 4% – 3% = 1% (0.5 marks)
Change in $i–p$ for pensioners = (4% – 2.9%) – (3% – 2.4%) = 0.5% (0.5 marks)

Annuities – £58.3m × 1.14 = £66.5m (0.5 marks)
Pensioners – £98.9m × 1.07 = £105.8m (0.5 marks)

Actives – £76.5m × $(1.055/1.045)^{15}$ × $(1.035/1.04)^{15}$ × 1.08 = £88.7m (1 mark)
Deferred – £52.8m × $(1.055/1.045)^{12}$ × $(1.025/1.03)^{12}$ × 1.08 = £60.3m (0.5 marks)

Surplus – 174.8+66.5-105.8-88.7-60.3= -£13.5m (0.5 marks)

(iv) Although annuities are investment the extra return won't affect funding position as there is an equal liability

Expected assets from (iii) £174.8m
However, extra contributions will have been paid
Assume increases half way through year

Extra 4% of £10m = £400k
So extra conts of 25% × £400k/2 = £50k
Actual assets – £180m
So £5.15m surplus from investment return

If salary increases were 4% not 8% then liability £90m × 1.04/1.08 = £86.7m
Loss of £3.3m
Note extra contributions paid = £50k as above
So total loss of £3.25m

Pensioners – expected increase was 2.9% – actual 4%
Liability would be £104m × 1.029/1.04 = £102.9m = £1.1m loss
Extra pension also paid – Assume increase half way through year
1.1% × £5m (from above) / 2 = £0.03m
Total loss = £1.1m
Deferreds – expected increase was 3% – actual 4%
Liability would be £59m × 1.03/1.04 = £58.4m = £0.6m loss
Actives – possible loss if there is a withdrawal assumption
But not quantifiable

(v) Interest on surplus brought forward
Mortality – pre- and post-retirement
Withdrawals
Transfers out/in
Amount of cash taken at retirement
Contributions different to that assumed
Early/late retirements
Individual benefit augmentation
Benefit changes due to legislation
Error in calculations

(vi) Benefits will be different
For active members:

- Salary link will be lost
- Benefit based on final pensionable salary calculated at valuation date
- Revaluation in line with inflation
- Assuming inflation lower than expected future salary increases

Any discretionary benefits possibly ignored
Different treatment of member options
Assumptions will be based on estimate of what insurer will charge
And probably stronger than prudent ongoing assumptions
Could also include an expense assumption in solvency estimate

(vii) The discontinuance estimate produced at July 2012 was the Scheme Actuary's estimate of the cost of buying out liabilities at that time.
and the quotation is an actual price from a single insurance company
which may have a different effective date to that assumed by the Scheme Actuary
the insurer will have different assumptions
discount rates will be based on actual assets backing the liabilities

and the actuary will not know what these are
likely to have discount rate changing over time
whereas actuary's estimate will probably have a single rate
or possibly split pre- and post-retirement
yields could have changed since the valuation date
insurer could include a contingency loading
the insurer's inflation assumption will also be different to that used by the scheme actuary
as will the mortality assumption, both in relation to the base table
and the allowance for future improvements
noting that the insurer may have done a more in-depth analysis for the Scheme e.g. using postcode data.
actual proportion married
and spouse's age difference

The Scheme Actuary's expenses assumption is likely to allow for both the insurer's expenses and the administration and adviser expenses associated with winding up the Scheme.
the insurer's assumption will only include their expenses

Insurer may include a loading if data quality is not perfect
the insurer's quote will depend on whether they want the business or not
if they don't want it then may deliberately quote higher price
or they may offer preferential terms e.g. if they have already secured part of the liability for pensions in payment

Those candidates who clearly approached the calculation section methodically, taking time to plan the approach, scored better. Marks are given for method even if an error is made, so it is important to follow through the whole process. Candidates who calculated an answer they identified with a sense check as being incorrect could still score almost full marks if they stated their findings. In the latter part of the question, those who again broke the question down and identified the areas to be covered with some comments of detail scored well. This question definitely drew out depth of understanding which is critical at this stage of the exams.

2 (i)

- **Potential Employer Adverse Outcomes**
    - Short term cash costs are too high/higher than budgeted – generally caused by sustained/short term adverse experience against assumptions underlying technical provisions.
    - Profit and loss cost is too high/higher than predicted – generally caused by sustained/short term adverse experience against assumptions underlying accounting calculations, particularly the discount rate.
    - Negative impact on balance sheet – generally caused by sustained/short term adverse experience against assumptions

underlying accounting calculations, including actual fund performance, discount rate and other material experience items.

- Excessive volatility in cash/accounting costs – generally caused by significant mismatching of assets against liabilities.

- Negative impact on workforce planning as members reach retirement – generally caused by pensions delivering too much (excessive demands for early retirement) or too little (employees seek to remain in employment).

- Reputational/IR issues if scheme fails to deliver a reasonable level of pension at retirement – generally caused by member underwriting financial risks of the scheme and those risks materialising through poor performance.

- Reputational damage arising from compliance breaches – arising from poor decision making, perhaps following poor or inappropriate advice, or fraud, or other asset misappropriation.

- Insufficient liquid assets to meet sudden cash demands – e.g. caused by significant retirement lump sums and/or high demands for cash equivalent transfer values

- Negative impact on recruitment and retention of staff – caused by low or badly designed benefits, and/or low levels of understanding

- A risk of shareholder dissatisfaction – e.g. if the shareholders are unhappy that money needed to grow the business has to be paid in to the pension scheme

- **Potential Employee Adverse Outcomes**

  - Member contribution rates increase – unless planned, generally caused by poor financial performance of the scheme, and member underwrites the cost (or employer seeks to pass on part of the cost increase).

  - Scheme does not deliver a reasonable level of pension at retirement (or other types of exit) – either caused by low level of target benefits, or by poor financial performance of the scheme (and member underwrites the cost) or by scheme resources being insufficient to pay target level of benefits (and employer defaults on contribution obligations).

  - Complexity of scheme/lack of financial understanding causes poor decision making where employee is given choice – for example, member does not understand risk/return characteristics of investment choices (where member underwrites the financial risks) or the value of different options (e.g. cash commutation at retirement, transfer value offers).

- It is difficult to predict the level of pension at retirement (or other modes of exit) – generally caused by member underwriting the financial risks and not taking/or being able to take protective action as retirement approaches.

- Inflexible scheme design meaning that the scheme does not deliver appropriate benefits in certain contingencies e.g. dependant's benefits, or in the event of high inflation (if pension is fixed in payment)

(ii)

- **Final salary schemes/outcomes for employer**

  - Cash costs too high/p&l charge too high/adverse impact on balance sheet – significant risk to the employer because of uncertainty of key assumptions, prescription in the assumptions required for the calculations (e.g. need to be prudent in determining technical provisions) and no ability for the employer to reduce accrued rights.

  - Excessive cost volatility – significant risk to the employer since difficult to match liabilities with appropriate assets (except bonds which can produce low returns)

  - Workforce planning impact – abolition of compulsory retirement age makes it more difficult for employers to manage headcount at older ages, but can be mitigated in part by effective use of early retirement/flexible retirement options.

  - Pensions too low – not generally a risk with final salary schemes assuming the scheme is well designed and caters appropriately for low earners/part-timers.

  - Compliance breaches – significant complex rules relating to final salary schemes mean there is a very real risk that decision makers get things wrong and are punished as a result

  - Lack of liquidity – unlikely that scheme will have so many illiquid assets that short term cash requirements are not met

  - Negative impact on recruitment/retention – this may be a risk if the scheme is poor compared to those provided by competitors and peer group employers. However, final salary schemes are now less common for new hires and are usually viewed favourably in comparison to defined contribution schemes.

- **Final salary scheme/outcomes for employees**

  - Contribution rate increase – generally members pay contributions at a fixed rate but it is permitted to increase the rate (and many employers have done so) after consultation with the members.

- Pensions too low – see response above.

- Complexity impedes effective decision making – it is almost impossible for members to understand whether an option is priced fairly and this is therefore a significant risk. Controls exist in some areas (e.g. transfer value pricing) but not in others (e.g. cash commutation terms).

- retirement planning – high level of pension certainty (as a percentage of pay) as long as the scheme is able to pay the pension. Creation of PPF and stronger funding targets has helped to reduce the default risk.

- Inflexible design problems – most final salary schemes are designed to cater for contingent events and inflation

- **Defined contribution/outcomes for employers**

  - Financial risks – generally there is cost certainty for the employer and so the risk is low, particularly if take up rates are stable. However the introduction of auto-enrolment means that many employers face significant cost (but not volatility) increases in the short term.

  - Workforce planning impact – inherent uncertainty of pension outcomes make it difficult for employers to use defined contribution schemes as a workforce planning tool.

  - Pensions too low – pension outcomes depend critically on contribution levels, investment returns enjoyed during the period to retirement and annuity conversion returns at retirement. The latter two are not in the control of the employer and there is therefore a risk that poor experience in either or both areas can cause very low pensions at retirement.

  - Compliance risk – there is little compliance risk for contract based schemes, but an increasing compliance burden for trust based schemes. Generally, the risk is lower than applies to final salary schemes

  - Liquidity risk – assets are held in member accounts so this risk does not exist for a DC scheme

  - Recruitment/retention – DC schemes are not normally a differentiator for recruitment purposes and are not as effective for retention purposes as final salary schemes since there is no loss to the member on leaving service (in contrast to the broken final salary link)

  - Shareholder problems – the cost certainty associated with defined contribution schemes mean that it is unlikely that shareholders will respond negatively to pension contribution payments

- **Defined contribution/outcomes for employees**

  - Contribution rate increase – generally member rates are set out in the rules of the scheme and any increase will be at the option of the member.

  - Pensions too low – see response above.

  - Complexity impedes effective decision making – there is less scope for members to exercise actuarial options, and poor member decision making has less potential to cause adverse outcomes. However failure to understand investment risks in a drawdown situation or to exercise open market options in relation to annuity providers are examples.

  - Retirement planning – although the member suffers the whole impact of adverse experience, it is possible to take steps to help with retirement planning in the sense of utilising lifestyle funds which seek to protect pension and cash in the period leading up to retirement.

  - Inflexible design – a pure defined contribution scheme can be ineffective at providing contingent benefits unless separate insurance is used, and pensions may not keep pace with inflation if the member has opted for a fixed pension

- **Cash balance/outcomes for employers**

  - Financial risks – generally the employer underwrites the risk in the period up to retirement and the member underwrites the risks in the period after retirement. As such financial risks remain for the same reasons but at a lower level than those applying to final salary schemes.

  - Workforce planning impact – there is greater certainty of outcome than under a pure defined contribution scheme but cash balance schemes do not provide enough certainty to make them effective workforce planning tools.

  - Pensions too low – the risk of adverse outcomes caused by poor annuity rates remains but the risk is much reduced compared to a pure defined contribution scheme.

  - Compliance risk – a cash balance scheme is viewed as a defined benefit scheme and therefore the compliance burden is the same as for a final salary scheme

  - Liquidity risk – it is very unlikely that illiquid assets will be used to fund a cash balance scheme so the risk is even lower than that applying to a final salary scheme

- Recruitment/retention – these vehicles are not well known and may not be helpful for recruitment purposes. There is no final salary link so they will not be as effective for retention purposes as a final salary scheme

- Shareholder risk – the level of guarantees offered by a cash balance scheme are much lower than under a final salary scheme so it is unlikely that sudden significant capital payments will arise negatively impacting on the growth of the business.

- **Cash balance/outcomes for employees**

  - Contribution rate increase – generally the employer is exposed to a lower level of financial and demographic risk and so is less likely to see increases to member contribution rates as a result of adverse experience.

  - Pensions too low – see response above.

  - Complexity impedes effective decision making – cash balance schemes are similar to defined contribution schemes in relation to option pricing issues.

  - Retirement planning – it is more difficult to plan for retirement under a cash balance scheme than either a final salary or defined contribution scheme since it is impossible to mitigate the risk of higher annuity prices in the period leading to retirement.

  - Inflexible design – the inflation risk is similar to a defined contribution scheme. Contingent benefits should be available as under a final salary scheme.

(iii) Innovative risk sharing design – award marks for designs that include:

- any reference to "defined ambition" plans as advocated by Steve Webb
- defined contribution with investment/annuity guarantees
- longevity adjustment factor at retirement
- conditional pension increases/other discretionary awards depending on the financial position of the scheme
- core defined benefit and a "with profits" bonus depending on scheme performance
- core defined benefits with a defined contribution top up
- core defined benefits with a bonus depending on company performance
- target defined benefit with scope for positive/negative adjustment depending on scheme performance
- shared cost schemes
- defined benefit lump sum only schemes

(iv) Impediments to risk sharing in current UK legislation

- The most significant constraint is that it is impossible to reduce the value of accrued rights earned by members without their consent.
- And changes to benefits without consent generally require an actuarial (s67) certificate.
- Further it is not possible to reduce the amount of a pension once it is in payment, even if eg price inflation is negative.
- And pensions earned since 6 April 1997 are required to increase at prescribed minimum rates.
- It can be difficult for an employer to receive economic benefit for surpluses that are generated, and a cash refund is not permissible unless the scheme has wound up and benefits have been augmented
- There is also a risk that discretionary practices become defacto promises as a result of continued custom and practice.
- These constraints prohibit all designs where the benefit can be reduced (to reflect an appropriate share of adverse experience).
- So that the employer is faced with the choice of limited risk sharing (thereby continuing to underwrite the majority of the risks faced by the scheme and all of the risks once benefits have come in to payment) or passing the entirety of the risks to the members through the introduction of a defined contribution scheme.

This question should be relatively straightforward for well prepared candidates. It is critical to develop ideas at this stage of the examinations, and those candidates who did this scored well. Many gave hints at their understanding, but did not give sufficient detail to demonstrate it fully. Practice in developing ***relevant*** *ideas in questions would be valuable in preparation.*

3 (design of the offer)

- The trustees need to understand the full details of the offer
- And how it compares to any previous offers made in the past
- Including how the assumptions relating to standard cash equivalent terms have been determined.
- And the scale of the uplift (i.e. a fixed percentage increase to standard cash equivalent terms in this case).

- And whether there is any element of inducement beyond the uplift to the cash equivalent.

- For example cash has been a common feature of such offers in the recent past.

- Or enhanced allocation rates might be made available to members choosing to transfer to any defined contribution scheme sponsored by the company.

- Note that the code of good practice has now ruled out the provision of cash enhancements as a design feature.

(impact on members)

- They may also want to consider the probability that the enhanced transfer value will be sufficient to reproduce the deferred benefit at retirement.

- Or the pension that would be offered if the scheme entered the PPF.

- And the potential impact on contingent benefits if the offer is accepted

- The trustees would be concerned to ensure that the membership is able to take a fully informed decision in relation to the offer

(financial impact on scheme)

- The trustees need to consider the potential impact of the offer on the financial position of the scheme.

- They will need to make assumptions on the likely take up rate of the offer, and the features (e.g. age, size of liability, time to normal pension age) of members who are more likely to be interested.

- The take up rate will be influenced by the size of the offer, the effectiveness of the communications supporting the offer, the views of any IFA appointed to provide advice and members' perceptions of the security of their benefits in the scheme.

- Noting that the employer is on the brink of insolvency, it seems quite possible that the scheme will enter the PPF.

- So members with benefits above the PPF cap would potentially gain by accepting the offer since they would suffer a significant reduction if the employer defaulted.

- And high take up rates might be anticipated from this group of members.

- But for members with benefits below the PPF cap, the majority of their benefits will be protected even if the employer does default.

- So the employer default risk is less likely to be a factor other than on the emotive grounds of "getting my money out before the ship sinks".

- If all members accepted the offer then a surplus of £200m would remain.
- And any reasonable take up level would probably create a funding surplus and increase the accounting surplus
- And a very high take up would create a surplus on a buyout basis
- Potentially providing guaranteed full benefits for those who choose not to transfer
- And the employer may decide to wind up the scheme.
- In which case the question would arise in relation to the destination of such a surplus and whether it would be appropriate to further enhance transfer payments already made.
- Or to enhance pensions currently in payment by means of securing additional annuities for such members.
- Or to secure pensions in payment by buying them out (i.e. exchanging the bulk annuity for a series of individual annuities in the names of the members) at the current level and returning the surplus to the employer.
- The actual options available to the trustees will be set out in the trust deed of the scheme.
- Alternatively, if relatively low take up rates were achieved, the impact on the funding and accounting position would vary depending on which members accepted the offer.
- Noting that a 30% uplift might be higher than the corresponding accounting and even technical provisions liability for older members.
- So that the position on these measures might actually deteriorate if there is high take up from older members.
- Which is possible if annuity terms are sufficiently attractive to buy relatively generous early retirement pensions in the open market.
- There is also a risk that members will select against the scheme (eg if they have impaired mortality)
- In any case it is likely that there would be an improvement to the buyout position.
- So that the amount of the potential debt on the employer (arising due to insolvency) would reduce

(regulation/legislation)

- The trust are likely to want to understand the provisions of the trust deed and rules

- and to consider the broader regulatory and legislative environment.
- Noting the potential for allegations of misselling if things go wrong in the future
- Including guidance from the Pensions Regulator relating to the design and implementation issues.
- And the voluntary Code of Practice on incentive exercises published in June 2012
- As a result, the trustees will need to take significant legal and actuarial advice

(implementation practicalities)

- The trustees will want to know how long the offer will be available
- And the process to be used to ensure that members take an informed decision in relation to the offer.
- Including the extent to which individual financial advice will be made available.
- And from whom, and how the IFA was selected.
- And will be remunerated and by whom.
- And how that advice will be delivered (e.g. personal meetings, group meetings, helplines etc.).
- Noting that all members are deferred pensioners and so many or all will no longer be employed by the company.
- And they will be interested to understand how the offer compares to the threshold yield analysis that will be undertaken by the IFA.
- Which will heavily influence the advice that will be offered and the corresponding take up rate.
- The content and nature of the communications material supporting the offer will also be important.
- And the trustees will want to ensure that it is fair and balanced, properly reflects regulatory guidance, and contains only information that will be relevant to the decision needing to be made.
- A particular sensitivity in this case will relate to how the financial position of the employer is communicated.
- Noting that this will be very relevant to the decision that members need to make.

- And that the trustees themselves may well have inside information on the actual state of the employer's affairs.

- Requiring careful drafting to ensure that the communications are fit for purpose but only rely on information that is in the public domain.

- Given that a significant amount of liability may be settled through this process, the trustees will want to be certain that the member data is accurate and up to date.

- And that the benefits themselves have been calculated in accordance with the provisions of the rules.

- And they may wish to consider a tracing exercise if they do not have up to date addresses for some of the members.

- And that the administration systems are set up to cater for the volume of calculations and payments

(impact on investment strategy/cetv basis)

- Given the concerns about the financial position of ABC the trustees may in any case want to review the investment strategy of the scheme.

- Because given the difference in the cash equivalent and technical provision liabilities it appears as if significant growth assets are held.

- This would not usually be appropriate for a scheme where the employer offers a weak covenant.

- If a greater holding of bonds were introduced, the impact would be to close the gap between cash equivalent and technical provision liabilities.

- Potentially to the point where the standard cash equivalent basis gets close to the enhanced offer that the company is suggesting is made.

- Although this may not be positively received by the company since take up rates will probably be lower.

- And potentially the aggregate offer may exceed the accounting reserve.

- The trustees would also want to ensure that sufficient liquid assets exist to make the expected payments

Well prepared candidates scored well, especially given this is a well-examined area in recent examinations. It is critical, however, that candidates answer the question at hand, and not a similar question they have seen before.

END OF EXAMINERS' REPORT