# *LCP's response to the FRC's consultation on TAS 300 version 2.1*

## 10 March 2025

*This document sets out LCP's response to the FRC's consultation on TAS 300 version 2.1 published on 9 December 2024 (the "Consultation").*

### Who we are

LCP is a firm of financial, actuarial, and business consultants, specialising in pensions, investment, insurance, energy, health and business analytics. We have over 1,100 people in the UK, including over 180 partners and around 250 qualified actuaries.

The provision of actuarial, investment, covenant, governance, pensions administration and benefits advice, and directly related services, is our core business. About 80% of our work is advising trustees and employers on all aspects of their pension arrangements, including investment strategy. The remaining 20% relates to insurance consulting, energy, health and business analytics. LCP is authorised and regulated by the Financial Conduct Authority for some insurance mediation activities only and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

### Our comments on your proposals

We have set out below our answers to the specific questions that you have set. From this you will see that we are largely supportive of the changes you are proposing. Our key concerns are as follows:

- New Principles P2.3 and P2.12 (Question 3)
- The inclusion of confidential funding and investment strategy information within the formal actuarial valuation report (Question 10)
- New Principle P2.9c (Question 13)
- The potential bringing within TAS 300 scope certain work undertaken by in-house actuaries (Question 14)
- The application of existing Principle P4.2 (Question 15)
- Bringing version 2.1 into force (Question 16).

We are happy for LCP to be named as a respondent to the consultation and happy for our response to be in the public domain. We are happy for you to reference our comments in any response.

*David Everett*
*Partner*

+44 (0)207 432 6635
*David.Everett@lcp.uk.com*

## LCP's response to the questions in the Consultation

1. **What are your views on the proposed changes to provisions in relation to the level of prudence in assumptions?**

   We support your proposals as set out in P2.1 and P2.5 but suggest that you remove "level of" when discussing prudence as the legislation does not require the trustees to obtain a quantification of prudence.

   **Should TAS 300 include further requirements in relation to setting or communicating the level of prudence in assumptions? Should TAS 300 include additional provisions relating to the risk of excessively prudent assumptions being used in actuarial valuations? Please give reasons for your response.**

   Given that Technical Actuarial Standards are intended to be principles-based, and as TAS300 v2.1 requires practitioners' communications to explain the prudence in the actuarial information provided, we don't see the need for any further requirements in this area.

2. **Do you consider that the removal of part (a) of Provision P2.7 (P2.9 in the exposure draft) would result in information not being provided that would be important to the governing body's understanding of the material risks in relation to funding and financing? If so, please explain your rationale.**

   Our understanding is that the proposed removal is because the matter is adequately dealt with within TAS 100. Given that technical actuarial work in the area of scheme funding and financing has to have regard to TAS 100 and TAS 300 taken together the proposed removal should not have the impact the question is posing.

3. **What are your views on the proposed Provisions P2.3 and P2.12? Do you expect there to be any practical challenges to complying with the proposed Provision P2.12?**

   In passing, we are comfortable with the proposed changes to scope discussed in paragraph 3.15 of the consultation paper.

   In relation to P2.3 the legislation does not talk about the prudence of the low dependency funding basis; rather it is a basis under which future contributions are not expected to be required. We suggest that you rephrase to avoid using your "prudence" defined term. Separately, we query whether actuarial practitioners will be advising on the resilience of a low dependency investment allocation, given that this is an investment matter. Perhaps this aspect of P2.3 (and P2.12) should be removed.

   Also in relation to P2.3 whilst we understand the need not to follow pre-set approaches or use pre-set parameters when advising on the low dependency funding basis or the low dependency investment allocation if you retain it (as you have explained in paragraph 3.22 of the consultation paper), it is not clear to us what you mean when you say that practitioners "must consider how the circumstances of the pension scheme affect this advice". We understand that you intend a meaning wider than considering how risk relating to the employer covenant affects the advice, which was our first thought on reading P2.3. Please could you revisit the wording so that your expectations are clear to the reader? It is important as part of this that the actuary is not expected to give a view on the employer covenant (unless the actuary is a covenant expert).

   P2.12 is reasonable in principle so long as it is not always requiring a formal calculation of the risk of further contributions being required. We note that P2.12 could necessitate significant analysis, which would be more relevant for some schemes that are significantly mature but less so for those some way from this point.

   We understand you intend that how P2.12 is interpreted will depend on the situation, with a qualitative approach being possible given the materiality and proportionality considerations that apply to Technical Actuarial Standards, as explained in the guidance on proportionality. Could you revisit how P2.12 is couched so that it becomes clear that you don't see it requiring 'probability of failure' type quantification? In a similar way to our answer to question 1 above, we suggest that removing "level of" from the wording of P2.12 would indicate more flexibility.

   We also suggest that it would be helpful if the wording of P2.12 were consistent with P2.10, so that it referred to providing "sufficient actuarial information to support the intended user in" assessing whether the risk is appropriate.

4. **What are your views on the proposed Provisions P2.2 and P2.10? Are there further factors which you believe practitioners should consider or communicate? If you disagree with the proposed requirements, please suggest alternative approaches.**

   We support P2.2. We support the addition of the second bullet relating to journey plans in P2.10, although we suggest removing the words "level of" to give more

flexibility. We also support the extension of scope in P2.10 so that advice to employers is newly covered. We do not see the need to add any further bullets to P2.10. It would be helpful to clarify the meaning of "the end of the journey plan". We assume it means the point at which the scheme is planned to reach low dependency but would be grateful for clarification.

5. **What are your views on the proposed Provision P2.11? If you disagree with the proposed provision, or believe there is additional information relating to liquidity that should be communicated, please explain your rationale.**

   We question whether P2.11 has been appropriately phrased, in particular the wording "level of uncertainty". Might it work better if the requirement was for sufficient actuarial information to be provided to enable the governing body to understand how uncertainty in future benefit cashflows can contribute to liquidity risk?

6. **Is there any technical actuarial work undertaken by practitioners in relation to managing a funding and investment strategy which is not adequately covered by the proposed provisions? If so, please explain what this is.**

   We don't believe there is.

   **If you provide advice in relation to an LPGS, do you anticipate any challenge in applying Provisions P2.2, P2.10 and P2.11 in relation to these arrangements?**

   Not applicable.

7. **Do you agree with the proposal to remove P2.6 of TAS 300 v2.0 from the standard? If not, please explain your rationale, including the matters which you believe a governing body needs to have communicated to them by actuarial practitioners to support them in fulfilling their statutory duties in relation to funding and financing.**

   We agree with the removal of P2.6.

8. **Do you envisage any challenges arising from the proposed introduction of Provision P2.4? If so, please explain what these are.**

   We support a provision relating to third parties and note the parallel with the bulk transfer wording. We can't envisage challenges arising from P2.4, as the principle is about the application of the third-party input to the formulation of the actuarial information. However, it may necessitate the practitioner seeking clarification on aspects of the third party's work before they are able to apply it in the formulation of the actuarial information.

   Further, we wonder whether it would be simpler to delete the words "the output of".

   To maintain the parallel with the bulk transfer wording should you also add a communication principle along the lines of P5.6?

9. **What are your views on the proposed Provision P2.13? Please explain your rationale.**

   We support the inclusion of P2.13, but it may need some rephrasing given that it is for the trustees, not the practitioner, to decide whether or not any allowance is made for new members and future service. Clearly, it is important for the practitioner to explain the level of any allowance for new members and that for future service when advising on the maturity of the liabilities. Where you talk about the reason for such an allowance, are you intending that it is the level of the allowance that needs to be explained?

10. **Do you agree that the items listed in Appendix A are material for all schemes? If not, please explain which items may not be material in which circumstances.**

    As we have said on previous occasions, disclosure requirements do not sit well within a principles-based Technical Actuarial Standard, it being necessary to mandate that these disclosures are material so that the only issue for judgment by the practitioner is how to go about these disclosures in a proportionate manner. We agree that all the items listed are material for the purpose of the application of TAS 300 (subject to our comments below).

    **Do you agree the proposed amendments to items b, d and e in Appendix A? If not, please explain why.**

    We understand your logic for the amendments to d and e, but we question whether it is necessary to have liability reporting on three bases in what is a report of record whose main purpose is to act as disclosure document. It may be sufficient to only require the reporting of the funding levels on a technical provisions and low dependency basis, along with their expected progression, with reporting on the solvency funding level being just one snapshot at the valuation date.

We have a significant concern about b. As drafted, the wording would require new disclosures of the "funding and investment strategy" within the actuarial valuation report, which is disclosable to members and others on request. This is in tension with the new statement of strategy document that sets out in Part 1 a statement of the scheme's funding and investment strategy. This is because the statement of strategy document has been envisaged as a private document, shared between the trustees and the employer and submitted to the Pensions Regulator for their records and to enable them to monitor the scheme and the DB landscape more generally. As such, your proposal is not "consistent with the FIS regulations and the revised Code" (para 3.45 of your consultation document refers).

If key aspects of this statement are required to be set out in the valuation report, that may change perceptions by both trustees and employers as to how to express the funding and investment strategy to the Pensions Regulator, which may be detrimental to its intended purpose.

We also note that the "funding objectives and investment strategy" in item b in the current version 2.0 doesn't have a legal definition and therefore requiring a description of it is reasonable, because it allows complete flexibility, proportionality etc. By contrast the "funding and investment strategy" proposed for item b in version 2.1 does have a legal definition and Part 1 of the statement of strategy itself will be subject to debate and formal agreement. A summary of this statement takes on a much more significant meaning in such circumstances. So, whilst this appears to be a trivial drafting change, it isn't in fact trivial, and as drafted would require the potential disclosure to members of words formally agreed between trustees and employer which the DWP decided does not need such disclosure.

We understand that it was not your intention that item b requires disclosure of Part 1 of the statement of strategy. If you could reword to lose the direct reference to the "funding and investment strategy", that will assuage our and no doubt others' concerns.

11. **Do you agree that the risks associated with technical actuarial work in connection with buy-ins and capital-backed journey plans and other similar arrangements are adequately addressed by TAS 100 and the proposed provisions of TAS 300 as set out in the exposure draft? If not, what risks do you consider not to be adequately addressed and what different or additional provisions do you suggest be included in TAS 300?**

    Yes.

12. **Are there any further areas of technical actuarial work in relation to funding and financing which you believe should be addressed in TAS 300? If so, please explain what these are and the risks involved.**

    No.

13. **Do you agree that practitioners should communicate any material increase in risk from providing future accrual of benefits or future accumulation of money purchase benefits without equivalent funding, as set out in Provision P2.9c? If not, please give reasons for your response.**

    Although we appreciate the relevance of the topic in the current environment, it is not clear to us why P2.9c is about one specific matter (the impact of a full or partial "contribution holiday") when other actions could have a similar impact eg where future administration expenses are paid from the scheme without contributions being made to the scheme of at least equal value, or where surplus is refunded to an employer. Should the provision be broadened to cover any such circumstance?

    We accept that this is a situation where trustees may be taking an active decision that results in lower security for members – but in practice the risk to members' benefits is heavily dependent on the employer covenant, as the employer is ultimately underwriting the risks. Whilst it would be possible to include a qualitative comment, it would be difficult for a typical scheme actuary to evaluate the impact on the risk to members' benefits. Could you clarify what you are intending in relation to the assessment of the risk to members' benefits please?

14. **Do you agree with the application of the provisions in Section 4 to technical actuarial work as set out in "benefit alterations and other activities", beyond incentive exercises and scheme modifications which are already in scope in the current standard?**

    Yes, we agree, although as the three scope additions are to do with use of surplus, it may be helpful if you reference use of surplus in Section 4's heading and adjust similarly the "benefit alterations or other activity" definition.

On a related point, in relation to the three use of surplus areas falling under the new heading of "benefit alteration or other activity", we are aware of situations at present where in-house actuaries produce calculations of indicative costs, which is subject to TAS 100 compliance, but any advice to support Trustee decisions on use of surplus is provided by the Scheme Actuary. It seems that as the proposed scope is currently drafted in version 2.1 (through the phrase "technical actuarial work concerning"), such in-house work will be subject to TAS 300, which differs from the current situation. We suggest it should be clarified that it is technical actuarial work to support decisions in the area of benefit alterations or other activity which would fall within TAS 300 version 2.1 scope (similarly to the phrasing used for technical actuarial work to support decisions required by legislation on funding etc).

**Does the proposed extension of scope in relation to provisions in Section 4 capture technical actuarial work which you consider should not fall in scope of TAS 300, or where the proposed Provisions in Section 4 are not applicable? If so, please explain what this is.**

No, other than as noted above.

15. **Do you anticipate challenges in judging which of elements a to c in Provision P4.2, as set out in the exposure draft, to apply in any given circumstances?**

We think that in the interests of providing clear standards you need to reconsider how you set out P4.2. Currently, the three elements of P4.2 are always potentially applicable to incentive exercises and modifications and so in applying them the issue is one of materiality and proportionality. By contrast, these three elements will not always be applicable to each aspect of the "Benefit alteration or other activity" scope.

For example, we are not sure whether any of the three elements of P4.2 are applicable where a surplus payment to the employer is being proposed. And where future administration expenses are to be met by the scheme without an equivalent contribution being received it also seems that none of the three elements of P4.2 are applicable. However, we accept that P4.2 does work where a change to accrued benefits is being put through without contributions of at least equal value being paid.

Whilst we appreciate your use of the phrase "where relevant" just before the three bullets of P4.2, perhaps P4.2 should be kept for those matters currently in scope, which in essence are to do with changes to accrued rights (which would include cases where a change to accrued benefits is being put through without contributions of at least equal value being paid).

A new P4.3 could then be added to address separate concerns where a surplus payment to the employer is being proposed, where additional benefits are being granted without full funding and where future administration expenses are to be met by the scheme without an equivalent contribution being received.

16. **What are your views on the proposal that the standard would be effective around one month after publication? Please set out any practical difficulties which you believe this might cause.**

We understand your desire to bring the standard into force as soon as possible after publication given that the new DB funding regime has been in operation since 22 September 2024. However, we think this will be unnecessarily disruptive and have set out some proposals below.

In relation to the changes to section 4 we don't see the need to depart from your usual practice of bringing the TAS into force for work completed three or six months after publication.

**Do you foresee challenges in connection with providing advice before the effective date of TAS 300 v2.1 on valuations with an effective date on or after 22 September 2024? Please set out any proposals for how these may be mitigated.**

We are not aware of any difficulties in providing advice on such valuations and using version 2.0 for compliance. We don't believe it is appropriate to use an unfinished version 2.1 now for compliance purposes.

As to when version 2.1 should apply to such valuations. although Technical Actuarial Standards are intended to be principles-based their length and detail and the requirement to demonstrate compliance if called upon to do so means that many actuarial firms have, in recent years, developed detailed checklists setting out each aspect of the relevant TASs to assist with compliance. They have then gone on to ensure that compliance is reflected in internal processes and standard documentation, such as advice notes and reports.

As a result, even the most straightforward changes to a TAS necessitate a detailed examination and updating of these checklists, processes and standard documentation, followed by training and familiarisation. One month from publication to do all this is insufficient. It needs to be at least three months, and ideally six. Therefore, if you can publish at the beginning of Q3 2025, ie 1 July 2025, we suggest

that you bring section 2 into force no earlier than 1 October 2025. That should give sufficient time for those within a valuation cycle and completing valuations with effective dates around 31 March 2025 to ensure compliance with version 2.1, at least insofar as the Scheme Funding report is concerned. We also don't think this will result in many more new regime scheme funding reports being tested against version 2.0 compared with the one month lead-in time, given that July to August is not a time of great activity when it comes to advising on formal scheme funding matters, and those providing advice in September could be encouraged to consider the final v2.1 even if it is not formally in effect.

**Do you foresee challenges in relation to applying the proposed TAS 300 v2.1 to valuations with an effective date before 22 September 2024 which do not fall under the FIS regulations?**

We don't see the need to bring version 2.1 into force for such valuations. These will be well underway by now and most will have been completed by the time version 2.1 can be published in its final form. As version 2.0 was appropriate for such valuations it does not seem proportionate to require actuarial work for such valuations to have to also be compliant with version 2.1. For example, certain aspects of version 2.1 will clearly not be relevant to such valuations, but in applying version 2.1 the practitioner will need to document in their working papers why they have decided they are not relevant. This does not seem to be a good use of professional time.

We suggest that when bringing version 2.1 into force you have an exclusion for scheme funding and financing work relating to valuations with effective dates before 22 September 2024.

17. **Do you agree with our impact assessment? Please give reasons for your response.**

We largely agree, particularly given the relatively limited number of changes being made within the scheme funding and financing section. However, as we have pointed out, it would be helpful to have clarity that risk evaluation is not required by P2.9c and P2.12, and we would need to understand more about P2.9c to have a clear opinion on the potential impact. Our comment that we largely agree with this point is therefore dependent on relevant changes to make the position clearer in relation to the risk evaluation points, in particular that risk evaluation is not a requirement.

We would also like confirmation that disclosure of Part 1 of the Statement of strategy is not required.

As noted above a fair deal of activity needs to be undertaken by actuarial firms to onboard a new version of a TAS, no matter how straightforward the changes are.