



Institute
and Faculty
of Actuaries

Long Term Viability Statements

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LTVS reserach

1. Progress to date
2. Users' perspectives
3. Future developments

Progress to date

Early adoption

- Limited examples of early adoption – cross section of industries (including FRC!)
- Limited detail of the scenarios considered
- Alignment of LTVS period with the planning horizon
- Much less description of the threats to which the business is exposed

Formal implementation

- Already applies to listed firms with financial year ending 30 September 2015
- Most recent disclosures similar to the few early adopters

Users' perspectives

Defining features of “privileged users”

- Interest in long term prospects of the company
- Potential for access to more granular information

Main constituencies

1. Non-executive directors
2. Pension scheme trustees
3. Ratings agencies

Users' perspectives: Non-executive directors

Currently early days in the process

Value will be generated from the **process** not the **statement**

Some concern over incentives:

- Move towards standardised disclosures
- Commercial concerns over disclosing specific threats to business
- Potential impact on banking covenants

Tendency to shorter initial durations

Non-financials less familiar with the stress testing techniques

Users' perspectives: Pension scheme trustees (1)

Long term interest in the continued prosperity of the scheme sponsor

Limited interest or awareness so far

Existing practice to obtain third party opinion on the strength of the covenant

Some doubts raised on whether the LTVS would be overly optimistic although others expressed interest in gaining access to the underlying analysis

May be used to inform pensions derisking initiatives

Current reliance placed on deeper covenant analysis performed by their professional advisors

Users' perspectives: Pension scheme trustees (2)

Embryonic awareness / involvement in LTVS

Contrasting views on the potential usefulness

I'm not really interested in this in my role as trustee as I just see it as something the employer deals with. It doesn't really influence my view of the employer covenant

Under those scenarios where the pension scheme most heavily needs the support of its sponsor, what will the outlook be for the company making large contributions?

Users' perspectives: Ratings agencies

Some areas of consistency between ratings process and LTVS

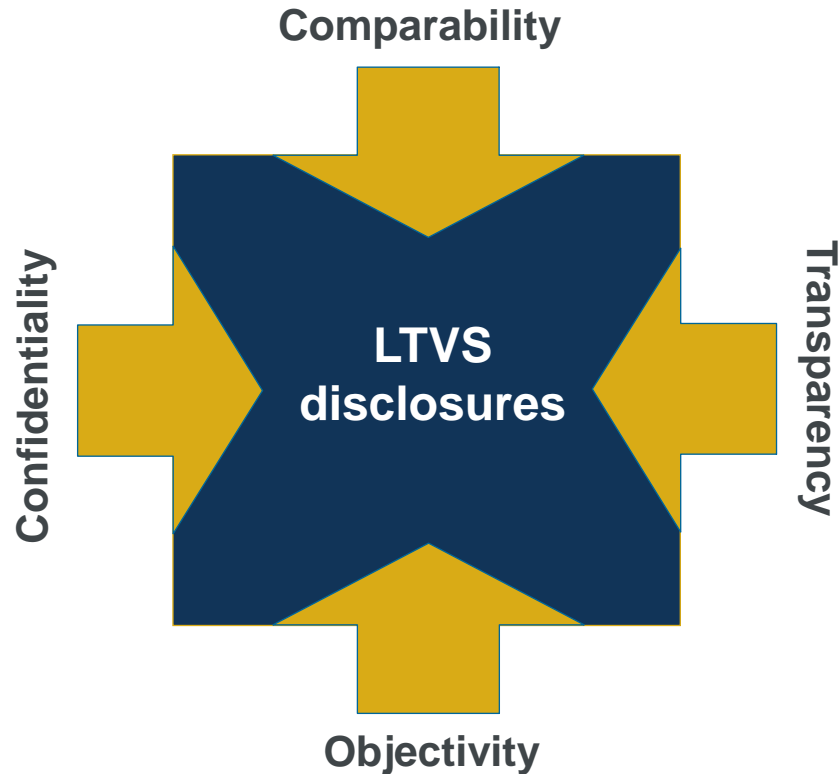
Assessment for a loan also similar to underlying LTVS process

Outside financial services the assessed quality of firms own risk management is much less significant as a rating factor

S&P's published corporate ratings methodology considers the business and financial risks (rather than a firm's management of these risks)

Contrast between ratings reports and early LTVS

Future developments: LTVS tensions



Future developments: Lessons from insurance

“ORSA” document

- In Europe, “Solvency II” introduced regulations which required firms to bring together into a single document, a summary of their risk management activity, how they expect to deal with risks in the future and to show the impact of risks on their business planning

Insights

- Generally positively received by directors and regulators alike
- Joins up separate pieces of analysis
- Global regulation makes similar requirements
- Private between firm and its supervisor – public disclosure is more qualitative
- Increasingly dynamic and used as a business tool



Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.