FRC Consultation on proposed amendments to Technical Actuarial Standard 100

Response on behalf of WTW GB

Please find below our response to the above consultation, which is submitted by Neil Wharmby on behalf of WTW GB. We do not request confidentiality. The contact email address for queries is [redacted].

Overview and General Comments

We have some significant concerns with the proposed direction of TAS 100 as set out in the current Exposure Drafts, including the associated Guidance, and therefore wish to set these out for the FRC's consideration in addition to our responses to the more specific 18 questions listed in the Consultation Paper.

In summary, we believe that the new standard, as drafted, would require excessive work (and increased cost) to ensure compliance, with little additional benefit to users.

TAS 100 is intended to apply to an extremely broad range of technical actuarial work - broad not only in area of practice but also in the scale of the work, covering everything from a short email of technical advice with modest impact to the user to a complex year-long actuarial investigation with potentially significant ramifications for the user. Whilst the FRC recognises the challenge of this wide application by providing guidance on proportionality, in our view the Exposure Drafts of TAS 100 and Proportionality Guidance together do not sufficiently allow an actuary to exercise judgement in relation to appropriate proportionality without exposure to later potential criticism.

For example, 2.11 of the Proportionality Guidance states that if a risk is "clearly not material" it is sufficient to "note this (with a justification)". This requirement to document – for every single immaterial risk – the fact that the actuary has concluded it is immaterial, and why, adds a significant burden for small pieces of work, and if taken at face value could lead to actuaries producing copious long lists of immaterial risks and justifications for every email that they send containing technical actuarial work.

To take this point to the extreme, there is an almost infinite list of risks and/or factors that are not material (as defined in the draft TAS 100) for any piece of technical actuarial work (meteor strike, Ebola pandemic, etc.). It surely is not the intention that actuaries should consider and document all of these and yet, under the proposed changes to TAS 100, it is by no means clear where or how the actuary is expected to draw the line between risks considered immaterial (each of which are to be documented, according to paragraph 2.11 of the Proportionality Guidance) and risks so remote as to not be considered at all.

Furthermore, paragraph 2.11 of the Proportionality Guidance compounds the problem by requiring the actuary to consider whether each risk they deem to be immaterial would also be deemed so by other actuaries, with the implied corollary being that it should be treated as a material risk if it were felt that others might think it material. This not only requires an extensive burden of "red tape" around smaller pieces of work with few material risks, but also seems counter to the concept of professional judgement (ie that an actuary should be able to advise clients on the risks that in their professional opinion are material, and not be forced to second guess what other actuaries may or may not consider are the material risks in the situation. And would this encourage group bias in any case?). The aim of this paragraph appears to be to further the public interest by ensuring actuaries do not dismiss risks too easily as immaterial. However, the reality is that most actuarial advice already covers the relevant material risks, and this paragraph is more likely to lead to significant unnecessary consideration of further immaterial risks – adding cost to users but no value - or actuaries being criticised for non-compliance with TAS 100 if they do not create this extra unwarranted material.

The above is an example of our general concern that the Exposure Drafts and associated guidance consistently increase the focus and effort needed on background considerations, documentation and justifications without significant impact on the ultimate technical work itself. This threatens to create significant extra burdens on actuaries (and/or a "tick box" mentality to compliance with the numerous requirements), and material additional costs for users, without necessarily providing any significant benefit to the users of actuarial advice, or to the public interest.

In our view, the proposed TAS 100 seems very theoretical and does not reflect the real world in which actuaries operate. We believe there is a real danger that the proposed TAS 100 would:

- drive actuarial work into the hands of non-actuaries;
- stifle innovation; and
- be actively harmful to users by obscuring important information with extended limitations and other immaterial commentary.

Our proposal

In our view, a better approach for such a wide-ranging standard as TAS 100 would be to note the success of the format of the Actuaries' Code, and to therefore aim for a more succinct principles-based standard, including just the Reliability Objective (along with the current proportionality easement), the seven principles currently shown in outline boxes and some brief points on their application, rather than a long list of compulsory requirements. More specific technical requirements could instead be left to the Specific TASs, leaving TAS 100 to cover the principles that actuaries should be mindful of when carrying out and communicating technical actuarial work, rather than attempting to cover the details of that work and its backing documentation, which are difficult for a generic TAS with such a broad remit to cover effectively.

Proportionality, rather than needing a separate document to define, can continue to be applied by actuaries using professional judgement as they have done under the existing TAS 100.

Responses to Questions

QUESTION 1: *What are your views on the proposal to incorporate relevant sections of the Framework for TASs document within TAS 100? Further, what are your views on incorporating relevant sections of the Glossary document within TASs?*

We agree that it would be useful to include the Reliability Objective within TAS 100. In fact, we see the Reliability Objective, along with a suitably worded proportionality easement (see below), as being sufficient to encourage high quality actuarial work and we would support these forming the contents of any revised TAS100 in place of the proposed content.

We note that the reliability objective has been redrafted slightly and we preferred the existing version, which states:

> "Users for whom actuarial information is created should be able to place a high degree of reliance on that information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information."

We also believe that the use of the word "should" is more appropriate than "must" for an objective, but we have no objection to the technical actuarial standard requiring practitioners (using the word "must") to ensure that, in their opinion, the work meets the reliability objective.

We also agree that it is sensible to include the definitions of the relevant terms, including geographic scope, within the TAS itself so that the relevant information is contained in one source document.

QUESTION 2: *Does the draft FRC guidance provide clarity on the definition of technical actuarial work and geographic scope? If you don't think the guidance provides clarity, please explain why not and suggest how the position might be further clarified.*

We accept that it is difficult to come up with a satisfactory definition of technical actuarial work, but we are not entirely comfortable with limb (ii) of the current definition (i.e. "which the intended user could reasonably regard as technical actuarial work by virtue of the manner of its communication"). Our suggestion would be to simply require the actuary to state, for every piece of advice provided, whether or not the user is entitled to regard it as technical actuarial work.

Paragraph 1.10 of the Technical Actuarial Work and Geographic Scope Guidance advises (strongly) that the basis of the assessment of whether work is technical actuarial work is evidenced and documented. We do not fully understand what this is aiming to suggest and, on the face of it, it would increase the cost of ongoing compliance. Would it not be better to simply require a statement that the work is (or is not) intended to inform a specific decision (and/or stating whether the work should or should not be regarded as technical actuarial work) or to require the decision (and user) that it is intended to inform to be stated?

We do not agree with the statement made in paragraph 3.12 iii). Whilst specification of the model and advice around the calibration of models for a specific purpose at a specific time may fall under TAS 100, it cannot be right that the output from such a model, left running over time, perhaps linked to market indices or other metrics, should automatically fall under TAS100. First of all, the output from the model does not (after the first calibration) include an element of judgement, and secondly, the output is produced at a different time to the initial calibration and thus is no longer informing the decision of the user at the time of the initial calibration. There is a risk that the user may perceive that the output is "technical actuarial work" but we believe that it would be better (if needed at all, given that meeting the reliability objective would essentially require this anyway) to require the practitioner to ensure that communications state that such automatic models should not reasonably be regarded as technical actuarial work. We suggest that paragraph 3.22 of the Technical Actuarial Work and Geographic Scope Guidance should be strengthened accordingly.

If output from self-service models was in scope, then trying to anticipate and communicate all possible future decisions and potential market movements / external factors / risks to include in the documentation accompanying such models (either when they are setup or when accessed by the user) would not seem to meet the proportionality requirement (in a similar vein to the overarching comments we have set out above).

The IFoA guidance on Actuarial Software and Calculations – Professional Responsibilities makes it clear that actuaries should get themselves comfortable with the results of a model before they take professional responsibility for a figure. Hence, we consider it should only be at the point that output is reviewed or delivered by a practitioner for a specific purpose/decision made at that time that TAS100 should apply.

Hence, at a minimum, we would suggest that the wording for 3.12(iii) is amended as follows to make it explicit that self-service models, as used by a 'user', are not in scope.

> (iii) 'self-service' actuarial models developed for direct use by pension scheme trustees, management or members of a pension scheme, but only in relation to the original construction of the model, professional advice in relation to the calibration of the model for a specific purpose, user and time of decision, and professional advice in relation to output from the model at a subsequent date. For the avoidance of doubt, output from the model run by a third party is not technical actuarial work.

More generally, we believe that it would be useful for the guidance to clearly recognise that the performance of and output from actuarial calculations, whether by computerised model or in accordance with actuarial proformae, should not automatically be assumed to be technical actuarial work (and that the approach in paragraph 3.22 would be expected to apply). Paragraph 5.2 is somewhat helpful in this regard.

We thought that the use of "may" in paragraph 5.5 of the Technical Actuarial Work and Geographic Scope guidance had the potential to add to confusion – surely assumption setting will always require the exercise of judgement? We would suggest deleting this sentence.

The definition of “communications” restricts the information falling under that definition to that which meets the reliability objective. Is there an element of circularity in this definition in that the provisions of the TAS aim to ensure that the communications contribute to the reliability objective?

QUESTION 3: *Does the draft guidance support you in complying with the TASs?*

We think that the guidance would be virtually redundant if the TAS was essentially replaced with the reliability objective (as proposed in our overview and general comments) as there would be no need to provide guidance on what is or what isn’t technical actuarial work.

In our view, if guidance of this level is required, then something more fundamental is wrong with the standard.

QUESTION 4: *Our proposal places all the application statements in a separate section within the TAS. An alternative approach would be to place application statements relating to each principle immediately after the relevant principle. Which do you prefer?*

Our preference would be for the implementation provisions to fall under the relevant principle. This is to avoid having to look in two places for the relevant provision.

However, we would prefer to see less material in the standard, to reduce the time needed to check compliance. In particular, although the use of ‘should’ instead of ‘must’ should reduce compliance effort, the requirement to document the reasons for any deviation from a ‘should’ principle, and in a form that can be shared with the intended user or regulator, will almost certainly involve disproportionate effort for many projects.

QUESTION 5: *What are your views on the proposed change to the compliance requirement?*

This is one area where we consider the expectations of the draft are unclear. Does paragraph 1.5 of the draft TAS100 expect that a departure from a ‘should’ provision is a ‘caveat, qualification or limitation’, and if so, does 1.5 require the documentation referred to in P6.2 to be published automatically, or is it only on request from the intended user? What form should the ‘evidence’ referred to in paragraph 1.5 take? Is it a natural part of an actuarial report which covers all the material required, or is it a copy of a compliance checklist? We are concerned that this provision may lead to disproportionate drafting in relation to the communications of the justification for the limitations, caveats and qualification (although we agree that the limitations, qualifications and caveats themselves would need to be communicated if the reliability objective is to be met).

This is another one of the aspects of the proposals that seems to us to be incompatible with the proportionality principle. There is a danger that the drafting of communications of the justification for the limitations will, for pieces of work of a modest size, add material cost and effort without adding a great deal of value to the user.

QUESTION 6: *Does the proposed FRC guidance on how TAS 100 can be applied proportionately assist actuaries in their compliance with TAS 100?*

Our view is that a 7 page guidance document on proportionality for an 11 page technical standard is disproportionate. It leads to practitioners needing to read further material to assess compliance.

In addition, as outlined in our overview and general comments, we think that it will be very difficult to square many of the detailed requirements of the proposed TAS 100 with the proportionality principle. We would wish to see the judgements around proportionality being left in the hands of the practitioner.

QUESTION 7: *What are your views on the revision in nomenclature of the 'user' to 'intended user'?*

We are comfortable with this change, on the basis that there has been no change to the definition.

However, we do not consider that the definition "intended user" should apply in relation to third party users of technical actuarial work (such as pension scheme members, policyholders, regulators etc). Actuaries should be able to limit their advice to make it clear that such a "user" did not commission the work and that it was not intended to inform their decisions.

We consider that it may be useful to clarify how the structures envisaged in paragraph 3.9 of the draft Technical Actuarial Work and Geographic Scope Guidance would work in practice. We have concerns that, as drafted, it seems to suggest that the Scheme Actuary could act for both trustee and sponsor, which would raise questions around conflicts of interest. It also seems to presuppose reliance by other advisers on the Scheme Actuary's work. How can other advisers (or the sponsor or the regulator) be intended users when the advice is prepared for a decision by a Trustee in relation to funding? We are uncomfortable with any suggestion that a practitioner should anticipate that technical actuarial work advice might be 'used' by anyone other than the current decision maker in relation to the current decision, and we would welcome provisions requiring practitioners to clarify the intended user and decision so as to then specifically exclude the use of the work by any other party or for any other use or for use at any other time.

We also have concerns around paragraph 3.12 of the Consultation document which seems to suggest that TAS100 does apply to an unknown intended user. How can that be? If the user is unknown, how can the decision be known and how can the work then sensibly fall under the main part of the definition of Technical Actuarial Work? Also, if software is 'self service', does this not imply that the user of the software becomes the practitioner and they must then consider TAS compliance? (We would accept that that person would need to decide whether the software was fit for their purpose and to help them make this decision, a clear, TAS compliant, description of the model would be required. However, we would not accept that the output from the model need be TAS compliant, nor can it be ensured to be if the intended user (of the software output) and the decision is not known.)

We also consider that Scenario 6 of the Technical Actuarial Work and Geographic Scope guidance might benefit from increased clarity.

The scenario seemed to conclude that a) the analysis was actuarial, involved judgement and was central to the decision to appoint the manager, and/or b) it was presented by an actuary, and would be reasonably regarded as technical actuarial work by virtue of its presentation, presumably in relation to the decision to appoint the asset manager.

An alternative (and in our view, preferable) interpretation of the scenario could be that the decision was effectively a commercial decision around appointing an asset manager and it was not that the analysis itself that was central to that decision but, instead, it was the fact that the analysis had been prepared and successfully employed in similar circumstances that was central (or at least more relevant) to the decision. Therefore, could the actuary not conclude that this is not technical actuarial work in this context and to make this clear in their presentation? To do otherwise might suggest that information prepared for one purpose can be assumed to be relevant for another. It may also lead practitioners to conclude that the preparation of more generic material (e.g. marketing material, trustee training material, generic client information sheets etc) would fall within scope, even when the user and decision were not known.

QUESTION 8: *Do you agree the new proposed Risk Identification Principle and associated Application statements?*

We do not believe, on our interpretation, that the approach set out in the exposure draft is workable. The draft appears to require identification of all material factors/risks (Principle 1), and then allow for these in the work (P1.1).

It is not clear to us how they should be allowed for – for example is it sufficient to say that no allowance has been made?

A7.2 expects communications in relation to **each** material risk and uncertainty and this is likely to lead to disproportionate work to ensure compliance.

Finally, A1.1 refers to “risks conventionally associated” with the relevant work. Does this, for example, include or exclude risks such as climate change?

The wording could well lead to standard lists of non-material risks, which all users refer to without detailed consideration – is that the desired outcome?

More generally, it may be that a user wishes to commission work that is restricted in scope so as not to have to cover all the risks and in that scenario, there should be no reason for the practitioner to go looking for risks that are already ‘out of scope’.

Also, we would argue that many risks are in the hands of the intended user and that they are perhaps best placed to identify and assess (commissioning actuarial work where sensible) the risks faced by their organization. The actuarial practitioner is not always best placed to identify risks and we would prefer to see risk identification being agreed with the intended user as part of the scoping stage of the project.

QUESTION 9: *What are your views on the clarification included in the proposed changes to TAS 100 in respect of the exercise of judgement? Further, do you feel that guidance will be helpful?*

We have concerns that, as drafted, much of the supporting principles would appear to replace the efficiencies of the exercise of good judgement. For example, does P2.2 require additional sensitivity checks for every project to support that good judgement, or can actuarial rules of thumb and general experience contribute to the compliance with P2.2? (Similarly, can the Practitioner’s own experience count as the required justification in P2.1?)

P2.3 seems to imply a continuing responsibility in relation to judgement being appropriate. In our view this is inconsistent with the definition of Technical Actuarial Work being work that is intended to assist with a decision ***at the time the work is produced***.

We would argue that in many cases, it is the intended user that remains responsible for the implemented decision remaining appropriate. P2.3 is contrary to this view. For example, decisions around member option terms in pension schemes are generally within the power of the trustees. The trustees may decide that factor reviews might be monthly, quarterly, annually or triennially, or ad hoc, perhaps to suit budgets and resource/governance constraints. We assume that TAS 100 is not suggesting that an actuary has any ongoing monitoring role in relation to such decisions. What is paragraph P2.3 aiming to achieve?

In the above scenario, would it be sufficient for the actuary to have to highlight, at the time that the original advice is given, the circumstances in which a review of factors would be desirable or necessary given the then preferences of the intended user? Clearly those scenarios cannot be exhaustive as all future changes in circumstances cannot be anticipated.

QUESTION 10: *What are your views on the proposed changes to the Data Principle and associated Application statements?*

How would P3.1 and P3.2 apply in the context of member data provided for an individual calculation to be completed by the actuary? How can the actuary ensure that effective checks and controls have been applied and how is bias relevant?

We have concerns that, in particular, A3.5 would, despite the use of the word “should”, effectively obligate practitioners to carry out more extensive work in order to demonstrate compliance than intended users may wish to fund. We note that, having completed this work, A 7.4 b) does not then require any more than an “indication” of the impact. This seems a little inconsistent. Also, should A7.4 b) refer to “potential” impact.

We are concerned that the proposed TAS 100 may not allow for situations where there is no data but a judgement must be made.

QUESTION 11: *Do you agree with the proposed clarifications and additions relating to documenting and testing material assumptions?*

P4.1 to P4.4 are acceptable. A4.1 to A4.3 add little value, in our view.

We would be concerned if the direction of travel is towards disciplining actuaries for insufficient documentation even when their advice is sound.

It would perhaps be helpful if the FRC could provide some examples of what it would consider to be adequate documentation for standard work such as actuarial valuation reports and, at the more modest end of the scale, an individual benefit calculation for a pension scheme member?

QUESTION 12: *Do you agree with the proposed changes to the Modelling Principle and associated Application statements? Further, do you agree that guidance would be helpful?*

The modelling principle together with principles P5.1 to P5.4 are sufficient, in our view, to ensure good quality technical actuarial work; principles P5.5 and P5.6 add little further value.

Sometimes it is necessary to agree with the client that advice will be based on an iteration of a model that is soon to be superseded, perhaps because a replacement model has yet to be built and approved. Provided the agreement is documented, this should be acceptable, but it is not clear to us that this is permitted under the proposals.

QUESTION 13: *Do you agree with the proposed clarification of the Documentation Principle? Further, do you agree with the proposal to move all requirements relating to documentation to the Documentation Principle and associated Application Statements, where applicable?*

We would prefer all provisions relating to e.g data, including those relating to the communication and documentation, to appear in one place, ie below the Data Principle. However we appreciate this could lead to duplication.

QUESTION 14: *Do you agree with the proposal to move all requirements relating to communication to the Communications Principle and associated Application Statements, where applicable?*

We would prefer that all provisions relating to e.g data, including those relating to the communication and documentation, to appear in one place, ie below the Data Principle. However we appreciate this could lead to duplication.

The full requirements of the Communications Principle would be unduly onerous for small pieces of work. They only really make sense for final reports or other major pieces of work.

QUESTION 15: *What are your views on the additional clarification provided in the Application Statements?*

We consider that this results in too lengthy a principles-based standard.

QUESTION 16: *What are your views on the proposed changes to the requirements relating to assumptions set by the intended user or a third party?*

These are not clear to us. Take, for example, a piece of work where the intended user asks for results of an actuarial calculation on a certain set of assumptions in the full knowledge that they might not be reasonable for a particular purpose, perhaps to inform negotiations with a third party, or where the ultimate purpose is not communicated to the practitioner. In that circumstance, is it always necessary to carry out an indicative assessment of the impact, or can this be avoided given the limited published scope of the project?

It is becoming increasingly common for work to be commissioned in pieces that are then subsequently adjusted or used as inputs to further work, and in those cases, the assumptions may be specified by a third party at the scope stage with no clarity on ultimate purpose. In our view the wording in A7.5(d) and P4.4 would, in this circumstance, require more work than the user had commissioned.

QUESTION 17: *What are your views on these proposed amendments to clarify the existing requirements?*

We consider that the additional clarifications relating to data proxies and data grouping are unnecessary and are already essentially covered by modelling provisions.

Further, the current draft would appear to virtually preclude the commissioning by an intended user of a quick calculation that simply uses replacement data with no checks on data. We believe that, currently, this could be achieved within TAS100, as long as the fact that checks were not carried out was communicated (in accordance with paragraph 2.4).

Under the proposed draft, the practitioner would need to depart from application A3.1 (unless it is argued that the words sufficient and appropriate are key here and document this departure to comply with P6.2 (even though this documentation would only be available to the intended user on request under P6.2)).

We did not fully understand what P5.5 would require of practitioners. Would this paragraph benefit from a review of the wording used? In particular, as currently drafted, the second limb of the "either/or" does not make sense in isolation when read as "Practitioners must ensure that it is possible…..to explain any differences in the outputs."

The scenario where actions or responses by management need to be allowed for in a model is an onerous requirement. It something that users want?

QUESTION 18: *Do you agree with our impact assessment? Please give reasons for your response.*

Whilst we agree that there have been no major changes in terms of overarching principle, and thus the impact of adopting the new revised TAS 100 should not be onerous in theory, we are very concerned that the practicalities of implementation might be very different.

This is primarily due to the need to "identify and have regard to all material factors and material risks" (Principle 1) (and P1.2 requires consideration of dependencies between all material risks and factors) and then A 7.2 goes on to say that "communications should state the nature and significance of each material risk or material uncertainty...". Principle 6 also requires the documentation to include sufficient detail to allow an assessment of the judgements made. Whilst 2.2 of the Proportionality Guidance states the *intent* that "TASs should be met in a way that is proportionate to the nature scale and complexity of the decision", this is only contained in guidance and this does not on the face of it provide the practitioner with the ability to scale the consideration of all material risks, and their documentation and communication.

The words "sufficient" and "appropriate" are not used in Application 1 and so the comfort of 2.13 of the Proportionality Guidance does not apply here.

We think that this structure is unworkable in practice, due to the need to consider, document and communicate all risks and judgements about their treatment.

As outlined in our overview and general comments, we think that it will be very difficult to square many of the detailed requirements of the proposed TAS 100 with the proportionality principle. For example, 2.11 of the Proportionality Guidance states that if a risk is "clearly not material" it is sufficient to "note this (with a justification)". This requirement to document – for every single immaterial risk – the fact that the Actuary has concluded it is immaterial, and why, adds a significant burden for small pieces of work, and if taken at face value could lead to actuaries producing copious long lists of immaterial risks and justifications for every email that they send containing technical actuarial work.

More generally, the inclusion of the "Application" elements of the revised TAS 100 is likely to lead to additional work to read, comprehend and consider the application requirements and although many may enjoy the comfort of Proportionality Guidance 2.13, practitioners are likely to proceed with caution around application and carry out work that might turn out to be disproportionate.

The advantage of the current TAS100 over the proposed revised approach is that such judgements can be made 'in the round' having knowledge of 6 reasonably simple principles, and enjoying the overall

proportionality easement within TAS 100 (rather than checking exactly where “sufficient” or “appropriate” will allow a proportionate approach to be taken).

WTW GB
7 September 2022