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FAO: The Director of Actuarial Policy

## Technical Actuarial Standard 100: General Actuarial Standards: Consultation Paper

We are responding on behalf of Deloitte LLP with comments on your consultation paper: "Technical Actuarial Standard 100: General Actuarial Standards" dated June 2022.

We are pleased that you have retained a principles-based approach to the Standard. However, we are concerned by the addition of so many application statements. This makes the Standard look more like a list of rules rather than a set of principles. We believe that this approach risks turning compliance with the Standard into a tick-box process where insufficient thought is put into whether the principles are being followed. We believe that your objective to help practitioners interpret the principles (which we support) could be better achieved by putting the material in the application statements into guidance. We also believe a program of training and discussions among practitioners regarding the practicalities of applying the Standard would greatly aid interpretation and, therefore, compliance.

We also believe that the principle of proportionality is important and are concerned that it has been removed from the face of the Standard. The ability to apply the principles proportionately is particularly important where the scope of actuarial work is narrow or where the budget of the user of the work is constrained. We believe users of actuarial work may be put off commissioning otherwise valuable actuarial work where they have to meet the additional cost of full and detailed compliance with the Standard, where it is disproportionate to do so. We believe that this problem could be avoided if the principle of proportionality were retained on the face of the Standard. Guidance on the application of proportionality given the scope would be useful to help with interpretation of the principle. We have set out our answers to your specific questions in the attached appendix.

We hope that you find our comments useful in revising the Standard. If you would like to discuss any of the comments further, please contact me.

Yours faithfully

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## Appendix: Answers to specific consultation questions

### **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 are supportive of any changes which make the TASs easier to use in practice and believe that incorporating relevant sections of the Framework and the Glossary into the TASs will help to achieve this. Even after this, we believe it is important that the TAS still states that it should be read in conjunction with the Framework.

### **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 understand that the purpose of the guidance is to help practitioners interpret the TAS and is not intended to be an additional set of requirements to comply with. On this basis, we believe the guidance on the definition of technical actuarial work and geographic scope will be helpful to practitioners and users of actuarial information alike. The guidance is clear and easy to follow. Illustrative examples of the sort in Appendix 2 of the guidance are particularly helpful.

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

Yes. See answer to question 2.

### **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?**

As noted in the introduction to our submission, we are not convinced that the addition of the application section to the TAS is helpful. The danger is that adding a set of requirements in addition to the principles will promote a 'tick-box' approach to compliance where practitioners and users view TAS 100 compliance as an overhead rather than a way to promote high quality advice. We believe the Reliability Objective would be better served if the TAS remained principles based, especially as it applies to all technical actuarial work. Guidance of the sort you have published alongside the draft TAS should be sufficient to help practitioners apply the principles appropriately. The material currently included in the application statements could be usefully moved into guidance.

If you do decide to retain the application statements in the TAS, we believe that it would be most useful to have these statements immediately after the relevant principle. This would make the TAS easier to read and use.

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

The scope of technical actuarial work varies enormously. It includes substantial, regular reporting to sophisticated users. It also includes narrow, one-off answers to limited questions. It is important that practitioners are able to apply the requirements of TAS 100 in a proportionate manner to take account of

the size and complexity of the work they are undertaking as well as the needs, sophistication and budget of the users.

For some pieces of actuarial work, it will be proportionate to include a full explanation of compliance and keep a full record of that. For others it will not, and a simple statement of compliance would be sufficient. The proposed change to the compliance requirement does not reflect this reality.

A potential consequence of the proposed change would be to increase the cost of actuarial work and to deter users from seeking otherwise valuable advice.

One way to resolve this problem would be to retain the proportionality principle from the current TAS 100, or something like it, on the face of the TAS. Guidance on the proportionality principle could cover how the principle should be applied in practice, including how to take account of the scope of work. The list of matters to consider in applying the proportionality principle in paragraph 2.4 of the draft Proportionality Guidance is a good one and should be prominent.

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

As noted in our answer to question 5, we would prefer that the proportionality principle from the current TAS 100 be retained on the face of the TAS. Guidance is helpful, but we believe the concept of proportionality is so important to the Reliability Objective that it should be included explicitly in the TAS.

We found the draft guidance on proportionality published alongside the draft TAS 100 less useful than the guidance on technical actuarial work and geographic scope. It was written in a more 'legalistic' style and was difficult to follow.

We do believe that guidance on proportionality would be useful, however. We also believe that the inclusion of Scenarios, of the sort covered in chapter 3 of the guidance, would be particularly useful.

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

This is a useful clarification.

It is important that a practitioner does not need to comply with TAS 100 for actuarial work being used by anyone but the intended user. For example, the practitioner will not have explicitly considered material risks and factors applicable to the third party when preparing the actuarial work. Hence TAS 100 will not have been complied with from the point of view of the third party. It would be useful if this point could be made in the TAS or the Glossary definition of Intended User.

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

We support the inclusion of a Risk Identification Principle. As noted elsewhere, however, we do not believe the inclusion of application statements is helpful.

We also have some detailed comments on the principle and application statements, as follows:

- P1.3 requires that practitioners consider how the dependencies, nature or relative importance of material risks may change over a future timeframe. In many cases the likely conclusion is that this will be unknown. We need to be careful that, in trying to follow this requirement, practitioners do not inadvertently appear to have more insight into the future than is possible. In particular, practitioners will generally assume that the future will be broadly similar to the past with regard to the legal environment, underlying business mix and the business operation unless there is a good reason to assume otherwise
- A1.2 appears to require a practitioner to consider a very wide range of risks. This would be onerous if it were not possible to make this consideration proportionate to the scope and scale of the work
- A1.3 requires practitioners to take account of any relevant legal opinions relating to the technical actuarial work. If applied broadly, this seems to imply that practitioners need to become legal experts. It is reasonable to assume that practitioners would be aware of directly applicable legal cases and any legal opinion provided to the intended user that has been shared with the practitioner. To require anything broader than this would seem unreasonable

## **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 believe that the current principle on judgement, in combination with the Actuary's Code and the other principles in TAS 100 (on data, modelling and assumptions etc), give sufficient direction to practitioners. It is difficult to see what the additional principles and application statements add.

We do, however, support the need for guidance in this area. We believe that this would help to address the feedback from users that communications on judgement have not always been clear. Material currently covered in the application statements could be covered in the guidance.

We also have some detailed comments on the principle and application statements, as follows:

- P2.2 requires consideration of alternative methodologies and models when exercising material judgement. This may be onerous
- A2.1 requires that justification of judgement should allow a user to conclude that the judgement is reasonable. This cannot be achieved if the user has a different view to the practitioner regarding what is reasonable. All that a practitioner can do is describe their justification clearly

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

The proposed changes are reasonable and cover appropriate areas of data usage sufficiently without being overly prescriptive. The application statements also provide sufficient guidance to some key areas to look out for, albeit we would prefer that these statements formed part of guidance outside the TAS.

We have comments on specific issues:

P3.2 requires that the practitioner investigates data for 'potential future biases'. It is not clear how this can be done. In theory future biases might occur for any number of reasons. It would be onerous to try to investigate in advance.

Some aspects of data checking are not in the gift of practitioners to carry out. In particular, where data is provided by a third party. A practitioner can, however, check whether checks and controls are applied by the third party.

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

We believe this requirement is too onerous. In some actuarial work, numerous assumptions are used, some material to the outcome, some not. The requirements regarding assumptions, coupled with the requirement to demonstrate compliance, mean every single assumption must be considered in detail.

We believe that this requirement should be changed from applying to every assumption to applying to "material" assumptions only. Alternatively, practitioners should be able to use the principle of proportionality to determine the extent to which each individual assumptions warrants consideration.

We also have a comment on the principle and application statements, as follows:

- P4.1 requires the practitioner to investigate assumptions for potential future unintended biases. It is difficult to see how the practitioner might do this.

## **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?**

Yes. Spelling out the documented model governance, including a change control process and model validation is very useful. However, demonstration of compliance makes this onerous. For example, P5.3 requires the practitioner to investigate models for potential future unintended biases. It is difficult to see how the practitioner might do this.

## **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?**

Documentation requirements (particularly the application statements) would be onerous if the principle of proportionality cannot be applied. As noted elsewhere, some valuable advice would not be commissioned where the cost of compliance is significant compared to the cost of the advice.

This is particularly true of the requirement to document justification of a deviation from the regulatory expectations. Users may well view this documentation as unnecessary and not worth paying for. Would a general statement that it would not be proportional to consider all of the regulatory expectations be acceptable in some cases? If so, this would help. Guidance on this aspect of proportionality would also help.

We agree with the proposal to move all requirements relating to documentation to the Documentation Principle.

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

Yes. We support these changes. However, while we consider these principles and associated application statements good practice, the length of the list makes this impractical to follow without running a length checklist through every report. This will be onerous unless it can be approached proportionately.

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

As with the documentation requirements, communication requirements are substantial and would be disproportionate to the scope and scale of some work. In these instances, would a general statement that it would not be proportional to consider all of the regulatory expectations be acceptable? Again, guidance on this aspect of proportionality would be helpful.

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

In general, the proposed changes to the requirements relating to assumptions set by the intended user or a third party are reasonable and will provide additional clarity to the intended user on the practitioner's view on the reasonability of all assumptions.

However, there are occasions where the assumptions provided by a third party are outside the expertise of the practitioner. For example, funding valuations of defined benefit pension schemes take account of the strength of the employer covenant. Assumptions on this aspect are often provided by a third-party covenant specialist. The practitioner is often not in a position to determine whether these assumptions are reasonable or not. Where these assumptions turn out not to be reasonable, the practitioner could be criticised for not raising this question. This would not be appropriate.

We suggest that some wording is added to principle P4.4 to make it clear that practitioners can only comment on reasonableness where it is within their expertise to do so (as per The Actuary's Code principle on Competence and Care).

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

No further comments.

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

The addition of application statements and additional documentation and communication requirements will add cost unless these requirements can be applied proportionately. This will particularly impact work with a narrow scope and entities with constrained budgets. It is likely to deter some users from taking otherwise valuable advice.

As suggested elsewhere, this problem might be resolved if the proportionality principle were retained on the face of the TAS rather than removed to guidance.