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Dear Ms. Leung

Technical Actuarial Standard 100 Consultation Paper

We are grateful for the opportunity to respond to the Financial Reporting Council's (FRC) Technical Actuarial Standard (TAS) 100 consultation paper and welcome the review of the standard. We consider that the continuous improvement of actuarial standards and the addition of specific guidance documents to reflect new areas of practice, emerging risks, novel modelling techniques and ways of working is important given the evolution of actuarial work and the changing environment in which actuaries operate especially within the Insurance industry.

Upon the initial publication of TAS 100 in 2016 and given its more general application to technical actuarial work, concerns were raised by some in the profession about how the standard might work in practice. Having had a period to bed in and apply the standard to their work, this consultation offers actuaries the opportunity to address any historic concerns that persist and to positively influence the design of the standard into a form that works for the profession. However, if as a result of this consultation process the consensus view of a majority in the profession is that the current standard operates well, there would be little value in making major changes to it. There is a need to avoid gold-plated standards that bring no material added value and that may overlap with and duplicate existing regulatory and professional requirements elsewhere, in particular the institute and faculty of actuaries' (IFoA) professional ethical requirements under the Actuaries Code. This was an express concern raised in the feedback we received. It is important for technical or general compliance pronouncements of the FRC and existing regulatory bodies such as the IFoA to dovetail and work in tandem to avoid potential conflicts, duplication or inconsistencies in requirements. The FRC needs to be mindful of these points as it conducts its review. In our response we highlight:

1. The need to refine some of the terms used in the proposed principles and application provisions. Added clarity and specificity will ensure these terms have clear definitions and ultimately mitigate against interpretation issues. We acknowledge that the issued guidance and updated glossary go some way in achieving this, but we consider more can be done.
2. The need to be clear on the delineation of roles and responsibilities outlined within the guidance on technical actuarial work so that standards are appropriately targeted. This is crucial because some work that is done by the actuary could also be done by individuals in the 2nd and 3rd lines of defense i.e. risk and internal audit who are subject to their own professional and technical standards but do not need to comply with TAS'. Here, the FRC needs to be mindful of the need to avoid "arbitrage" and potential "scope creep" and to ensure that proposed principles do not become overly burdensome.
3. Lastly, the practical implications and daily application of the revised TAS must be considered in tandem with any changes to the standard itself. If it is impractical to apply the revised standard, then this creates a disproportionately high burden of compliance for actuarial professionals. A perverse outcome

here could be actuaries avoiding certain pieces of actuarial work for which they have appropriate skills or even creating a disincentive for practitioners to continue being a member of the profession because the burden of TAS compliance is too high.

In conclusion, we acknowledge the large amount of work that the FRC has undertaken to date as part of this consultation. However, we are also mindful that our industry is home to a number of very skilled actuaries and their ability to deliver their work or otherwise is predicated on the existence of strong and clear technical standards. It is therefore in all our interests for this review to be robust and to result in a meaningful outcome that does not negatively impact ABI members by impacting the ability of the actuaries they employ to deliver their work. We undertake to continue to closely engage and collaborate with the FRC to ensure this review results in a balanced, proportionate and practical standard. The FRC should carefully consider the feedback it receives and must do what is necessary to demonstrate to members of the profession that their voices in this regard are being heard. We would welcome the opportunity to discuss the content of our response in detail if required and look forward to ongoing close collaboration with the FRC on this and other future topics.

Yours sincerely,

The ABI

Name of Organisation	ABI
<p>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?</p>	<p>1. We have no material objections to the proposals made to incorporate relevant sections of the Framework and Glossary within TAS 100. The proposed changes are sensible and create consistency with other TAS's and the consolidation of relevant information into the TAS makes the standard easier to use and digest.</p>
<p>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?</p>	<p>2. In our cover letter, we highlighted the need for the FRC to provide further clarity and refine some of the terms in the proposed principles and application provisions. The scope and definition of technical actuarial work within the standard and corresponding guidance is an area where further clarity and refinement would be beneficial. A wide variety of day-to-day work and circumstances can fall within the technical scope of the TAS based on the current definition remaining unchanged.</p> <p>3. In relation to the draft FRC guidance on technical actuarial work, we considered the separate parts of the definition individually. Regarding work falling under the first part of the technical actuarial work definition, given the principle-based nature of this standard, we acknowledge that practitioners will need to apply their professional judgement in determining whether a piece of work will fall within its scope. The guidance gives some clarity and direction on what could be considered within the scope of the first part of the definition however the FRC should look to balance this without making the scope too broad, directing the standards appropriately to areas of work that are of most concern to the FRC such as Public Interest matters. For instance, when referring to "analysis of risk" in paragraph 3.14 in the guidance where matters that may be considered as "actuarial science" are described, this term could be interpreted quite broadly as potentially covering both actuarial and non-actuarial work. This creates a concern around the scope of work intended to be included and when considered in tandem with the section that defines "work out of scope" ultimately lacks clarity and could be deemed confusing. Regarding work falling under the second part of the definition of technical actuarial work, a concern here is that this part of the definition is extremely broad. The draft guidance does not provide much clarity to assist practitioners in determining what will fall within the scope of technical actuarial work as defined in this part. Although the guidance does mention that practitioners are able to "justify their reasoning" this may become quite onerous to do each time when determining whether a piece of work is within scope or could be interpreted to be in scope based on intended users regarding the work as in scope.</p> <p>4. The FRC must carefully assess whether sufficient clarity on the definition of technical actuarial work has been provided through the definition and in guidance so as to not create too broad a scope which consequently creates a compliance burden that is too high.</p>

Question 3: Does the draft guidance support you in complying with the TASs?	5. Please see the above response in question 2 which addresses this question. We have no further comments to add here.
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?	6. There was no clear preference for the placement of the application statements based on the feedback received from Insurers. Some preferred the inclusion of the application statements within the principles rather than having them separated and others found the proposed separation sensible. We therefore do not have any strong views on this, however we feel the FRC should take both the positive and negative consequences of whichever approach they choose into account based on the feedback received.
Question 5: What are your views on the proposed change to the compliance requirement?	7. We acknowledge the need to ensure that what constitutes compliance with the standards is made clear and accessible to users of actuarial work and for a statement of compliance to be retained within the standard. We however would like to emphasize the need for this requirement, as well as the need to prepare and retain evidence on compliance, continue to be proportionate to the work within scope of the TAS to which it applies. A risk arises that the compliance statements become a “tick-box” exercise and practitioners do not properly apply judgement in considering compliance due to requirements being too onerous or impractical. Employers may also see less value in actuaries that are members of the profession if they are needing to complete work that is irrelevant to their needs. A suggestion would be to include the words “material” or “significant” in describing the instances where “departure from full compliance is clearly identified, justified and communicated” to recognize the proportionate nature of the standard.
Question 6: Does the proposed FRC guidance on how TAS 100 can be applied proportionately assist actuaries in their compliance with TAS 100?	8. A concern with the removal of proportionality from the main body of the standard is that it may weaken the prominence of the proportionality principle as a whole. We recognize that the new guidance document aims to improve the consistency of application of TAS 100 and that the examples of how the TASs should be applied in a proportionate manner would assist practitioners in doing so. However, we suggest that guidance be used to supplement the standard, to build on principles and concepts and provide further clarity where necessary, rather than completely removing the reference to proportionality within the main standard. 9. In relation to the draft guidance document on proportionality, the sections on “Sufficient and Appropriate” and “Communications” lack clarity in what they are trying to explain or define as they only make reference to specific sections within the TAS. It is currently hard to see how these specific sections support the practitioner. It would be beneficial for the FRC to expand on the concepts of “Sufficient and Appropriate” and clearly define what they are in

	<p>order to create more value for the practitioner. Another point we would like to raise relates to the scenarios presented in the guidance document and whether they present a broad enough range of examples that would be relevant to practitioners or cover areas that would typically be open to more interpretative differences. The FRC should consider adding additional scenarios to cover a broader range of examples.</p>
<p>Question 7: What are your views on the revision in nomenclature of the ‘user’ to ‘intended user’?</p>	<p>10. We have no material concerns with the revision in nomenclature of the “user” to “intended user”. The FRC could consider aligning the definition of “intended user” in TAS 100 to the definition in the ISAP where intended user is defined as “<i>Any legal or natural person whom the actuary intends to use the output of the actuarial services at the time the actuary performs those services</i>”. The current definition only referring to “communication” and not actuarial work does not present a clear and plain view of who the intended user is to a reasonable third person. We would encourage the FRC to look to align the definition to the ISAP definition for these reasons.</p>
<p>Question 8: Do you agree the new proposed Risk Identification Principle and associated Application statements?</p>	<p>11. We recognize the importance of considering risks inherent in the performance of actuarial work to include both established areas of risk and new areas of risk that are emerging. This includes the concerns on whether climate change risks are adequately considered when actuaries perform their technical actuarial work and whether these are the only non-traditional risks which the profession should be concerned over.</p> <p>12. The introduction of the new principle relating to risk identification is in principle a sensible addition based on the above, however there are concerns over the practicality of certain elements in the proposal. Firstly, it is questionable whether it is practically possible for practitioners to “...<i>have regard to all material factors and material risks...</i>”. It may be beneficial for the FRC to consider less severe wording here. Secondly, it is uncertain whether it is practically possible to consider both the dependencies between and the time frame over which such material factors and material risks will emerge and whether their dependencies, nature or relative importance may change within that timeframe, where there is significant uncertainty over risk such as with climate related risks.</p> <p>13. Related to the application statement, there are minor concerns over the range of potential material factors within the risk identification principle and the practicality of having processes in place to cover all possible factors within a large organization. This may lead to “boiler-plate” or standardized statements which add little to no value rather than increased insight from technical actuarial work. It may be beneficial to insert the wording “<i>reasonably expected to know about</i>” within the application statement to provide context for practitioners and allow for consistency with the principle.</p> <p>14. As stated in our cover letter, the FRC should consider the practical implications and daily application of the revised TAS in tandem with any changes to the standard itself, specifically with the proposed risk identification principle. Where it may be impractical to apply a new principle, this creates a high burden of compliance for practitioners.</p>
<p>Question 9: What are your views on the</p>	

<p>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?</p>	<p>15. In the consultation paper, feedback showed that users of actuarial work consider that actuaries do not always communicate clearly how they form their judgement and alternatives are not always considered. Practitioners are required to base judgements on supporting justification which we consider to be fair given the principles-based nature of the standard. However, consideration of alternatives may not be practical or even possible in certain circumstances. We suggest the FRC reconsider the wording in the judgment principle and potentially include the words “<i>where practical</i>” specifically around considering alternative methodologies, models, data and assumptions or look to expand on what it would mean to “<i>consider</i>” in the context of the statement.</p>
<p>Question 10: What are your views on the proposed changes to the Data Principle and associated Application statements?</p>	<p>16. We note the expansion of the Data, Modelling and Assumption principles to ensure updates are consistent with the latest version of ISAP 1 and the framework of standards applying to members of IFOA particularly in relation to the addition of model governance. However, we are concerned that there may be a presumption that sufficient data and appropriate assumptions and modelling can ensure that the actuarial information is reliable. It may not be possible to achieve a level of certainty that the data, assumptions and models used are sufficient, accurate, complete and appropriate to comply with the mandatory requirement. We suggest inserting the word “reasonable” in the main principle. This gives a high but not absolute level of reliability for the intended user and may help to address the concerns raised.</p> <p>17. Another concern relates to the need to investigate data for any present or potential future biases/unintended biases. In practice, it is challenging to consistently do this and raises a question around the practicality of this exercise. We also note that the word “<i>unintended</i>” has not been used within the Data principle but has been used in both the Assumptions and Modelling principles. We suggest for consistency and clarity purposes that unintended bias be used in the Data principle. With the use of “<i>unintended</i>” bias in the Assumptions and Models principles, it is not clear what the intended impact of the word “<i>unintended</i>” is given it is an undefined term. It may be necessary for the FRC to provide further clarity on the term and what is meant by “<i>unintended</i>”.</p> <p>18. We also note a specific concern related to the Models principle, on the practicality and necessity of the need for practitioners to reproduce the output from the models they use by re-running the model. Any deterministic model would return the same outputs if it were fed the same inputs, and so would a stochastic model if it were fed the same simulations and therefore there does not seem to be any value added from the requirement.</p> <p>19. Lastly, in our cover letter we highlighted the need for clarity on the delineation of roles and responsibilities between those which relate to the actuary and those of the 2nd and 3rd lines of defense i.e. risk and internal audit, avoiding potential “<i>scope creep</i>” which is key to ensure that proposed principles do not become over burdensome on and duplicated by practitioners. This is specifically relevant to the checks and controls required in the application statements for these specific principles.</p>
<p>Question 11: Do you agree with the proposed clarifications</p>	<p>11. Please see our response to question 10 which covers our concerns related to the Data, Assumptions and Models principles.</p>

<p>and additions relating to documenting and testing material assumptions?</p>	
<p>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?</p>	<p>12. Please see our response to question 10 which covers our concerns related to the Data, Assumptions and Models principles.</p>
<p>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?</p>	<p>13. The need to improve clarity around the requirements for documentation and communication of technical actuarial work given the feedback noted in the consultation is noted. We would however like to again, as per our response to question 8, reiterate the point around the practical implications and daily application of the revised TAS being considered in tandem with any changes to the standard itself specifically with regards to the Documentation and Communication principles. If its impractical to apply the revised provisions within the Documentation and Communication principles, then this creates a disproportionately high burden of compliance for actuarial professionals. The detail contained within the application statements only adds to the general concerns about the requirements and overall burden of complying and demonstrating compliance with the proposed amendments.</p> <p>14. It is also important to consider proportionality of the documentation and communication principles with the intended audience of the communications in mind, in particular how these communications are delivered to intended users. Each intended user may have varying requirements and preferences as to how they would like to receive communication or documentation from practitioners. This perspective needs to be taken into account when complying with the principles within TAS 100 specifically for the Data, Assumptions and Models principles given the requirements within those principles.</p> <p>15. Where a report prepared by a practitioner has to cover all items as suggested in the Communications Application Statement, these could become lengthy and not meet the specific needs of the intended user questioning the practicality and proportionality of having to apply these points. Equally where a practitioner needs to continually justify why a report does not cover all suggested points as per the application statements this too would be considered burdensome.</p>
<p>Question 14: Do you agree with the proposal to move all requirements relating to communication to the Communications Principle and associated Application</p>	<p>16. We have no comments related to this question.</p>

Statements, where applicable?	
Question 15: What are your views on the additional clarification provided in the Application Statements?	17. Please see the responses to question 13 for consideration of points that may be relevant here as well.
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?	18. We have no comments related to this question.
Question 17: What are your views on these proposed amendments to clarify the existing requirements?	19. Our responses to the questions above cover this question. We have no further comments to raise here.
Question 18: Do you agree with our impact assessment? Please give reasons for your response.	20. We acknowledge the aims with which the proposed changes to the TAS have been developed however feedback we received suggests that the impact assessment requires further consideration. There is a concern that the overall proposed amendments to the standards combined with the wide scope of work that currently falls within the definition of technical actuarial work will lead to significant implementation and ongoing costs for insurers. We would ask the FRC to carefully consider the points we have raised within our detailed responses above along with the feedback it may receive from others in assessing the impact of the proposed changes to the standard.