

December 2016

Feedback Statement

Consultation: Revised Specific TASs

Analysis of responses to the May 2016 consultation

Annex 3: TAS 400: Funeral plan trusts

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1 Introduction

- 1.1 In May 2016, the Financial Reporting Council published a consultation package on revisions to its Technical Actuarial Standards (TASs) for areas of specified work in insurance, pensions and funeral plan trusts on matters where there is a high degree of risk to the public interest.
- 1.2 Annex 3 of the consultation package covered technical actuarial working concerning funeral plan trusts. The Annex included an exposure draft of TAS 400: *Funeral plan trusts* together with a paper setting out the rationale for the proposed scope and provisions of TAS 400, an impact assessment and a list of questions upon which we were seeking views. The consultation period ended on 5 August 2016.

Responses

- 1.3 We received three responses to Annex 3 on TAS 400: *Funeral plan trusts*. Of the responses, two were from practitioners and the third was from the Funeral Planning Authority. A list of respondents is included in Appendix A and their responses can be found [here](#).
- 1.4 After the formal consultation, users and practitioners have had the opportunity to provide further informal input. We thank all those who contributed.

Summary

- 1.5 In finalising the text of TAS 400 we have taken account of comments we received in response to the consultation questions in Annex 3. We have also considered the responses to the other annexes in the consultation package.
- 1.6 Respondents supported the proposed scope of TAS 400 and generally supported the provisions proposed in the exposure draft. There were concerns on some aspects of those proposed requirements which were new in comparison with the requirements of the existing Funeral Plans TAS.
- 1.7 The provisions in the final version of TAS 400 are therefore broadly the same as those that appeared in the exposure draft. However, the text has been amended in places in order to address a number of concerns and to improve clarity, particularly in relation to the new requirements.
- 1.8 Section 2 summarises the comments that we received in answer to the specific questions that were posed in Annex 3 of the consultation paper. Section 3 explains the changes that we have made to the exposure draft of TAS 400.
- 1.9 We have published the final version of [TAS 400](#) along with a [marked up version](#) to show changes from the exposure draft.

2 Analysis of responses

- 2.1 The questions in the Annex 3 of the consultation paper are repeated below with a summary of points made in the responses and our reactions to those responses. The numbering of the provisions refers to the numbering of the provisions in the exposure draft.

Proposed scope

F.1.1 Do you agree that technical actuarial work concerning the determination, calculation and verification of the assets and liabilities of the trust required by legislation or the FPA's rules should be in the scope of TAS 400?

- 2.2 All respondents agreed that technical actuarial work concerning the determination, calculation and verification of the assets and liabilities of the trust required by legislation or the FPA's rules should be in the scope of TAS 400.

Work not in scope

F.1.2 Do you agree that technical actuarial work relating to investment advice is adequately covered by TAS 100 and should not be in the scope of TAS 400?

F.1.3 Do you agree that advice on pricing is adequately covered by TAS 100 and should not be in the scope of TAS 400?

F.1.4 Do you agree that the scope of TAS 400 should not be extended to require an assessment of the plan provider's liabilities?

- 2.3 All respondents agreed that technical actuarial work relating to investment advice and actuarial work on pricing is adequately covered by TAS 100 and should not be in the scope of TAS 400.

- 2.4 Furthermore, all respondents agreed that the scope of TAS 400 should not be extended to require an assessment of the plan provider's liabilities.

Core provisions

F.2.1 Do you agree with the proposed text of TAS 400 as a means of implementing the proposals presented in this annex?

- 2.5 There were a number of comments on the provisions in the exposure draft of TAS 400 in the following areas:

Provision 10: Illustrating cash flows

- 2.6 Provision 10 of the exposure draft (now provision 9 in TAS 400) required that communications quantify the liability cash flows expected to arise in an appropriate period following the effective date of the estimate of the liabilities of the funeral plan trust. There was an additional, new element of provision 10 of the exposure draft - the requirement to show both the liability cash flows assuming the funeral plan trust is closed to new business and assuming it is open to new business.

- 2.7 One respondent suggested that this new requirement would be onerous and users would not consider the additional information useful. We have decided not to include this requirement. However we consider that trustees should be aware of any reliance on new business in the assumptions used to value the liabilities of the trust and consider that any implicit assumptions about new business should be disclosed under the requirement of provision 1 to explain the derivation of the discount rate, mortality, funeral cost inflation, expense, tax and other material assumptions.
- 2.8 We also consider that users should understand the potential impact on the financial position of the funeral plan trust if the funeral plan trust were to close to new business.

Provision 12: Illustrating cash flows

- 2.9 Provision 12 of the exposure draft required that communications describe how the nature, term and characteristics of the liability cash flows compare with the cash flows from the current assets of the funeral plan trust.
- 2.10 One respondent questioned whether a narrative would suffice, or whether a more detailed description or quantitative analysis was required. Another respondent suggested that modelling asset cash flows would involve a lot of work and additional expense, and questioned whether the additional information will improve trustees' understanding of liquidity or reinvestment risk.
- 2.11 We consider that trustees should have sufficient information to understand the potential impact on the financial position of the funeral plan trust of any mismatching risk.
- 2.12 We have clarified our intention and included an explicit reference to this in provision 12 of TAS 400 (provision 14 of the exposure draft of TAS 400) on communicating risk and uncertainty. We now require that communications include sufficient information to enable users to understand the sensitivity of the current financial position and the potential future development of the funeral plan trust to risks arising from differences between the nature, term and characteristics of the liability cash flows and the nature, term and characteristics of the cash flows from the assets of the trust.

Provision 13: Estimating the value of assets

- 2.13 One respondent suggested that provision 13 of the exposure draft (now provision 11 in TAS 400) should be expanded to require that the source of asset valuation be explained.
- 2.14 We consider that the source of the asset valuation should be disclosed under provision 2.4 of TAS 100 which requires that communications describe the source of data used in technical actuarial work. We have therefore not expanded the provision.

Provision 14: Communicating risk and uncertainty

- 2.15 We consider that it is important for trustees and other users to be aware of factors that can affect the viability of the trust and what can be done to mitigate the risks to the trust. Provision 14 of the exposure draft (now provision 12 in TAS 400) requires that communications include sufficient information to enable the trustees to understand the sensitivity of the financial position of the trust to material risks. The draft provision included new requirements to indicate the impact of adverse scenarios on the value of the liabilities at the valuation date and on the financial position of the funeral plan trust over an appropriate time period, and to describe any assumptions about management actions.

- 2.16 Two respondents commented on the new requirement noting that the draft provision suggests that a projected balance sheet (as at some future date) should be produced. It was suggested that the provision of this information would be costly and involve a lot of work, and the value of the additional information to trustees was questioned. It was suggested that the impact of this risk is more easily considered in terms of sensitivities.
- 2.17 We accept these points. We have amended the text to focus on the desired outcome that users have sufficient information to enable them to understand the sensitivity of the current financial position and the potential future development of the financial position of the funeral plan trust to material risks.
- 2.18 We consider that this approach gives practitioners the flexibility to use their judgement to determine the best approach to achieving this outcome.
- 2.19 We also consider that provision of this information could be a useful prompt for trustees and the plan provider to consider potential management actions to mitigate risks or to develop plans to reduce the likelihood or impact of particular risks.
- 2.20 The revised text is similar to the current requirement at paragraph D.4.6 of the Funeral Plans TAS. However, as noted in paragraphs 2.10 and 2.14 above, we have been explicit about consideration of risks relating to closure to new business and mismatching of assets and liabilities. We consider these are important risks that were previously addressed by provisions 10 and 12 of the exposure draft.

Impact assessment

- F.3.1 Do you agree that the replacement of the Funeral Plans TAS with TAS 400 will not lead to disproportionate costs?**
- F.3.2 Do you have any comments on our analysis of the impact of the changes set out in section 3?**

- 2.21 There were mixed responses to this question. One respondent agreed that the replacement of the Funeral Plans TAS with TAS 400 will not lead to disproportionate costs.
- 2.22 Other respondents considered that there would be additional costs associated with the proposed new requirements. They considered that the additional costs would not necessarily be disproportionate but this was subject to level of detail required by these new requirements.
- 2.23 Two respondents did not agree that the replacement of the Generic TASs with TAS 100 should offset the additional costs associated with TAS 400; they considered that the introduction of TAS 100 is unlikely to reduce compliance costs.
- 2.24 We acknowledge these comments and consider that the amendments we have effected in the final version of TAS 400 will mitigate the concerns raised.

Invitation to comment

F.4.1 Do you have any comments on the text of the exposure draft of TAS 400?

2.25 There were no further comments on the text of the exposure draft of TAS 400.

F.4.2 Do you have any further comments on the proposals in this consultation?

2.26 There were no further comments on the proposals in the consultation.

3 Changes to TAS 400

Introduction

- 3.1 As a result of the responses we received to the consultation we have made changes to the text in the exposure draft of the TAS 400: *Funeral plan trusts*. The material changes made are described in this section.

Scope of application

- 3.2 In line with amendments made to the other Specific TASs, we have added text to clarify the geographic scope of TAS 400.
- 3.3 We have removed the sub-headings “materiality”, “proportionality” and “disclosure”.

Compliance

- 3.4 We have clarified the text on departures to include specific reference to TAS 400.

Assumptions

- 3.5 We have added “material” to provision 3 for consistency with provision 13 of TAS 200.
- 3.6 We have changed the placing of the text “(if one exists)” in provisions 3 and 4.
- 3.7 Provision 4 of the exposure draft has been deleted and the requirements merged into a single provision dealing with changes to measures, methods and assumptions at provision 4 of TAS 400. This aligns the requirement of TAS 400 with the current requirement of the Funeral Plans TAS.

Communications

Estimating the value of liabilities

- 3.8 In provision 6 of the exposure draft we have deleted the word “adverse” as it is superfluous and an omitted word has been inserted.

Illustrating cash flows

- 3.9 The wording in the first part of provision 10 of the exposure draft has been clarified – the requirement is for communications to include cash flows in each 12 month period from the effective date of the estimate of liabilities for an appropriate number of years, with justification of the number of years chosen.
- 3.10 The second sentence of provision 10 of the exposure draft has been deleted reflecting the inclusion of consideration of the potential impact of risks relating to closure to new business in provision 12 of TAS 400.
- 3.11 Provision 12 of the exposure draft has been deleted reflecting the inclusion of consideration of the potential impact of risks relating to mismatching of assets and liabilities in provision 12 of TAS 400.

Communicating risk and uncertainty

- 3.12 Provision 14 of the exposure draft has been amended and limited to focus on the desired outcome, that the user has sufficient information to aid their understanding of the sensitivity of the current and potential future development of the financial position of the trust to material risks with explicit consideration of closure to new business and mismatching risks.

Appendix A: List of respondents to the May 2016 consultation on TAS 400

Professional and trade bodies

Funeral Planning Authority

Insurers, consultants and actuaries

PricewaterhouseCoopers LLP

Mazars