Dear Dave

We have reviewed the proposed final text of ISAP 2 and consider it deals appropriately with the comments made by the FRC on the Exposure Draft. In particular we welcome:

- the tighter specification of the scope; and
- the removal of the detailed reporting requirements to an appendix.

We have the following specific comments:

Paragraph 2.3.1

We agreed with the original proposal in the ED that the actuary should perform an experience analysis subject to the extent the available data permit rather than the latest proposal that the actuary should just consider performing one. The purpose of the analysis is to identify material deviations in experience from the assumptions used in previous financial analyses of the SSP, if any, and to set the assumptions and define the models to use in current and future analyses.

Paragraph 2.4

We are pleased that the revised paragraph allows the actuary to exercise their professional judgement in selecting an appropriate methodology. However we wonder whether it is unduly restrictive to limit the choice of methodologies for fully funded SSPs to the three listed in paragraph 2.4.2. While this might be an exhaustive list today, new methodologies might be developed in the future. For example, in the 2010 ED of IFRS 4, the IASB limited the number of methods for determining the risk adjustment to be applied in calculating the present value of insurance contract fulfilment cash flows. However, after comment they have removed this restriction.

We therefore suggest that the second sentence of 2.4.1 might be moved to a new subparagraph 2.4.3 which would then allow the actuary to exercise judgement over the most appropriate method for both pay-as-you-go and fully funded SSPs. However, we do agree that it is useful that users have a benchmark against which to consider the results and support the idea that the actuary should also consider reporting against a “standard” method.

We suggest the Task Force consider the following wording:

2.4. Consistency with the Financing Method — The actuary should use a methodology that is consistent with the financing method used for the SSP.

2.4.1. For pay-as-you-go or partially funded SSPs, the analysis should use an open group methodology, under which contributions and benefits of both current and future participants are considered.

2.4.2. For fully funded SSPs (that is, where accrued liabilities are intended to be funded over participants’ working years), the analysis should use a closed group methodology, under which only current participants are considered, with or without their assumed future benefit accruals.

2.4.3. If, however, in the professional judgment of the actuary, an alternative approach is deemed to be more appropriate, that approach should be used with justification communicated in the report. In such circumstances, the actuary may also consider reporting the results of the financial analysis under:

a. an open group methodology for pay-as-you-go or partially funded SSPs; and

b. a closed group methodology for fully funded SSPs.

If the law specifies a methodology for measuring the actuarial assets and obligations that does not follow either section 2.4.1, 2.4.2 or 2.4.3 as applicable, the actuary should communicate that fact. The actuary should also comply with the guidance of paragraph 1.3.2 of this ISAP.

Paragraph 3.2

The concept of a "free-standing" financial analysis is introduced in this paragraph. We are uncertain what this means. Is this meant to exclude work done by an actuary acting as independent expert reviewer? We suggest that the Task Force consider defining what they mean by "free-standing" financial analysis.

Glossary

Definition of financial analysis

As we commented in our initial submission on the original definition of "valuation", we are uncertain as to what is meant by the term "formal actuarial analysis". This implies at least to us that there is a different type of an actuarial analysis– an informal actuarial analysis – which is not in the scope of the standard.

We note that some guidance is provided as to what work is in scope through the inclusion of three examples of work which are relevant to SSPs.

We understand that it is often a matter for professional judgement in deciding whether or not a particular piece of work falls in or out of the scope of an actuarial standard but we consider some additional guidance might be helpful as to what the Task Force considers is a formal piece of work and therefore in scope of ISAP 2. For example:

Financial Analysis (ISAP 2) – Any formal actuarial analysis. What constitutes a formal actuarial analysis is a matter for professional judgement but might include work required by law and work requested by the principal to inform decisions about benefits and contributions. An actuarial analysis might include but is not limited to:

a. determination of discounted point in time values,
b. projection of cash flows and associated fund values, and
c. determination of future contribution rate(s).

We hope the Task Force find these comments helpful.

Kind regards

John

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