



Financial Reporting Council

# **Technical Actuarial Standards for Pensions**

**Consultation Paper**

December 2024

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# 1. Introduction

## Background

- 1.1. The Financial Reporting Council (FRC or we) is the UK's independent regulator responsible for issuing and maintaining technical actuarial standards.
- 1.2. Technical Actuarial Standard 300: Pensions version 2.0 (TAS 300<sup>1</sup>) was published in December 2023 and applies to technical actuarial work in scope and completed on or after 1 April 2024.

## Context

- 1.3. When the FRC published TAS 300 version 2.0, changes to the defined benefit (DB) pension funding regime were expected. Pending finalisation of the revised funding regime, the FRC did not make substantive changes to the provisions in TAS 300, published in December 2016<sup>2</sup>, relating to scheme funding and financing.
- 1.4. The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 (the FIS regulations) came into force on 6 April 2024 and apply to actuarial funding valuations with an effective date on or after 22 September 2024. The Pensions Regulator's (TPR) revised DB Funding Code of Practice<sup>3</sup> (the revised Code) came into effect on 12 November 2024 and also applies to valuations with an effective date on or after 22 September 2024.
- 1.5. The FIS regulations require the trustees of a DB scheme to have a funding and investment strategy, developed, reviewed and, if applicable, revised in combination with the scheme's funding valuations, which sets out how they intend that pensions and other benefits will be provided over the long term. This might be, for example, through an insurance buyout, through a transfer to a superfund or other consolidator or by running off the scheme as it matures by paying the benefits from the scheme as they fall due. Trustees must set a target of low dependency on the employer by the time that the scheme is significantly mature and a journey plan to reach this target. The revised Code sets out TPR's guidance on how to comply with the legislation. The FIS regulations and the revised Code require actuarial advice to be obtained in a number of areas, and actuarial judgement to be exercised. We are proposing to amend TAS 300 in light of the introduction of the new funding regime.
- 1.6. The new funding regime is not the only recent development to have affected DB pension schemes. Increases in bond yields have transformed DB pension schemes' funding positions, with the majority of DB schemes now being in surplus. In some cases, trustees and employers are contemplating how they might use surplus funding and taking actuarial advice on this. We

<sup>1</sup> [https://media.frc.org.uk/documents/Technical Actuarial Standard 300 - Pensions - Version 2.0.pdf](https://media.frc.org.uk/documents/Technical_Actuarial_Standard_300_-_Pensions_-_Version_2.0.pdf)

<sup>2</sup> [https://media.frc.org.uk/documents/TAS 300 Pensions.pdf](https://media.frc.org.uk/documents/TAS_300_Pensions.pdf)

<sup>3</sup> <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-funding-code-of-practice.ashx>

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are proposing to amend TAS 300 in light of the actuarial considerations arising from improved funding levels.

- 1.7. In 2024, we conducted a pilot of a voluntary monitoring programme, which has enabled us to assess the effectiveness of the actuarial standards in support of setting proportionate and targeted standards and guidance. We received submissions of technical actuarial work on scheme funding and have taken learnings from this exercise into account in this review of TAS 300.

## Purpose and audience

- 1.8. The aim of this paper is to consult on proposed amendments to TAS 300. The consultation has been written for those carrying out or reviewing technical actuarial work in relation to pensions and for those who rely on such technical actuarial work.
- 1.9. Sections 2 to 6 of this paper describe the proposed changes to TAS 300. Section 7 contains the FRC's impact assessment in relation to the proposed changes. Section 8 summarises the questions asked in this consultation. Annex 1 contains the exposure draft of the proposed revised standard, TAS 300 version 2.1.

## How to respond

- 1.10. Comments should be sent electronically to [ART@frc.org.uk](mailto:ART@frc.org.uk). Comments may also be sent in hard copy form to:

The Director of Actuarial Regulation  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

- 1.11. Comments should reach the FRC by 10 March 2025. It is advisable to send your response electronically.
- 1.12. All responses will be regarded as on the public record unless confidentiality is expressly requested by the correspondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. If you are sending a confidential response by email please include the word 'confidential' in the subject line of your email.
- 1.13. The FRC will publish non-confidential responses on its website. We will publish a summary of the consultation responses either as a separate document or as part of, or alongside, any decision.

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## 2. Approach to the revision of TAS 300

2.1. The FRC is proposing to make changes to TAS 300 informed by:

- areas in the new DB funding regime where actuarial judgement may be applied or actuarial advice is given;
- matters identified through responses to the call for feedback, outreach and consultation on proposed changes to TAS 300 v1.0;
- actuarial considerations arising from improved funding levels of DB schemes; and
- findings from the reviews conducted in the 2024 voluntary monitoring programme pilot.

2.2. In line with the revisions made in other sections of TAS 300 v2.0, we propose to make changes to the structure of Section 2 to bring out more clearly those provisions related to communications. These will now appear at the end of Section 2 and be marked as related to communications. Further, where a requirement for further analysis or consideration is currently embedded within a communications provision, we propose to introduce a separate provision explicitly relating to that analysis or consideration.

2.3. These changes are described in more detail in the remaining sections of this paper. Except where stated otherwise, references in this paper to numbered provisions of TAS 300 are to the proposed provisions of TAS 300 v2.1 as set out in the exposure draft.

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## 3. Scheme funding and financing

### Prudence in assumptions

- 3.1. The assumptions principle of TAS 100 requires that assumptions used, or proposed for use, by practitioners in their technical actuarial work must be appropriate, so that the intended user can rely on the resulting actuarial information. Provision P2.1 of TAS 300 v2.0 requires practitioners to communicate sufficient information to enable the intended user to understand the level of prudence in the assumptions and the resulting information. Provision P2.5 of TAS 300 v2.0 requires practitioners to communicate if and how assumptions take account of employer covenant.
- 3.2. The FRC considers that these requirements remain relevant but can be better expressed in light of the following considerations:
- covenant risk is just one of the material risks for DB schemes which practitioners must consider when setting the level of prudence in assumptions, so the requirements can be streamlined although, in view of the references to employer covenant in the FIS regulations, it is appropriate to refer to it explicitly;
  - we observed in a voluntary pilot carried out in 2024 monitoring compliance of technical actuarial work with the TASs that the current wording of Provision P2.5 of TAS 300 v2.0 can be subject to interpretation, with some practitioners giving generic descriptions of the link between the level of prudence in the assumptions and the covenant strength without explaining how or why the level of prudence adopted in the particular case was appropriate to the covenant strength for the scheme;
  - the risk identification principle has been introduced into TAS 100 v2.0 since these provisions were last subject to review; and
  - as with previous TAS reviews, where a requirement for further analysis or consideration is currently embedded within a communications provision, the FRC proposes to introduce a separate provision explicitly relating to that analysis or consideration.
- 3.3. We consider it appropriate to combine Provisions P2.1 and P2.5 of TAS 300 v2.0 into a single provision, addressing the level of prudence and how this relates to the employer covenant, and in line with the rest of TAS 300 to introduce separate provisions for considerations by the practitioner and communications to the intended user.
- 3.4. It is for the practitioner to decide what information is needed by the intended user to understand the level of prudence in the assumptions and how and why the practitioner judged that level of prudence to be appropriate, but the intended user will need to understand which assumptions contain the prudence. We do not, however, consider it necessary for practitioners to attribute elements of prudence in the assumptions to specific risks and the proposed provisions below would not require this.

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3.5. The FRC therefore proposes to introduce:

- Provision P2.1 in the exposure draft to require practitioners carrying out technical actuarial work on scheme funding to consider what level of prudence in the funding assumptions is appropriate, allowing for the material risks, including risk relating to the strength of the employer covenant, to which the pension scheme is exposed.
- Provision P2.5 in the exposure draft concerning required communications to the intended user.

3.6. We reflected on whether to address through TAS 300 the risk of actuarial advice leading to governing bodies adopting unnecessarily cautious assumptions, in particular in the case of trustees when meeting requirements in the FIS regulations for low dependency on the employer and high resilience to changes in market conditions.

3.7. The approach taken in the FIS regulations to addressing the risk of excessive prudence is to require the trustees to take account of the impact on the sustainable growth of the employer when setting a recovery plan, and to allow the trustees to take into consideration the admission of new members and the future accrual of benefits where relevant.

3.8. For technical actuarial work in relation to funding, the risk of an inappropriate level of prudence is adequately dealt with by the assumptions and communications principles of TAS 100 and Provision P2.1 of TAS 300 v2.0 (P2.5 in the exposure draft), together with the proposed Provision P2.1.

3.9. Some respondents to our previous consultation on changes to TAS 300 suggested that Provisions P2.1 and P2.2 of TAS 300 v2.0, relating to communications about the level of prudence in assumptions, are unnecessary following the publication of TAS 100 v2.0 and ought to be removed.

3.10. This suggestion was based on consideration of Application statement A7.1d) in TAS 100 which states that, where actuarial information contains prudence, practitioners' communications should include sufficient information to enable the intended user to understand the level of prudence in the resulting actuarial information, and where there was a previous exercise carried out for the same purpose, should further include an explanation of, and reason for, any material change in the level of prudence from the previous exercise carried out for the same purpose.

3.11. Provisions P2.1 and P2.2 of TAS 300 v2.0 use 'must', but the application statement in TAS 100 uses 'should'. Since legislation requires trustees to use prudent assumptions for funding, it is appropriate for communications about the level of prudence in funding to be mandatory and therefore we propose retaining Provisions P2.1 and P2.2 of TAS 300 v2.0 (Provisions P2.5 and P2.6 in the exposure draft).



## Question 1

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

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.

## Information on future evolution of the scheme

- 3.12. Provision P2.7 of TAS 300 v2.0 requires practitioners to communicate to governing bodies material risks in relation to funding and financing and the future evolution of the scheme. They must provide information on (a) future cash flows; (b) future funding level; and (c) volatility of the funding level.
- 3.13. The FRC considers that it remains important to communicate these risks, but that it can update Provision P2.7 (Provision P2.9 in the exposure draft) to reflect that Application statement A7.6f) of TAS 100 v2.0 states that practitioners should communicate cash flow information. This approach allows practitioners room for judgement. This is particularly the case for schemes which are subject to FIS regulations, in view of the information which intended users will receive in support of their understanding on the future evolution of the scheme following the introduction of the new funding regime. We therefore propose to remove part (a) of Provision P2.7 of TAS 300 v2.0 (P2.9 in the exposure draft).
- 3.14. In section 4 of this paper, we explain a further proposed amendment to Provision P2.9, adding a new requirement (c) relating to using existing assets to support the future accrual of benefits without equivalent funding.

## Question 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.

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## Setting the funding and investment strategy

3.15. The FRC intends that the scope of TAS 300 v2.1 will include technical actuarial work carried out to support meeting legislative requirements relating to funding and investment strategy, in addition to technical actuarial work on actuarial valuations which is already in scope. Amendments to the Scope section of TAS 300 v2.0 are required to achieve this. Specifically:

- the first item in the Scope section is technical actuarial work required by legislation to support decisions on funding, contribution requirements or benefit levels. Advice is typically sought by trustees and employers and provided by practitioners in these areas even though the legislation may not explicitly require actuarial advice to be given, for example to support decisions on the amount and timing of contributions which an employer will pay. We consider that, where such advice is provided, it continues to be important that the advice can be relied on but we propose re-ordering the wording to clarify our intention that TAS 300 applies to work supporting decisions required by legislation; and
- the second item in the Scope section is technical actuarial work carried out for an employer on the actuarial valuation, but does not include work relating to the additional requirements of the new funding regime relating to long-term strategy. We therefore propose to refer specifically to the funding and investment strategy to bring this into the scope of TAS 300. Technical actuarial work will continue to be carried out in relation to funding and investment strategy unrelated to the FIS regulations, and the proposed definition in the Glossary of “funding and investment strategy” allows for this.

3.16. Paragraphs 3 to 5 of Schedule 1<sup>4</sup> to the FIS regulations specify three principles which trustees must follow in setting the funding and investment strategy. In simple terms these are:

1. low dependency on the employer is to be achieved by the relevant date and maintained thereafter;
2. in setting the actuarial assumptions for calculating the value of the scheme’s liabilities during the journey plan, the acceptable level of risk depends on the strength of the employer covenant (more/less risk can be taken where the covenant strength is stronger/weaker) and on proximity to the relevant date (more/less risk can be taken when the scheme is further from/nearer to the relevant date); and
3. the assets must be invested with sufficient liquidity to meet expected cash flow requirements and make reasonable allowance for unexpected cash flow requirements.

3.17. Trustees and employers will likely seek advice from actuarial practitioners to support their consideration of the three principles.

3.18. We recognise that trustees and employers may set other long-term objectives in addition to the requirements of the FIS regulations. Further, governing bodies of schemes such as LGPS

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<sup>4</sup> <https://www.legislation.gov.uk/ukxi/2024/462/schedule/1/made>

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which are not subject to the FIS regulations may set long-term objectives. Whenever a DB pension scheme has a long-term funding target and an indicator of the timeframe to achieve it, the governing body will need to manage risk until the target is achieved and to manage liquidity needs. Hence the underlying logic of the principles in the FIS regulations is relevant, regardless of what the long-term target is or whether the scheme is subject to the FIS regulations.

### **Principle 1: low dependency on the employer**

- 3.19. Low dependency investment allocation and low dependency funding basis are defined in regulations 5<sup>5</sup> and 6<sup>6</sup> of the FIS regulations in terms of further employer contributions not being expected to be required if the scheme has its assets invested in a low dependency investment allocation and is fully funded on a low dependency funding basis. The trustees are responsible for setting the low dependency investment allocation and the low dependency funding basis. They are elements of the funding and investment strategy which the trustees must agree with the employer.
- 3.20. The legislation does not specify how trustees and employers are to set the low dependency investment allocation and the low dependency funding basis. For example, while it sets out that low dependency investment allocation means the assets of a scheme are invested in such a way that the value of the assets relative to the value of the scheme's liabilities is highly resilient to short-term adverse changes in market conditions so that further employer contributions are not expected to be required to make provision for the scheme's liabilities, it does not define what it means to be highly resilient to short-term adverse changes in market conditions. However, the revised Code states that TPR expects trustees to assess the resilience of their low dependency investment allocation through suitable testing.
- 3.21. Low dependency does not mean no dependency and, even from a position of low dependency on the employer, there is still a risk that a scheme may be unable to pay the benefits without further contributions from the employer. This risk is increased if the low dependency investment allocation is insufficiently resilient or the low dependency funding basis is set insufficiently prudently.
- 3.22. Trustees may seek advice from actuarial practitioners on the resilience of the low dependency investment allocation and on setting the low dependency funding basis. In giving this advice, it is important that the practitioner gives due consideration to how the circumstances of the scheme might affect what level of dependency on the employer may be appropriate, and does not, for instance, assume that the example test of resilience in the revised Code, or the parameters set out in TPR's regulatory approach for fast-track, are automatically appropriate.
- 3.23. Trustees need to decide what level of likelihood of further contributions being required is acceptable, so the actuarial practitioner must communicate sufficient information to enable them to assess whether the level of risk of this happening is appropriate. The corresponding

<sup>5</sup> <https://www.legislation.gov.uk/uksi/2024/462/regulation/5/made>

<sup>6</sup> <https://www.legislation.gov.uk/uksi/2024/462/regulation/6/made>

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advice to employers must also include this information to enable them to have informed discussions with trustees.

- 3.24. The FRC proposes adding Provision P2.3, that a practitioner advising on the prudence of a low dependency funding basis or the resilience of a low dependency asset allocation must consider the circumstances of the scheme, and Provision P2.12, that the practitioner must communicate sufficient information to enable the intended user to assess whether the level of risk of further employer contributions being expected to be required is appropriate.
- 3.25. In connection with these proposed provisions, we propose adding to the Glossary definitions of “low dependency funding basis” and “low dependency investment allocation” by reference to the FIS regulations (also defined in the Glossary).

### Question 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?

### Principle 2: journey plan

- 3.26. Actuarial input is likely to be a key component of the overall advice on the journey plan. This is already covered in part by Provision P2.8a of TAS 300 v2.0. However, it is important that the actuarial advice includes suitable communication about the level of risk during the journey plan, bearing in mind that the decision on the appropriate level of risk is a matter for the intended user of the actuarial information. We propose to introduce a sub-provision (P2.10b in the exposure draft) which includes a specific reference to communication which supports the intended user in assessing whether the level of risk during the journey plan is appropriate. Provisions P2.2 and P2.10 in the exposure draft taken together set out respectively what the practitioner must consider and what the practitioner must communicate.
- 3.27. The FRC proposes that Provisions P2.2 and P2.10 apply to practitioners providing advice on developing or revising funding and investment objectives to governing bodies or employers, rather than just to advice to governing bodies, as currently under Provision P2.8 of TAS 300 v2.0.
- 3.28. The Glossary has been amended to include a definition for “journey plan” which allows for both circumstances where the scheme is subject to the FIS regulations and circumstances where it is not.

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## Question 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.

### Principle 3: liquidity

- 3.29. It is important that liquidity risk relating to unexpected liability cash flows is communicated as part of actuarial advice where relevant and material, but this may not be required in all cases, particularly where advice is provided solely to an employer. Under Provision P2.11 in the exposure draft, we propose that practitioners should communicate appropriately to their intended users in relation to uncertainty of future benefit cashflows.
- 3.30. In the light of the impact of large movements in gilt yields in September 2022 on schemes with leveraged LDI holdings, the FRC considered whether it would be appropriate to include further provisions in TAS 300 relating to actuarial advice on liquidity risk.
- 3.31. TPR issued guidance in April 2023 to set out practical steps which trustees should take to manage risk when using leveraged LDI. In its guidance, TPR set out the minimum level of buffer to be held against adverse market movements. Trustees might seek advice from actuarial practitioners about applying TPR's guidance.
- 3.32. The existing requirements in the risk identification principle in TAS 100 and the proposed provisions in the exposure draft appropriately cover technical actuarial work in supporting trustees to apply TPR's guidance on managing risks when using leveraged LDI. It is therefore unnecessary to add further provisions to TAS 300 relating to actuarial advice on liquidity risk.

## Question 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.

- 3.33. Provision P2.8b of TAS 300 v2.0 relates to managing a funding and investment strategy to achieve the governing body's funding and investment objectives. Provisions P2.2, P2.10 and P2.11 in the exposure draft capture the actuarial practitioner's role in connection with principles 2 and 3 in identifying, considering and communicating risks in a funding and investment strategy. Although actuarial practitioners may be asked to carry out or advise on other actions relating to managing the strategy, for example monitoring risks or proposing mitigating actions, we do not consider it necessary to set out further provisions relating to the

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technical actuarial work in connection with such actions so we propose removing Provision P2.8b of TAS 300 v2.0.

### **Question 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.

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?

## **Statutory duties**

- 3.34. P2.6 of TAS 300 v2.0 requires that practitioners' communications contain sufficient actuarial information to support the governing body in fulfilling its statutory duties in relation to funding and financing.
- 3.35. The FRC considers that all material items which practitioners need to communicate to comply with this provision are addressed by the relevant legislation, the revised Code or the proposed provisions of TAS 300 as described above.
- 3.36. We therefore consider that P2.6 of TAS 300 v2.0 is no longer necessary and can be removed.

### **Question 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.

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## Working with third parties

- 3.37. In providing advice in relation to funding and financing, practitioners may make use of input from either covenant or investment advisors, for example in assessing covenant strength and considering liquidity needs.
- 3.38. Actuarial practitioners are not required to obtain input from third parties if they consider that they do not need it to provide reliable advice and they are not required by the TASs to assess, or advise on, matters outside their area of expertise. However, where practitioners rely on third-party input, the FRC considers that they should understand the implications of such input for their technical actuarial work, and how the output might differ if the input were different.
- 3.39. Under the new funding regime covenant risks are for the first time explicitly mentioned in legislation. This reinforces the need for practitioners to make use of the work of third parties who provide expertise relevant to setting funding and investment strategy. We therefore consider that it is appropriate to include a specific provision in TAS 300 relating to third party advice in connection with funding. We propose to add Provision P2.4, that practitioners who have relied on input from a third party should understand how the input affects the output of their technical actuarial work. This is consistent with the approach taken in Provision P5.2 of TAS 300 v2.0 in relation to technical actuarial work in connection with bulk transfers.

### Question 8

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

## Open schemes

- 3.40. Regulation 4(5) of the FIS regulations<sup>7</sup> allows the calculation of a scheme's maturity to take into consideration whether new members may be admitted and the future accrual of benefits, provided that the assumptions used are reasonable and based on an assessment of the strength of the employer covenant. TPR states in the revised Code that it expects these assumptions to be set by reference to the period for which the trustees have reasonable certainty over key aspects of the covenant such as employer cash flows.
- 3.41. The trustees are responsible for setting the assumptions for this purpose. This is part of the funding and investment strategy which the trustees must agree with the employer. Trustees and employers will most likely take advice on these matters from actuarial practitioners.

<sup>7</sup> <https://www.legislation.gov.uk/ukxi/2024/462/regulation/4/made>

- 3.42. The assumptions to be used for this purpose may have a material impact on decisions made by trustees and employers and ultimately may impact member outcomes. Providing advice on these assumptions involves the exercise of judgement by the actuarial practitioner.
- 3.43. The FRC considers that, when making decisions, the intended user needs to understand the judgement which has been exercised by the practitioner in relation to the allowance, if any, to make for the admission of new members and the future accrual of benefits. This is also the case where actuarial advice on maturity is provided in relation to schemes which are not subject to the FIS regulations. We therefore propose to add Provision P2.13.

## Question 9

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

## Reports of record

- 3.44. Appendix A to TAS 300 sets out a list of items which must be included in a scheme funding report, or the equivalent report for a scheme not subject to Part 3 of the Pensions Act 2004. This supports the understanding of scheme members and other interested parties of the position of the scheme at the most recent valuation.
- 3.45. The FRC proposes to update the list of information to be included in a scheme funding report so that it is consistent with the requirements of the FIS regulations and the revised Code. In particular:
- item b refers to the funding and investment strategy;
  - item d includes an explanation of the difference between the technical provision and the value of the liabilities on the low dependency funding basis, and
  - item e includes a description of how the funding levels on the technical provisions basis and on the low dependency funding basis are expected to converge in future.
- 3.46. For a pension scheme which is not subject to the FIS regulations, Provision P2.12 of TAS 300 v2.0 (Provision P2.17 in the exposure draft) gives the practitioner sufficient freedom to interpret these items suitably for that scheme.
- 3.47. We received responses to our call for feedback which suggested that some of the items listed in Appendix A may be irrelevant or immaterial for some schemes. We consider that the items listed in Appendix A are material for all schemes and so must be included in scheme funding reports, as required by Provision P2.11 of TAS 300 v2.0. However, the appropriate way to communicate the key information is best left to the judgement of the practitioner, who will be familiar with the scheme's circumstances and the needs of readers of the report and can therefore tailor the communication appropriately.



- 3.48. This is currently set out in Provision P2.11 of TAS 300 v2.0, which states that the level of detail to be set out in a scheme funding report is a matter for the practitioner's judgement. However, the intention would be made clearer by moving the second sentence of P2.11 of TAS 300 v2.0 (Provision P2.16 in the exposure draft) to Appendix A, bringing it closer to the list of required items.

## Question 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.

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

## Buy-ins and capital-backed journey plans

- 3.49. Some respondents to the FRC's previous consultation on changes to TAS 300 suggested including requirements for technical actuarial work in connection with buy-ins and capital-backed journey plans, or other similar arrangements.
- 3.50. These suggestions were made in the context of bulk transfers. We indicated in our Feedback Statement<sup>8</sup> on the previous TAS 300 consultation our position in relation to buy-ins and that we would consider our approach to capital-backed journey plans, and long-term journey planning more generally, when reviewing the funding and financing section of TAS 300.
- 3.51. We amended the definition of a bulk transfer when publishing TAS 300 v2.0 to clarify that this refers to a transaction which results in the cessation of the ceding scheme's liabilities for the transferring members' benefits. This means that an insurance buyout is a bulk transfer but an insurance buy-in is not. At the same time, we clarified that the technical actuarial work of a practitioner advising on a buy-in falls within the scope of TAS 300 where it may reasonably be expected that a decision by the trustees or governing body to carry out the buy-in might lead to a subsequent buyout.
- 3.52. Both capital-backed journey plans and buy-ins may be deployed by the trustees or governing body as part of their strategy for providing pensions over the long term. Choosing to do so is a decision which affects the scheme's risk profile but does not sever the link with the employer. A decision to use such an arrangement is for the trustees or governing body, in consultation with the employer, and both will rely on investment, covenant, legal and actuarial advice.
- 3.53. We consider that the key additional risks for the scheme, and ultimately for member outcomes, from using such arrangements are poor commercial and legal terms of entry, and

<sup>8</sup> [Feedback Statement and Impact Assessment \(frc.org.uk\)](https://www.frc.org.uk/Feedback-Statement-and-Impact-Assessment)

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counterparty default. In addition, in the case of a capital-backed journey plan, there is a risk of investment underperformance of a level which cannot or will not be remedied through additional capital from the provider. The risks are likely to be greater in the case of a capital-backed journey plan than in the case of a buy-in because of the regulatory regime applicable to insurers. The input of the actuarial practitioner can help with assessment of these risks.

- 3.54. The risks associated with technical actuarial work carried out for the purpose of providing advice on the deployment of buy-ins and capital-backed journey plans or similar arrangements, or on their impact on any funding and investment strategy, are not new. These risks are adequately addressed by the risk identification, data, assumptions, models and communications principles of TAS 100, together with the provisions of TAS 300 relating to funding and financing, including the changes proposed in this consultation paper.
- 3.55. We therefore propose not to make further changes to TAS 300. However, we will continue to keep this under review as the market for endgame solutions for DB schemes develops.

### **Question 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?

### **Question 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.

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## 4. Use of surplus

- 4.1. Following a sustained period during which the majority of DB pension schemes had a funding deficit, recent years have seen a significant improvement in funding levels. Based on figures quoted by the Government in its consultation in early 2024 on Options for Defined Benefit schemes<sup>9</sup>, of the approximately 5,000 DB schemes, over 3,750 are in surplus on a low dependency basis with a further 950 schemes approaching surplus on a low dependency basis.
- 4.2. Against this backdrop, technical actuarial work will be carried out to advise trustees, or governing bodies, and employers who are considering using the existing assets of a scheme to:
- support future accrual of benefits without equivalent funding, for example by allowing the employer to take a contribution holiday or to use assets to meet its obligations to another section, such as a money purchase section, of the scheme;
  - support an increase in accrued benefits without equivalent funding, for example by awarding discretionary benefits or discretionary increases in benefits but not asking the employer to make an augmentation payment or by accepting bulk transfers-in of liabilities without assets of equivalent amount;
  - make a payment of, or a commitment to pay in future, administration expenses from the scheme without equivalent funding, for example by establishing an expense reserve but not asking the employer to make contributions specifically to fund it; or
  - make a payment to the employer.
- 4.3. In considering the pros and cons of these activities, decision-makers will likely want to consider the extent to which the uses of the scheme's existing assets would decrease security for accrued benefits, and the significance of this decrease taking into account a range of factors, including the funding level, the proportion of the scheme assets to be deployed, the strength of the employer covenant, the investment strategy and the level of additional funding provided, if any.
- 4.4. The FRC considers it necessary for the actuarial practitioner providing advice to support such decision-making to consider and communicate any material changes in the risks to members' benefits, that is to the likelihood of the benefits being paid in full, resulting from the activity. Although such technical actuarial work is not new and is in scope of TAS 100, in view of the current levels of funding of many DB schemes it is appropriate to set this out explicitly in TAS 300.

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<sup>9</sup> <https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes>

- 4.5. The FRC recognises that the choice of assumptions to be used to determine equivalence of value of any additional funding for this purpose is best left to the judgement of the practitioner, who will be familiar with the circumstances of the scheme and the activity being contemplated. The specific choice of assumptions matters only to the extent that it impacts the assessment of whether there is a material change in the risks to members' benefits.
- 4.6. A decision to use existing scheme assets to support future accrual of benefits without equivalent funding, as set out in the first bullet in paragraph 4.2 above, would be made in conjunction with other decisions on funding and financing which are addressed in Section 2 of TAS 300. For this reason, the practitioner may judge that the technical provisions basis is appropriate for determining equivalent funding, although we leave room for judgement to reach other conclusions. We propose to extend Provision P2.9 in the exposure draft by adding requirement (c) that the information in practitioners' communications must include any material increase in risk to the benefits of members compared to the level of risk were equivalent funding to be provided.

### Question 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.

- 4.7. In relation to the second, third and fourth bullets set out in paragraph 4.2 above, we propose to amend the scope of TAS 300 to include technical actuarial work concerning:
- a change to accrued benefits without equivalent funding;
  - a payment of, or commitment to pay in future, administration expenses from the scheme without equivalent funding; and
  - a payment to the employer.
- 4.8. In carrying out technical actuarial work in relation to each of these activities, the considerations required are similar to those for an incentive exercise or a scheme modification as all these activities impact the level of, or security of, members' benefits. In order to provide reliable advice, the practitioner must consider any material change in the risks to members' existing benefits, equivalent to Provision P4.1b of TAS 300 v2.0. Depending on the circumstances, it may be necessary to consider in addition one or more of the other elements of Provision P4.1 of TAS 300 v2.0, relating respectively to the impact of adopting different assumptions, changes to the cashflows to members or changes in the value of benefits of different classes of members.
- 4.9. We therefore propose to extend the application of Provisions P4.1 and P4.2 of TAS 300 v2.0 to include work relating to these activities. Sub-provisions a, c and d from Provision P4.1 of TAS

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300 v2.0 are moved into a new Provision P4.2 in the exposure draft to recognise that these items may not be relevant in all circumstances.

- 4.10. The provisions in Section 4 would then apply to technical actuarial work concerning incentive exercises, scheme modifications and the activities set out in the second, third and fourth bullets of paragraph 4.2 above. To simplify understanding of the standard, we propose to define “benefit alterations and other activities” in the Glossary to mean any of these activities, and to use this term in the Scope section, in the title of Section 4 and in each of the provisions in Section 4.
- 4.11. One of the items of specified work which is in scope of TAS 300 v2.0 is technical actuarial work concerning a “modification, proposed or agreed, to a pension scheme which might affect members’ accrued rights or the security of their accrued benefits”. We are not proposing any change to the treatment of work on such exercises in TAS 300 but, to simplify the standard, we redefine “scheme modification” in the Glossary using the same wording, but without the words “proposed or agreed” as both possibilities are covered by the provisions in Section 4 where the definition is used. This serves to differentiate between a scheme modification, to which Section 4 would always apply, and any other change in accrued benefits, to which Section 4 would apply only if it were made without contributions of an equivalent value.
- 4.12. The proposed changes in the exposure draft would also mean that, in relation to incentive exercises and scheme modifications, practitioners would in future have to consider sub-provisions a, c and d of Provision P4.1 of TAS 300 v2.0 only where they are relevant.
- 4.13. We consider these proposed amendments to Sections 2 and 4 of TAS 300 to be proportionate to the additional risk that can result from exercises involving the activities described in paragraph 4.2 above. In this context, it is worth noting that the scope of TAS 300 relates to technical actuarial work, and it is our understanding that decisions on the day-to-day exercise of individual discretions, such as discretionary ill health benefits or spouse’s pension awards, are typically made without actuarial input, albeit potentially using actuarial factors set with actuarial input.

## Question 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?

Does the proposed extension of scope in relation to the 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.

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### **Question 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?

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## 5. Other changes

- 5.1. When the FRC published TAS 300 v2.0, we deferred changing the structure of Section 2 pending our review of that section when the FIS regulations and revised Code had been finalised.
- 5.2. We now propose to make changes to Section 2, placing provisions relating to communications at the end of the section and marking them as relating to communications, in the same way as was done for Sections 3, 4, 5 and 6 of TAS 300 v2.0. Where a requirement for further analysis or consideration is currently embedded within a communications provision, we are introducing a separate provision explicitly relating to that analysis or consideration.
- 5.3. This results in changes to the numbering of provisions even where the underlying requirements have not been changed.
- 5.4. We propose rewording Provisions P2.10, P2.11 and P2.12 of TAS 300 v2.0 (Provisions P2.15, P2.16 and P2.17 in the exposure draft) to refer consistently to requirements applicable to practitioners.
- 5.5. We intend the revised standard to be applicable to technical actuarial work on all DB pension scheme valuations. This includes valuations with an effective date before 22 September 2024 and valuations of schemes to which the FIS regulations do not apply. To avoid imposing requirements specific to the FIS regulations in circumstances where the FIS regulations do not apply, we have included definitions in the Glossary in the exposure draft of specific terms used in the provisions, as explained below.
- 5.6. The scope of TAS 300 v2.1 refers to “funding and investment strategy”. The proposed Provisions P2.3 and P2.12 refer to “low dependency funding basis” and “low dependency investment allocation”. The proposed Provision P2.10 refers to “journey plan”. These terms have specific meanings in the context of the FIS regulations. These specific meanings apply only in cases of schemes which are subject to the FIS regulations, and only in relation to valuations of such schemes with an effective date on or after 22 September 2024.
- 5.7. Provisions P2.3 and P2.12 apply only in the context of the FIS regulations. However, we intend that the proposed Provision P2.10 applies to all schemes and valuations. This is achieved by splitting the definitions of “funding and investment strategy” and “journey plan” in the Glossary to TAS 300 as follows:
  - in circumstances in which the trustees are required under section 221A of the Pensions Act 2004 to have a strategy for ensuring that pensions and other benefits can be provided over the long term, they are defined by direct reference to the corresponding definitions in section 221A and the FIS regulations respectively; and
  - in other circumstances, they are defined as any equivalent strategy or plan which has been set by the governing body.

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## 6. Timing and implementation

- 6.1. The new funding regime requires that the trustees of a DB pension scheme to which the FIS regulations apply have a funding and investment strategy, which will be developed and revised in combination with the scheme's funding valuations. The FIS regulations and the revised Code apply to actuarial valuations with an effective date on or after 22 September 2024. A scheme's first funding and investment strategy must be determined within the period of 15 months beginning with the effective date of its first such valuation.
- 6.2. As the new funding regime is already in place, the FRC recognises that the length of the period without appropriately revised actuarial standards which reflect the new regime should be minimised as far as possible. Unless there are substantial changes to the exposure draft resulting from the consultation, we expect to publish TAS 300 v2.1 in Q3 2025.
- 6.3. We recognise that, at the time of the publication of the standard, there will be valuations which do not fall under the FIS regulations approaching finalisation for which the technical actuarial work will have been carried out under TAS 300 v2.0. To allow the orderly completion of such valuations, it is appropriate for there to be a short period between the publication and the effective date of TAS 300 v2.1. We propose that this period will be around one month.

### Question 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.

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.

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?



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## 7. Impact assessment

### Benefits

7.1. The majority of the proposed changes to TAS 300 are in light of:

- the requirements of the new DB funding regime as set out in the FIS regulations and TPR's revised Code which have come into effect since the publication of TAS 300 v2.0 (Section 2 of the standard); or
- the actuarial considerations arising from improved funding levels of DB schemes (mainly in Section 4 of the standard with one proposed change in Section 2).

7.2. The benefits of these proposed changes are from the maintenance of quality in technical actuarial work carried out in relation to scheme funding and financing and certain uses of assets of a pension scheme.

- The proposed changes in relation to the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 promote quality technical actuarial work which would support intended users (e.g. trustees/governing bodies and employers) to plan for the long term, promoting appropriate risk-taking where it is supportable.
- The proposed changes in relation to uses of surplus promote quality technical actuarial work which would support intended users to understand the risks in these uses of surplus and promote appropriate risk-taking to achieve better outcomes for both members and employers, whilst managing the risk of pension scheme members not receiving the benefits guaranteed under the scheme.

7.3. The FRC is proposing to remove from TAS 300 three provisions/sub-provisions which it considers no longer to be necessary. A better alignment of TAS 300 with TAS 100 v2.0 and the removal of redundant provisions will benefit the users of the standard, namely the practitioners who are required to comply with it, by efficiency gains in applying a more streamlined and fit-for-purpose standard.

### Costs

7.4. The FIS regulations and the revised Code were subject to consultation and widely trailed before being introduced. Many large, well-resourced DB schemes have already developed and implemented plans for their long-term financial risk management which are broadly consistent with the FIS regulations and the revised Code, and the FRC understands that many smaller schemes will have been advised of the requirements of the new funding regime before it came into effect. Good practice in DB funding, in particular around long-term planning as envisaged under the new funding regime, is therefore already established for many schemes.

7.5. The proposed changes to Section 2 of TAS 300 reflect good practice and align TAS 300 to the new funding regime. We consider that they will not create a significant burden for

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practitioners over and above that incurred as a result of the introduction of the FIS regulations and the revised Code themselves.

- 7.6. The proposed changes to Section 4 of TAS 300 codify good practice in risk identification and communication. The work involved is already in scope of TAS 100. We expect the burden of the additional work needed as a result of the extension of the circumstances in which Provisions P4.1, P4.2 and P4.3 apply, beyond that already required by TAS 100, to be minimal.
- 7.7. There will be an element of one-off cost associated with reading the revised TAS 300 and updating processes and procedures. However, we consider that the updates required to processes and procedures will not be significant, especially as the proposed changes to the standard are confined to Sections 2 and 4 of the standard and introduce only a small number of new provisions (five new provisions in Section 2 and one new provision in Section 4).

### **Question 17**

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

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## 8. Consultation questions

### Question 1

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

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.

### Question 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.

### Question 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?

### Question 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.

### Question 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.

### Question 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.

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?

<b>Question 7</b>	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.
<b>Question 8</b>	Do you envisage any challenges arising from the proposed introduction of Provision P2.4? If so, please explain what these are.
<b>Question 9</b>	What are your views on the proposed Provision P2.13? Please explain your rationale.
<b>Question 10</b>	<p>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.</p> <p>Do you agree the proposed amendments to items b, d and e in Appendix A? If not, please explain why.</p>
<b>Question 11</b>	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?
<b>Question 12</b>	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.
<b>Question 13</b>	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.

**Question 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?

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.

**Question 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?

**Question 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.

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.

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?

**Question 17**

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



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