



**BOARD FOR ACTUARIAL STANDARDS**

**TRANSFORMATIONS TECHNICAL ACTUARIAL STANDARD**

**DECEMBER 2010**

# TRANSFORMATIONS TAS

## **Status**

This standard (the Transformations TAS) is a Specific Technical Actuarial Standard (Specific 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.

A separate document, *Transformations TAS: Significant Considerations*, issued at the same time as this standard, reviews the considerations and arguments that were thought significant by the BAS in developing this standard.

## **Scope**

This standard applies to the work specified in Part C of the standard.

Wider adoption is encouraged.

## **Commencement**

This standard applies to Reserved Work completed on or after, and work performed for aggregate reports completed on or after, 1 October 2011.

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. The Generic TASs apply and other 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 THE TRANSFORMATIONS TAS

## A.1 PURPOSE

A.1.1 The BAS's Reliability Objective is that the **users**<sup>1</sup> 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 performance of work within its scope, **users** of actuarial information who make decisions on

- the transfer of assets and liabilities; or
- the modification of liabilities

are provided with sufficient actuarial information, including information on risk, uncertainty, and cash flows to enable them:

- to make an informed decision; and
- to assess the impact, including fairness, security and level of benefits, of the transfer or modification on **beneficiaries**.

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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. What work is proportionate is a matter for judgement and might depend on factors such as the expertise of **users** in the matters being reported on and their needs.
- B.1.4 Part C of this standard includes references to actuarial work. What constitutes actuarial work depends on matters such as whether **users** would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. Some work performed by actuaries might not be actuarial work.
- B.1.5 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 performed and the benefit to **users**. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.6 Lists are not intended to be exhaustive.
- B.1.7 This standard should be interpreted in the light of the purpose set out in Part A.

### 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**. The definitions are used consistently in the **Scope & Authority** and other BAS standards.

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

<b>aggregate report</b>	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 decision taken by a <b>user</b> in connection with work within the scope of this standard is the set of all <b>component reports</b> containing information <b>material</b> to that decision.
<b>beneficiaries</b>	The members of a <b>pension scheme</b> or the insurance policyholders who are entitled to benefits. For this purpose, <b>beneficiaries</b> include dependants with a contingent entitlement to benefits.
<b>component report</b>	A document given to a <b>user</b> in permanent form containing <b>material</b> information which relates to work within the scope of this standard. A <b>component report</b> may be given to the <b>user</b> in hard copy or electronically. Formal written reports, draft reports, emails and presentations are examples of <b>component reports</b> . Possible contents of <b>component reports</b> include tables, charts and other diagrammatic presentations as well as or instead of text. A <b>component report</b> may form part of one or more <b>aggregate reports</b> .
<b>data</b>	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.
to <b>document</b>	To record in <b>documentation</b> .
<b>documentation</b>	Records of facts, opinions, explanations of judgements and other matters. <b>Documentation</b> may be paper or electronic based. It is not necessarily provided to <b>users</b> . <b>Documentation</b> is <b>material</b> if it concerns a <b>material</b> matter.
<b>entity</b>	The <b>pension scheme, insurer, fund</b> or other body that is the subject of the work being performed.
<b>Generic TAS</b>	A Technical Actuarial Standard which applies to all work specified in the Schedule to the <b>Scope &amp; Authority</b> .
<b>governing body</b>	The trustees of an occupational <b>pension scheme</b> or the administering authority of a section of the Local Government Pension Scheme.
<b>insurance transformation</b>	A change, without all the policyholders' consents, in the contract terms of a portfolio of insurance contracts or in the with-profits principles contained in the Principles and Practices of Financial Management.
<b>insurer</b>	A body effecting or carrying out contracts of insurance.

<b>material</b>	Matters are <b>material</b> if they could, individually or collectively, influence the decisions to be taken by <b>users</b> of the related actuarial information. Assessing <b>materiality</b> is a matter of reasonable judgement which requires consideration of the <b>users</b> and the context in which the work is performed and reported.
<b>Part VII transfer</b>	An insurance business transfer scheme in accordance with Part VII of the Financial Services and Markets Act 2000.
<b>pension scheme</b>	An occupational or personal pension scheme established under UK legislation.
<b>pension transformation</b>	A change in the terms underlying the accrued benefits of some or all of the members of a <b>pension scheme</b> , without the consents of those members.
<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 Actuarial Standards</i> .
<b>Specific TAS</b>	A Technical Actuarial Standard 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>transformation</b>	An <b>insurance transformation</b> or a <b>pension transformation</b> .
<b>users</b>	Those people whose decisions a <b>report</b> is intended (at the time of writing) to assist. Those to whom the <b>report</b> is addressed, regulators and third parties for whose benefit a <b>report</b> is written are examples of possible <b>users</b> .

## C SCOPE

### C.1 WORK WITHIN THE SCOPE OF THIS STANDARD

C.1.1 Work that is within the scope of this standard may also be within the scope of other BAS standards. In particular, the **Generic TASs**, on *Reporting Actuarial Information, Data and Modelling*, apply to all such work.

C.1.2 This standard shall apply to all Reserved Work concerning **pension transformations** or **insurance transformations**.

C.1.3 Reserved Work is defined in the **Scope & Authority**.

C.1.4 This standard also applies to some work that is not Reserved Work.

#### **Pension transformations**

C.1.5 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** concerning the transfer of the benefits of some or all members of a **pension scheme** without the consents of those members.

C.1.6 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** concerning the modification of the accrued benefits of some or all members of a **pension scheme** without the consents of those members.

C.1.7 This standard shall apply to actuarial work for the **governing body** of a **pension scheme** in wind up that concerns the transfer of liabilities to an **insurer** without the consents of those members.

C.1.8 The work described in paragraph C.1.5 includes actuarial work for the **governing bodies** of the transferring or receiving **pension scheme**.

C.1.9 The work described in paragraphs C.1.5 to C.1.7 includes:

- comparing the values of benefits before and after the transfer, modification or wind up;
- comparing funding levels before and after the transfer, modification or wind up; and
- comparing the terms of member options (such as early retirement or commutation) before and after the transfer, modification or wind-up.

C.1.10 The work described in paragraphs C.1.5 to C.1.7 does not include work in connection with a transfer from one personal pension scheme to another.



## Insurance transformations

C.1.11 This standard shall apply to actuarial work performed in an **insurance transformation** for, or as, an independent expert required by a **Part VII transfer** or Scheme of Arrangement.

C.1.12 The work described in paragraph C.1.11 does not include the summary of the scheme report that is required under section 109 of the *Financial Services and Markets Act 2000* as part of the application for a **Part VII transfer**.

C.1.13 This standard shall apply to actuarial work performed in an **insurance transformation** for a policyholder advocate in an inherited estate reattribution.

C.1.14 This standard shall apply to actuarial information provided by the with-profits actuary relating to changes in the principles contained in the *Principles and Practices of Financial Management*.

C.1.15 This standard shall apply to actuarial reporting on policyholder benefit reductions under section 113 and section 376 of the *Financial Services and Markets Act 2000*.

## D PRINCIPLES

### D.1 INTRODUCTION

D.1.1 This Part contains general principles for actuarial work in **transformations** that support the purpose of this standard set out in Part A. It should be interpreted as described in Part B. It applies to the work specified in Part C.

D.1.2 All work that is within the scope of this standard is also within the scope of either the **Specific TAS on Pensions** or the **Specific TAS on Insurance**. All principles in those standards therefore also apply to, respectively, pensions and insurance work within the scope of this standard.

#### Judgement

D.1.3 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

D.1.4 Judgement might be needed on matters such as:

- whether the work is actuarial work;
- the derivation of assumptions; and
- the selection of **models**.

D.1.5 This standard does not require the **documentation** or disclosure of judgements concerning its application unless stated otherwise.

### D.2 ASSUMPTIONS

D.2.1 The selection of assumptions shall place proper emphasis on how the **transformation** affects the interests of all relevant parties, except when the choice of assumptions is determined by legislation or other regulations.

D.2.2 The extent to which account has been taken of the interests of different parties shall be **documented**.

D.2.3 Proper emphasis is a matter for judgement, and will need to depend on matters such as the scope of the actuarial information requested.

D.2.4 Proper emphasis does not necessarily mean giving the same weight to the interests of all parties. Examples of circumstances in which it might be proper to give less weight (and possibly none at all) to the interests of a particular party include those in which:

- a class of **beneficiaries** is explicitly excluded from the scope of the actuarial information requested;
- the interests of some parties to the **transformation** may not be sufficiently clear to take into account;
- the benefits of some **beneficiaries** are not affected by the **transformation**, although the security for those benefits may be; or
- there are guarantees which reduce or eliminate the risk of any adverse impact on the benefits of some **beneficiaries**.

D.2.5 Relevant parties whose interests need to be given proper emphasis in the selection of assumptions might include:

- all groups of **beneficiaries**;
- the sponsors of the transferring and receiving **pension schemes**;
- the trustees of the transferring and receiving **pension schemes**; and
- **insurers**.

### D.3 DATA

D.3.1 The **Generic TAS** on *Data* (TAS D) requires that a set of checks be performed to determine the accuracy, relevance and completeness of **data**, that consideration be given to supplementing incomplete or inadequate **data** and that actions be **documented**. The principles are set out in paragraphs C.5.6 to C.5.15 of TAS D.

D.3.2 Judgements about the application of the principles in TAS D to **transformations** will need to take into account:

- the effect of using incorrect **data** on the analysis of the impacts on **beneficiaries**; and
- the possibility that the **data** might be provided by a party with an interest in ensuring that the **transformation** either does or does not proceed.

## D.4 REPORTING

### Relevance

D.4.1 **Aggregate reports** for **transformations** shall include:

- a) descriptions of any groups of **beneficiaries** for whom the impact of the **transformation** has not been considered; and
- b) a statement of whether any assessment of change in the amount, value or security of the benefits of any group has been restricted to adverse impacts only.

### Material risks

D.4.2 **Aggregate reports** shall indicate how the **transformation** might lead to any changes in the **material** risks to the benefits of the different classes of **beneficiaries**:

- a) who are affected by the **transformation**; and
- b) who are included within the scope of the actuarial work requested.

D.4.3 Changes to **material** risks might include:

- a change in the financial circumstances of the **pension scheme** sponsors or **insurers** resulting from the **transformation**; and
- a change in the impact of particular economic circumstances on individual entitlements resulting from the proposed **transformation**.

D.4.4 Some **aggregate reports** might need to include descriptions of the **material** risks being faced by **beneficiaries** who are not directly affected by the **transformation**, such as:

- **reports** which are provided for the party proposing a **pension scheme** transfer without consent, which address the possible reaction of other parties; or
- **reports** on actuarial work in connection with a **Part VII transfer** which refer to the impact of the **transformation** on policyholders of the **insurer** accepting the liabilities.

## Range of assumptions

D.4.5 The **Generic TAS** on *Reporting Actuarial Information* (TAS R) requires that **aggregate reports** describe the rationales for any **material** assumptions used or recommended. The principles are set out in paragraphs C.4.6 to C.4.9 of TAS R.

D.4.6 Judgements about the application of the principles in TAS R to **transformations** will need to take into account:

- the ranges of plausible **material** assumptions;
- where the selected assumptions lie within these ranges; and
- why the selected assumptions are judged to be appropriate.

D.4.7 **Aggregate reports** shall indicate the impact on the actuarial information of adopting alternative plausible assumptions.

D.4.8 The number and nature of alternative assumptions to be considered are a matter for judgement.

D.4.9 The indication of the impact of adopting alternative plausible assumptions might need to include matters such as:

- the degree of comfort with which any required actuarial opinion or certificate can be provided; and
- whether selection of alternative **material** assumptions within the ranges of plausible assumptions would have prevented the provision of any required actuarial opinion or certificate.

## Assessment of impact

D.4.10 **Aggregate reports** shall describe the impact of the **transformation** on any groups of **beneficiaries**, within the scope of the actuarial work requested, who are affected by the **transformation**, by indicating:

- a) any **material** changes to the cash flows to **beneficiaries** resulting from the **transformation**;
- b) the extent of any potential reduction in the amount of the benefits;
- c) the potential for any change in the likelihood of receipt of payments;
- d) the circumstances in which the benefits of the groups would be adversely affected; and
- e) the quantifiable advantages which might be gained by any groups of **beneficiaries**.

D.4.11 Indications of the impact of the **transformation** might need to include:

- the range of potential gains or losses for any such group;
- the key characteristics of any groups of **beneficiaries** for whom the **transformation** is expected to have a significantly different effect from that on other groups;
- the circumstances in which the potential effect is most favourable and least favourable for any group of **beneficiaries**;
- a commentary on the effect on security of benefits of a change in **pension scheme** sponsor or **insurer**; and
- the financial effect on the **insurer** or the sponsor of the **pension scheme**.

D.4.12 **Material** changes to cash flows might include:

- any deferral or acceleration of the average payment term;
- any changes to the rate of increases of pensions in payment; and
- any changes to the potential for bonus payments for with-profits policies.

D.4.13 **Aggregate reports** shall indicate the rationale of any party proposing that the **transformation** should proceed.

#### **Reports including opinions**

D.4.14 **Aggregate reports** which include an opinion on whether, from an actuarial perspective, the **transformation** meets the criteria needed to proceed, shall:

- a) indicate the information on which the opinion is based;
- b) describe the rationale for the opinion; and
- c) state which of the principles of this standard have been applied in reaching that opinion.

D.4.15 The relevant information on which to base an opinion is a matter for judgement. It might need to include the information described in paragraphs D.4.10 to D.4.13.

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