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The Director of Actuarial Policy
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6 September 2022

Dear Director of Actuarial Policy

SPP RESPONSE TO FRC CONSULTATION ON PROPOSED AMENDMENTS TO TECHNICAL ACTUARIAL STANDARD 100

We welcome the opportunity to respond to this consultation. Our feedback naturally relates to the area of pensions advice, and we recognise that some aspects may have been introduced or amended with other actuarial fields in mind. We have focused on high level comments rather than responding to your specific questions in turn.

Overall comments

We support appropriate actuarial standards that help to maintain the reliability and quality of actuarial advice across the profession, but it is important that standards are practical and lead to the right outcomes if this is to be achieved.

We believe that the existing version of TAS 100 has been a success – mainly driven by the fact it is concise, principles based and reliant on judgement. These qualities are essential for a standard that covers such a broad reach of actuarial work – both in terms of actuarial discipline but also complexity. We are very concerned by the move away from this approach, in particular the introduction of numerous points that “must” be considered and documented for every piece of actuarial work, regardless of scope.

Whilst we believe that small improvements have been made in a few areas, our overall assessment of the proposed changes is negative, and we consider them unworkable in some places. We believe your impact assessment significantly underestimates the level of additional work involved in complying with a significantly longer and more complex statement – the cost of which will inevitably be passed on to users.

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Moreover, we are not aware of any compelling reasons within the pensions industry why such significant amendments are needed. The proposed changes do not appear to be prompted by any significant existing issues with TAS 100 that could not otherwise have been addressed by publishing additional guidance, or a more modest change to the existing TAS 100. Your consultation paper raises a concern that the current principles-based approach has led to a range of interpretations and practices. We see this as being entirely appropriate and indeed preferable given the wide range of advice (in terms of scope and subject) and indeed users of that advice.

This feedback is from the perspective not just of actuaries involved in producing compliant advice but also from users, notably from professional trustees, who would frequently be users of actuarial advice.

We would be very happy to meet with you to discuss our concerns along with alternative practical approaches that might achieve the same aims.

No longer principles based or proportionate

The consultation document states that you propose to ‘retain the principles-based approach to TAS 100’. However, the proposed changes appear to run strongly contrary to this as well as the ability to provide professional advice in a proportionate manner.

We strongly question the benefits of this philosophical shift and, given the planned move of regulatory oversight to ARGA, question whether such decisions should be made in the short term.

We are particularly concerned regarding the demotion of the proportionality principle to supporting guidance rather than including it within the core document, and the increased use of ‘must’, removing significant areas of judgement as to what is proportionate or relevant to the task at hand. The assertion that any work that does not fully detail all elements of the application statements ‘does not meet regulatory expectations’ simply emphasises the departure from a proportionate principles-based approach to one that is heavily rules and checklist based.

It appears that large amounts of additional information may be required to be included within communications to clients, running contrary to the requirement to exclude information that is not material. Even more information is required within the full documentation written in a format that could be read by the user on request – this is a significant step change in the documentation requirements that will have a large impact on costs, with little benefit.

Far from providing assistance, the draft guidance on proportionality appears to reinforce that there is little room for proportionality. It states for example (2.9 and 2.11) that you must always document all aspects of judgement (with supporting justification) and all possible risks (even immaterial ones, which you must then justify as to why they are immaterial). For an experienced Scheme Actuary, a large number of judgements underlying routine tasks will be second nature and documenting and justifying each of these for every task (particularly one that is very limited in scope) is clearly not proportionate. The only way it could be viable is through the use of large standard checklists, distracting and potentially detracting from scheme specific consideration. This would also result in significant extra costs, particularly for smaller pieces of ad hoc advice, which would be passed on to users.

All encompassing risk identification is unworkable

Whilst we appreciate the need to consider risks and the particular concern regarding whether climate change factors are being given adequate consideration, we believe the draft wording is

too ambitious and not practical.

The wide definition of material (which includes anything that might influence the decision) means that the list of potential risks for even a simple pensions task would be extensive and disproportionate to document in detail for each and every case. This is then compounded by the further requirements to document interdependencies, and how the risks might evolve over time.

The further expectation within A1.4 that work should consider (and document) any possible actions that may be taken by others in response to potential emerging risks is not practical.

Comprehensive communications – but not clear or fit for purpose

As with risks, the number of material judgements involved in a single, simple piece of pensions advice is potentially extensive. The expectation (A7.3) that each of these will be explained, and the thought process justified (including an explanation of the other approaches that might have been taken but were then dismissed (P2.2 and A7.3b), is a significant new compliance burden and not necessarily helpful to the end user. Whilst we can see scenarios where such explanations would be helpful, we do not think they should be required in every case.

Overall negative consequences

The existing standard has worked well because of its brevity, and its focus on judgement and proportionality. The proposed changes are disproportionate to the concerns identified by the FRC, and we do not believe they will materially improve the standard of advice or improve confidence in the profession.

If introduced, we anticipate that potential responses to this would be:-

- Greater commoditisation of advice with largely pre-populated supporting documentation that encourages a tick-box mentality to compliance and strongly discourages scheme specific consideration, innovation or active actuarial judgement, thereby reducing the quality of advice received by users.
- Much longer reports with increased use of extensive ‘boiler plate risk warnings’ and similar standard wording - typically going unread and weakening rather than strengthening the overall advice.
- Clients become disillusioned with actuarial advice due to the length and cost.
- Clients fail to take actuarial advice on ‘small queries’ due to cost and inability to provide a ‘short answer’. Instead they may either consult alternative advisers not subject to the same regulatory restrictions (even if less well equipped to provide the advice), or simply rely on their own judgements (without the underlying expertise).

In conclusion we would strongly encourage the FRC to re-think the direction of travel on these proposed changes and/or defer amendments for ARGAs to consider.

We would very much welcome the opportunity to discuss our concerns if you would find that helpful.

Yours faithfully

p.p. 

David Hamilton
DB Committee, SPP

Fred Emden
Chief Executive, SPP

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