

May 2016

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**Consultation: A new framework for Technical Actuarial Standards**

**Analysis of responses to the November 2014 consultation**

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# 1 Introduction

## Background

1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. It issues and maintains Technical Actuarial Standards (TASs) for actuarial work in the UK. The Institute and Faculty of Actuaries (IFoA) requires its members to comply with the TASs for actuarial work within their scope.

## Consultation and responses

1.2 On 18 November 2014 the FRC published a consultation paper: *A new framework for Technical Actuarial Standards*. The purpose of the consultation paper was to seek views on proposals to enhance the existing TAS framework. These proposals were:

- to replace the existing Generic TASs by a single generic TAS (*Technical Actuarial Standard 100: Principles for Actuarial Work* or TAS 100) comprising high-level principles which would be applicable to all actuarial work;
- to implement a risk assessment process focusing on risks to the public interest, building on the feedback we receive on the discussion paper *Joint Forum on Actuarial Regulation: A risk perspective*, which would underpin decisions to make work subject to the Specific TASs; and
- to review the content and structure of the Specific TASs.

1.3 The consultation included exposure drafts of TAS 100 and of a new document, the *Framework for FRC actuarial standards* ("the Framework"), which describes the authority, scope and application of the FRC's actuarial standards and related material.

1.4 We received 48 responses to the consultation of which 10 were confidential. 41 were from practitioners, 5 were from industry bodies, including the IFoA and the International Actuarial Association, and 2 from other stakeholders. We also received feedback on the proposed modelling principle and provisions from the IFoA's model risk working party. A list of respondents is included in Appendix A and the responses can be found on the FRC's website<sup>1</sup>.

## Update paper

1.5 In July 2015 we published an *Update on the consultation: A new framework for Technical Actuarial Standards*<sup>2</sup> (the Update paper). We gave an overview of the responses to the consultation and summarised the comments in four key areas: scope, implementation, the definition of actuarial work and our impact assessment.

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<sup>1</sup> <https://www.frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/Consultation-A-new-framework-for-Technical-Actuari/Responses-to-consultation.aspx>.

<sup>2</sup> <https://frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/Consultation-Update-A-new-framework-for-Technical.pdf>

1.6 In the Update paper, we stated that we would:

- bring TAS 100 into effect at the same time as the revised Specific TASs;
- give further consideration on how the extension of the scope of the FRC's technical actuarial standards can be implemented without disproportionate additional costs;
- give consideration to points raised in the consultation responses including the definition of actuarial work;
- consider various points made by respondents on the proposed text of TAS 100; and
- issue a near final version of TAS 100 when we consult on the Specific TASs.

### **This document**

1.7 This document sets out our responses to the points raised in the consultation on the extension of scope, the definition of actuarial work and our impact assessment, as well as the other detailed drafting points on the exposure drafts of both the Framework and TAS 100.

1.8 We have published review drafts of the [Framework](#) and [TAS 100](#). In developing the text of the review drafts of the Framework and TAS 100, we have taken account of the comments we received in response to the exposure drafts, as well as other comments that have been made to us in meetings. We are not formally consulting on the review drafts but we will accept any comments on them. Versions of these documents showing changes from the exposure drafts can be found at the [Framework](#) and [TAS 100](#).

1.9 Respondents were generally supportive of the proposals set out in the Framework. The review draft of the Framework is substantially the same as the exposure draft, although the text has been amended in places in order to improve clarity.

1.10 Respondents generally supported the direction of the exposure draft of TAS 100 and the principles proposed in it. The principles in the review draft of TAS 100 are broadly the same as those that appeared in the exposure draft. The key amendments to the text of TAS 100 from the exposure draft include changes to the definition of actuarial work, changes to the materiality and proportionality clauses, changes to the disclosure requirements and changes to the data principle and provisions. The text has been amended in places in order to address some concerns and to improve clarity.

1.11 Section 2 summarises the comments that we received in answer to the specific questions that were posed in the consultation paper. Section 3 explains the changes that we have made to the exposure draft of the Framework and Section 4 explains the changes that we have made to the exposure draft of TAS 100.

### **Next steps**

1.12 We propose to issue final versions of these documents at the same time as the Specific TASs towards the end of 2016 with them coming into force on 1 July 2017.

1.1 We have published a consultation on revisions to the Specific TASs on insurance, pensions and funeral plans. That consultation contains exposure drafts of the revised Specific TASs and is available on the [Actuarial Policy](#) section of the FRC website.

## 2 Responses to the consultation

### Introduction

- 2.1 In this section we summarise the points raised in the responses to the consultation questions and our reaction to them.

### Overview

- 2.2 The major concerns expressed by respondents related to the timing of the introduction of TAS 100, the extension of scope, the definition of actuarial work and the cost of compliance with TAS 100 for work coming into the scope of the TASs for the first time.

### *Timing*

- 2.3 The concerns about the timing of the introduction of TAS 100 were addressed in the Update paper which stated that we would defer the introduction of TAS 100 to coincide with the introduction of the revised Specific TASs. This means that all the changes to the TAS regime will become effective on a single date.

### *Scope*

- 2.4 Some respondents were concerned that the extension of scope could result in unnecessary, extra work and in disproportionate costs for certain areas of work. Having considered these concerns we have:

- amended the materiality and proportionality provisions;
- included additional text in the Framework on the application of the materiality and proportionality clauses;
- amended the compliance statement requirements so that a compliance statement is only required for reserved work, work within the scope of a Specific TAS and technical actuarial work which is central to a significant decision by the user; and
- amended the data principle and supporting provisions acknowledging that for some work the data used will be limited.

- 2.5 Some respondents suggested that practitioners should be able to opt out of part or all of TAS 100 in some circumstances (eg on the instruction of the user). We have decided not to allow opt outs as we consider that in light of the changes above, compliance with TAS 100 should not be unduly onerous. We consider that users of actuarial work are entitled to expect all technical actuarial work to meet a minimum standard.

- 2.6 We are discussing support for practitioners on the introduction of TAS 100, including training and guidance, with the IFoA.

### *Definition of actuarial work*

- 2.7 There were various comments on the definition of actuarial work. These included consistency with definitions used by other actuarial standards setters, concerns about who judges whether work is actuarial and requests for guidance and examples to support the definition. Having considered the responses we have decided to make some changes to the proposed definition. In particular we have changed the term “actuarial work” to “technical actuarial work” to distinguish it from “actuarial work” defined in the IFoA’s actuarial professional standards, included text to clarify that the term applies to

work “performed for a user” and we have reworded the second part of the definition in support of the practitioner preparing the work to judge what the user might consider to be technical actuarial work.

- 2.8 We acknowledge that actuarial work is wide ranging and diverse, and there will inevitably be some areas of uncertainty with the application of any definition of actuarial work. We consider that practitioners should be able to use their judgement to assess whether work is actuarial and therefore we do not intend to provide further guidance or examples although some other organisations such as the IFoA and trade bodies might decide to provide support for their members.

#### *Impact assessment*

- 2.9 Some respondents considered that our impact assessment underestimated the costs of compliance with TAS 100 and the cost of implementation of TAS 100. We consider that the changes we are making to TAS 100 mean that the cost estimates in the impact assessment remain reasonable.

#### **Analysis of responses**

- 2.10 The questions in the consultation are repeated below with a summary of points made in the responses and our reactions to those responses.

#### *Framework for FRC Actuarial Standards*

<b>Q3.1 Do you have any comments on the draft Framework for FRC Actuarial Standards?</b>
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- 2.11 There was broad support for the draft Framework which respondents considered to be sound and reasonable.
- 2.12 Several respondents noted that the provision in 24(c)(iii) of the *Scope & Authority of Technical Actuarial Standards (Scope & Authority)* which allows departures, on the instruction of the user, from some or all of a TAS for work which is, reserved to actuaries or required by legislation, was not included in the exposure draft of the Framework. We have not included a similar provision in the review draft of the Framework as we consider that all technical actuarial work should comply with minimum technical actuarial standards.
- 2.13 It was suggested that the Framework should include guidance or similar text to paragraphs 5.25 to 5.29 of the consultation paper to give more clarity on the application of materiality and proportionality. We have considered this suggestion and included additional text in paragraphs 5.8 and 5.9 of the review draft of the Framework to provide more guidance on the application of materiality and proportionality.
- 2.14 We received feedback that the status of the Reliability Objective should be clarified and in particular whether it is solely an FRC objective or whether the TASs require actuarial work to satisfy the objective. The Reliability Objective is an objective which supports the FRC in developing technical actuarial standards and the *Scope & Authority* states that “in applying TASs, it is important to be guided by the spirit and reasoning behind them”. Therefore we consider that practitioners should be guided by the Reliability Objective when applying the TASs. We have therefore modified the text in section 3 and paragraph 5.12 of the review draft of the Framework accordingly.

2.15 Other comments included a suggestion that the wording in paragraph 4.11 of the exposure draft (delegation of signatory to another IFoA member) could be clarified and suggested alternative wording. We agree and have amended the wording accordingly.

**Q3.2 Do you have any comments on our proposal to withdraw and archive the existing *Scope & Authority*?**

2.16 All those who responded to this question supported the proposed approach. We will therefore withdraw and archive the *Scope & Authority* when the Framework comes into effect.

**Q3.3 Do you have any comments on our proposed approach to the Significant Considerations documents?**

2.17 Most respondents supported the withdrawal of the Significant Considerations documents. Several respondents welcomed the reduction in documentation, but some others commented that they had found the documents very helpful and considered that the existing material should be retained and accessible in some form.

2.18 Having considered the feedback, we have decided not to maintain the Significant Considerations documents but will make archived copies available on our website. We will set out the rationale for the content of our standards in our consultations and feedback statements.

*Scope of TAS 100*

**Q4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.**

2.19 While many respondents accepted the widening of scope, several were very concerned about the extension of scope to areas of work where actuaries compete with other professionals for the work.

2.20 There were several responses from actuaries working in general insurance and their employers who considered that the extension of scope to areas such as pricing was undesirable as it would lead to extra costs. However, it should be noted that where there is a significant risk to the insurer, pricing is currently in the scope of the existing Insurance TAS.

2.21 Some companies suggested that they would no longer use actuaries for some work because of the increased burden of compliance with technical actuarial standards.

2.22 It was noted that some of the work which would come into the scope of TAS 100 is carried out for informed users working at the same organisation as the practitioner and that some of the work is repeat work where the users are familiar with matters such as assumption setting, risk and uncertainty, and some is carried out on a relatively informal basis.

2.23 Several respondents suggested that if the scope of TAS 100 covers all technical actuarial work then practitioners, with agreement or on instruction from their user, should be allowed to depart from part or all of TAS 100. This is currently permitted by section 24(c)(iii) of the *Scope & Authority* for work that is not reserved to actuaries or required by legislation although we understand that this is not widely used in practice.

2.24 We expect that most actuarial work which is performed to at least a minimum standard will require little, if any, change to comply with TAS 100. Furthermore we have spoken to some of the respondents about their concerns and have concluded that the materiality and proportionality provisions mean that the extension of scope need not lead to disproportionate additional work. Nevertheless, we have included more text in paragraphs 5.8 and 5.9 of the Framework on the application of materiality and proportionality, amended the materiality and proportionality provisions, and removed the requirement for a compliance statement for work which is not reserved work, included in the scope of a Specific TAS or technical actuarial work which is central to a significant decision by the user.

**Q4.2 Do you agree with the proposed definition of actuarial work? If not, please provide reasons and suggest an alternative approach.**

2.25 The consultation proposed that actuarial work for TAS 100 be defined as work:

- which involves the exercise of judgement and where the use of principles and/or techniques of actuarial science is central; or
- which the user is entitled to treat as actuarial work because it is presented as actuarial, whether expressly or by implication.

2.26 As noted in the Update paper, several respondents suggested that the definition of actuarial work in TAS 100 should be consistent, as far as possible, with the definition used by the IFoA in its practice standards. Others suggested that the definition should be consistent with the ISAP 1 definition. However, these definitions are different from the TAS 100 definition as they are limited to the work of actuaries. Moreover, the IFoA definition used in APS X2 is broader as it applies to non-technical work of actuaries. We therefore consider that differences between the definitions are necessary. However, to distinguish between the TAS definition and the other definitions we have decided for the purposes of our standards to refer to “technical actuarial work”.

2.27 There were several comments on the detail of the proposed definition. Several respondents were content with the definition which they considered to be practical. However, some considered that the definition could be open to interpretation (eg centrality, actuarial science) and several considered that the definition should be supported by examples and/or guidance.

2.28 It was suggested that the definition should refer to work being performed for an intended user to make it clear that the TASs do not usually apply to work such as articles of magazines where there is no direct user. We understand this point and have included “performed for a user” in the first line of the definition for clarification. Users, as defined in the Glossary, are those people whose decisions a communication is intended to assist.

2.29 Some respondents suggested that the words “whether expressly or by implication” be deleted as they could suggest that a practitioner would need to second guess whether the user considers the work is actuarial. We understand the concern and have changed the second leg to “which the user may reasonably regard as technical actuarial work by virtue of the manner of its presentation”. The inclusion of “reasonable” enables the practitioner preparing the work to judge what the user might consider to be technical actuarial work.

2.30 Finally it was suggested the order of “judgement” and “principles and techniques of actuarial science” be reversed for clarity. We have made this change.



2.31 With the proposed changes we consider that the definition is sufficiently clear and over time practitioners should become used to working with it.

**Q4.3 Do you agree with the analysis of different areas of work in Appendix E?**

2.32 Respondents generally found the analysis and examples of work in/out of the scope of TAS 100 helpful. Some would have liked the examples to cover more non-standard situations and some suggested that there should be guidance in less clear cut examples. Some respondents listed specific areas of work where they considered it would be helpful to have examples.

2.33 We understand some respondents' desire for examples to be maintained. However, examples and guidance cannot cover all situations - the decision on whether a piece of work is technical actuarial work may often vary according to the circumstances of the particular situation and practitioners will need to exercise judgement in applying TAS 100. We therefore do not intend to maintain examples although in practice firms and trade associations may choose to maintain their own examples or guidance.

*TAS 100: Principles for actuarial work*

**Q5.1 Do you agree with the proposed high-level principles?**

2.34 There was general support for the six high-level principles with the supporting provisions. Specific points made on the principles were:

*Judgement shall be exercised in a reasoned and justifiable manner; material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information.*

2.35 Several respondents suggested that the proposed principle was too strong and that either there should be no requirement to communicate material judgements to users or that the communication should be limited to the "most significant judgements" or "judgements which can be reasonably be expected to be material". We have considered these views. We consider that users should be informed of material judgements which have been made and this can be done proportionately. We do not therefore propose to change the judgement principle.

*Data used in actuarial work shall be sufficient and reliable for the purpose of that work and subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information.*

2.36 Several respondents considered this principle was too strong as the proposed text implies data can always be adjusted so it is sufficient and reliable. It was also suggested that it is not always possible to ensure that there has been sufficient scrutiny and checking, particularly where there is limited data and/or tight deadlines.

2.37 We accept these points and have replaced the words "sufficient and reliable for the purpose of that work and subject to sufficient scrutiny" with "appropriate for the purpose of that work". This is the same wording as in the assumptions principle. The supporting provision 2.2 then sets out what needs to be done if data is insufficient or unreliable and the supporting provision 2.4 has been amended to require that communications should state whether checks and controls have been applied.

*Assumptions used, or proposed for use, in actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information.*

2.38 The majority of respondents did not have any comments on this proposed principle. However, some considered that the principle does not adequately cover cases where assumptions are set by the user or by regulation. We have addressed this concern with amended provisions 3.1 and 3.2 (see paragraphs 2.48 to 2.49).

*Models used in actuarial work shall be fit for purpose and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information.*

2.39 Some respondents considered the proposed principle was too strong as most models have limitations and arguably cannot be perfectly fit for purpose. One respondent suggested a “best endeavours” approach.

2.40 We consider that a model with limitations may be fit for purpose as long as those using and relying on the model are aware of those limitations. Nevertheless we have amended the definition to clarify that the fitness test relates to the purpose for which the model is used as follows:

*Models used in technical actuarial work shall be fit for the purpose for which they are used and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information.*

*Communications shall be clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information.*

2.41 There were no significant points raised about the proposed communications principle and it remains unchanged.

*Documentation shall contain enough detail for a technically competent person with no previous knowledge of the actuarial work to understand the matters involved and assess the judgements made.*

2.42 Some respondents considered “technically competent with no previous knowledge...” (which is used in the existing TASs) to be too high a hurdle, while one respondent suggested “technically competent person” is replaced by “person with relevant technical competence” as a technically competent person may be technically competent in the wrong area. We consider that the term is clear and as the term is in current use it should be widely understood. We have therefore not made any changes to the documentation principle other than adding “technical” before “actuarial work”.

<b>Q5.2 Do you agree with the proposed provisions in TAS 100 on data?</b>
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2.43 Several respondents suggested that data should be relevant for the purpose of the work rather than relevant to the entity. We agree and have changed the provision at 2.1 accordingly.

2.44 In paragraphs 2.36 and 2.37 we discussed a modification of the data principle in response to concerns that the proposed text implies data can always be adjusted so it is sufficient and reliable. Several respondents commented that provision 2.2 (if data is insufficient or unreliable it shall be improved by adjusting or supplementing it to the extent that is proportionate) was also too onerous. Suggested alternative approaches were to use wording similar to paragraph 5.11 of TAS D (when data that is required is materially incomplete or inadequate, an assessment shall be made to determine whether the reliability of the data can be improved by adjusting or supplementing it) and

to add “where appropriate”. We have reviewed these comments and consider that the exposure draft wording does address the concerns as the provision explicitly states that the adjustments and/or supplements made shall be “to the extent that is proportionate” and provision 2.5 states that “communications shall state any limitations in the actuarial information resulting from the use of insufficient or unreliable data”.

- 2.45 Three respondents suggested that checks and controls, and actions taken to improve data should be documented rather than communicated to users as required by the draft provision 2.4. We agree and have amended provisions 2.3 (documentation of data matters) and 2.4 (communication of data matters).
- 2.46 It was suggested that the requirement in provision 2.4 to communicate uncertainty in data should be amended to clarify that only material uncertainties need to be communicated. We agree and have made this amendment.
- 2.47 A further suggestion was that there should be a requirement to communicate the rationale for the selection of data to users. This is particularly important in areas such as general insurance where in some circumstances data may be sparse. We agree and have modified provision 2.4 accordingly.

#### **Q5.3 Do you agree with the proposed provisions in TAS 100 on assumptions?**

- 2.48 Some respondents noted that several of the proposed provisions on assumptions do not adequately cover cases where assumptions are set by the user, a third party or by regulation. We agree that there could be cases where assumptions set by the user, a third party or regulation might not be derived from relevant/sufficient information and in such situations, assumptions might not be consistent with each other. We have addressed the concern by limiting the scope of provisions 3.1 and 3.2 in the exposure draft in a combined revised principle at 3.1.
- 2.49 These changes mean that assumptions which are set by users, a third party or regulation do not have to be derived from sufficient/reliable information as is available and do not need to be consistent. However, provision 3.5 of the review draft requires communications to state whether any assumptions set by a user or third party are not reasonable for the purpose of the work.
- 2.50 Several respondents suggested that the requirement to provide comparisons with the assumptions used for any relevant previous exercise should be limited to a comparison of assumptions used for a previous exercise carried out for the same purpose (if one exists). We agree and have amended the provision accordingly.
- 2.51 It was suggested that the requirement for assumptions to be consistent (provision 3.2 of the exposure draft) does not work for assumptions which are not related (eg demographic and financial). We do not consider that TAS 100 needs to be clarified and judgement needs to be used on whether assumptions can be consistent in applying this requirement. Another suggestion was that it will not always be possible to compare assumptions used with those for the previous exercise. In the relatively rare situations where the previous assumptions cannot be identified, judgement will be required on the application of TAS 100 and an explanation provided to the user if a comparison is not possible.
- 2.52 It was suggested that it would be clearer if provision 3.4 of the exposure draft were split into two provisions. We have accepted this suggestion and the two provisions are 3.3 and 3.4 of the review draft.

- 2.53 Provision 3.6 of the exposure draft required that communications state whether any assumptions set by a user or a third party are not reasonable for the purpose of the work and provide an indication of their impact on the actuarial information. Several respondents suggested that this requirement would be too onerous and not wanted by some users. We consider that users should understand the broad effect of using assumptions which are not considered reasonable. The proposed provision does not require quantification and a broad description of the impact may be sufficient. Therefore we have not amended the proposed requirement.

**Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling?**

- 2.54 As with the modelling principle, some respondents considered that the fit for purpose test in provision 4.1 was too strong. We have therefore changed provision 4.1 to be consistent with the revised modelling principle (see paragraph 2.40).
- 2.55 Provisions 4.3 and 4.4 of the review draft cover both methods and measures and accordingly we have deleted the provision that appeared at 5.5 in the exposure draft.

**Q5.5 Do you agree with the proposed provisions in TAS 100 on communications?**

- 2.56 It was suggested that TAS 100 should be explicit that communications should be tailored to the knowledge and skills of the users. While we consider that this is implied by the Communications principle we have decided to include a new provision (5.2 of the review draft) which states that “The style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of their users”. This wording is the same as C.6.1 of TAS R.
- 2.57 Several respondents considered that the second part of the exposure draft provision 5.2 (communications shall include the sensitivity of the results to variations in the key assumptions) was too strong as sensitivity of results is not the only way to indicate uncertainty and others suggested it was not needed as provision 5.7 of the exposure draft covers communication of uncertainty. We agree with the feedback and have removed provision 5.2 of the exposure draft.
- 2.58 Several respondents considered that provision 5.6 (describing margins for adverse deviations) was not needed in addition to provision 3.5 (describing relationship of non-neutral assumptions to neutral assumptions). It was also suggested that the requirements to describe margins and/or relationships of non-neutral assumptions with neutral assumptions were not needed given that risk and uncertainty is adequately covered in provision 5.7 of the exposure draft. We accept the feedback and have removed provisions 3.4 and 5.6 of the exposure draft.

**Q5.6 Do you have any comments on the application of TAS 100?**

- 2.59 Respondents were generally supportive of the proposed approach on application of TAS 100. However some respondents said they would like more guidance on applying materiality and proportionality (eg on who may judge whether a matter is material) and one respondent suggested that actuaries are more likely to over-comply rather than under-comply with the standard. We have included more text on the application of materiality and proportionality in the Framework document.
- 2.60 Some respondents considered that the proposed definition of materiality (matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information) was more demanding than the definition in the existing TASs and would add to the cost of compliance. It was suggested “could” should

be replaced with “could be reasonably expected to”. We accept these comments and have amended the definition of materiality so it is now similar to the wording in the existing TASs. In addition, we have added text to clarify that the principles and provisions should be followed when relevant to the work.

- 2.61 Some respondents considered that the wording on proportionality in the existing TASs is clearer than the wording in the exposure drafts of both the Framework and TAS 100. We accept this and have reverted to the existing wording.
- 2.62 It was suggested that departures from TASs should only be permitted in respect of communications to users. We agree with this and have amended the text in the Framework and in TAS 100 to permit departures on the grounds of materiality only for the principles and provisions relating to communications. This means it will not be possible to avoid any documentation on the grounds that documentation does not affect the decision of users. For clarification we have added text to state the principles and provisions should be followed where relevant to the work.
- 2.63 It was noted that the exposure draft of TAS 100 did not contain the wording in the existing TASs which stated that judgements concerning the application of the standard shall be exercised in a reasoned and justifiable manner. As it is important that practitioners exercise their judgement in applying the TASs we have included the wording used in the existing standards.
- 2.64 We had feedback that the concept of aggregate and component reports used in the existing TASs was helpful and should be retained. We accept this and have now included a definition of “component communication” in the *Glossary of defined terms used in FRC technical actuarial standards*. As a result the paragraph on aggregation in the exposure draft of TAS 100 is no longer needed and has been removed.

#### **Q5.7 Do you agree that a compliance statement should be required?**

- 2.65 There were mixed views on whether a compliance statement should be required. Several considered that a statement should not be required. It was suggested that users do not value a statement and that it would be regarded by some as “yet more boilerplate text”.
- 2.66 Several respondents supported the requirement but some of those only did so if the statement is very brief. One respondent suggested that instead of a statement of compliance, a statement of non-compliance should be mandatory and another suggested that signposting to a general compliance statement should be permitted.
- 2.67 Recognising the comments made, particularly for smaller pieces of work, we have decided to limit the requirement for a compliance statement requirement in TAS 100 to pieces of work which are either reserved work (ie required by legislation or other regulation), work which is in the scope of a Specific TAS or work which is central to a significant decision by the user. We have amended the text in the review draft to reflect this change.

#### **Q5.8 Do you agree with the proposed approach on guidance material?**

- 2.68 Most respondents agreed with the proposed approach (not to issue guidance on TAS 100) subject to TAS 100 being sufficiently clear in its own right. However, some respondents said that they would find additional guidance material helpful and suggestions included maintaining answers to FAQs or summaries explaining points in

addition to the TASs. One respondent noted that guidance could be particularly helpful to new members of the actuarial profession.

- 2.69 As stated in the Framework we may need to provide guidance in limited circumstances when there is a well-defined need for that guidance to be provided by the FRC.
- 2.70 The IFoA may also provide guidance to support the TASs. The IFoA will consult with the FRC before issuing any such guidance. Except where non-mandatory, the guidance will be produced following the FRC's policy on developing Statements of Recommended Practice (SORPs)<sup>3</sup>. We have updated the Framework document to refer to SORPs (paragraph 11.2).

**Q5.9 Do you agree with the proposal to include defined terms in a separate glossary?**

- 2.71 Almost all respondents agreed with the proposal to include defined terms in a separate glossary. Consequently an updated *Glossary of defined terms used in FRC technical actuarial standards* draft is included as part of the consultation on revised Specific TASs. It includes defined terms used in all of the proposed TASs.

**Q5.10 Do you consider the definitions of the terms in the glossary are clear?**

- 2.72 Respondents generally considered that the terms in the glossary were clear. Some detailed points were raised which are considered below.
- 2.73 It was noted that the draft glossary did not contain the definition of implementation used in the current TASs. This was an omission and we have included a definition in the updated glossary.
- 2.74 It was suggested that the definition of user should be clarified so that judgement as to who the user is cannot be made after the event. We understand the point and have added "(at the time it is provided)" to the definition of user so it is now "those people whose decisions a communication is intended (at the time it is provided) to assist". This clarifies that judgements as to who the user is cannot be made after the event and is consistent with the wording in the current TASs.
- 2.75 There were also suggestions that the glossary should include definitions of actuarial science, aggregation, a piece of work, proportionate, third party, technically competent person and entity (eg as person or body commissioning the work). We consider that the meaning of these terms should be clear from their context and have not included definitions in the glossary.
- 2.76 We have also amended the definition of actuarial work (see paragraphs 2.25 to 2.31) and materiality (see paragraph 2.60).

**Q5.11 Do you have any other comments on the exposure draft of TAS 100?**

- 2.77 Some respondents considered that TAS 100 might include more requirements including some of the principles from the existing TASs. We have considered these suggestions

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<sup>3</sup> [https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Statements-of-recommended-practice-\(SORPs\).aspx](https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Statements-of-recommended-practice-(SORPs).aspx)

but have decided not to include further principles. However, we are proposing to include some of the Generic TAS principles in revised Specific TASs.

*Technical actuarial standards for specified work*

**Q6.1 What areas of work specified in scope of the current Specific TASs do you consider should not be subject to more detailed actuarial standards?**

2.78 There were mixed responses to this question. Some respondents did not comment as they noted their response would depend on the structure and content of the revised Specific TASs.

2.79 Some respondents considered that the existing scope of the current Specific TASs would be a reasonable starting place for the scope of the revised TASs while one suggested that the scope should be limited to Reserved Work.

2.80 We have taken comments about particular areas of work into account when implementing the risk assessment process for determining the proposed scope of the revised Specific TASs.

**Q6.2 What work which is not currently in the scope of the Specific TASs do you consider should be subject to the more detailed standards?**

2.81 A small number of respondents suggested additional areas of work for inclusion in the scope of the revised Specific TASs. We have considered this feedback in our risk assessment for the Specific TAS consultation.

**Q6.3 Do you agree with the proposed structure of the TASs?**

2.82 All those who answered this question agreed with the proposed approach.

**Q6.4 Do you have any other comments on the proposals for technical actuarial standards in section 6?**

2.83 There were no further significant points raised.

*Implementation*

**Q7.1 Do you have any comments on the proposed implementation of the new framework in Section 7?**

**Q7.2 Are the proposed interim arrangements clear?**

2.84 As noted in the Update paper, most respondents noted a strong preference for TAS 100 to become effective at the same time as the revised Specific TASs.

2.85 In the Update document we confirmed that in light of the feedback we had decided to defer the implementation of TAS 100 so that the whole new package of TASs will come into force at the same time.

*Impact assessment*

**Q8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?**

2.86 There were mixed responses to this question. Some respondents agreed that TAS 100 could be applied to a wide range of actuarial work without disproportionate cost.

- 2.87 However, several respondents disagreed, some strongly, including several actuaries working in general insurance. In particular, a number of respondents suggested that compliance would be disproportionate for small pieces of work despite the materiality and proportionality provisions of the TASs; in part this is due to the work required to demonstrate compliance.
- 2.88 Some respondents noted that there would be transitional costs associated with training and development of processes from complying with the TASs for new areas of work. We agree and had acknowledged this in paragraph 8.18 of the consultation paper.
- 2.89 Some respondents commented that actuaries may tend to over-interpret the TASs (at least in part due to concern about how compliance with TASs may be judged at a later date) and might provide information which users do not need.
- 2.90 A proportionate approach should be taken in following TAS 100 and we have added further text on the application of TAS 100 in the paragraph 5.8 of the review draft of the Framework to assist practitioners and have removed the requirement for a compliance statement for work which is not Reserved Work, work included in the scope of a Specific TAS or technical actuarial work which is central to a significant decision by the user.

<b>Q8.2 Do you have any comments on our analysis of the impact of the changes set out in section 8?</b>
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- 2.91 Several respondents considered that compliance with TAS 100 for new areas of work would lead to greater costs than suggested in section 8, particularly for smaller pieces of work and for certain types of actuarial work in general insurance. We consider that the changes made to the exposure draft of TAS 100 mean that the long-term costs of compliance after transition will not be significant.
- 2.92 Concern was also raised that there is a risk that the widening of the scope of FRC technical actuarial standards could result in some entities not commissioning work from actuaries. We consider that users will value the assurance that work carried out by an actuary will meet at least a minimum standard.
- 2.93 Three respondents raised concerns that improving the reliability of actuarial advice will not, in isolation, produce the benefits to the public interest. We accept this point but consider that technical actuarial standards do promote high quality actuarial work and this contributes to the public interest.



## 3 Changes to text of the Framework for FRC technical actuarial standards

### Introduction

- 3.1 As a result of the responses we received to the exposure draft, and comments we have received through other means, we have made a number of changes to the text in the November exposure draft of the Framework. The changes made are described in this section. A version of the review draft showing the changes from the text in the exposure draft is available on the FRC website.
- 3.2 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.

### Title

- 3.3 We have inserted “technical” into the title of the Framework.

### Historical context

- 3.4 We have added “where applicable” at the end of paragraph 1.3 as the IFoA only requires its members to comply with TASs where applicable (eg when in the geographic scope of the TASs).

### The Reliability Objective

- 3.5 We have changed the title of section 3 from “The FRC’s Reliability Objective for actuarial standards” to “The Reliability Objective”. This change has been made to remove any implication that the Reliability Objective is just to be for the FRC’s use when setting standards and to clarify that it should be considered by practitioners applying the TASs. We have also changed the text in paragraph 3.2 for the same reason and removed some text which relating to the historical development of the TASs.

### Technical Actuarial Work

- 3.6 We have changed the defined term “actuarial work” to “technical actuarial work” throughout the document (see paragraph 2.26) and updated its definition in paragraph 5.2 of the Framework (see paragraphs 2.27 to 2.30).

### The authority of the FRC’s Technical Actuarial Standards

- 3.7 We have changed the sub-heading “The authority of the FRC’s Technical Actuarial Standards” to a heading – this has resulted in changes to the paragraphs in sections 4 onwards.

### Materiality

- 3.8 We have amended the text in paragraph 5.6 to be consistent with the change to materiality in TAS 100 (see paragraphs 2.60 and 2.62).
- 3.9 We have deleted paragraph 4.7 (material departures) of the exposure draft as we are not proposing to permit material departures from the TASs other than where there are conflicting legal, regulatory or professional obligations.

### **Proportionality**

- 3.10 We have amended the text in paragraph 5.7 to be consistent with the change to proportionality in TAS 100 (see paragraph 2.61).
- 3.11 We have added text in paragraph 5.8 to set out matters which might be considered on applying proportionality when complying with the TASs and guiding text on proportionality in paragraph 5.9 (see paragraph 2.24).

### **Legal, regulatory and professional obligations**

- 3.12 We have added a heading to clarify the content of paragraph 5.11.

### **Responsibility for compliance**

- 3.13 We have deleted the first sentence of paragraph 4.11 of the exposure draft as we consider that this is adequately covered in paragraph 3.2 and we have amended the second sentence to clarify that practitioners need to be guided by the Reliability Objective in applying the TASs (see paragraph 2.14).
- 3.14 We have amended the wording in the second sentence of paragraph 4.13 for clarification (see paragraph 2.15).

### **Technical Actuarial Standards for specific work**

- 3.15 In the Specific TAS consultation we have proposed that the Specific TASs will not include any additional principles but will contain provisions which support the principles in TAS 100. We have amended paragraph 9.1 to reflect this.

### **Glossary of defined terms used in FRC technical actuarial standards**

- 3.16 We have inserted a new section 10 which describes the *Glossary of defined terms used in FRC technical actuarial standards*.

### **Technical Guidance**

- 3.17 We have included a new paragraph 11.2 which describes the Statements of Recommended Practice (SORPs) which the IFoA may issue.

## 4 Changes to the text of TAS 100

### Introduction

- 4.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the text in the November exposure draft of TAS 100. The changes made are described in this section. Unless stated otherwise the provision numbering are those in the review draft of TAS 100. A version of the final text that shows the changes from the text in the exposure draft is available on the FRC website.
- 4.2 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.
- 4.3 We have added text to note that TAS 100 should be read in conjunction with the Framework.

### Purpose

- 4.4 We have removed “FRC” from the second sentence (see paragraph 2.14).

### Definition of actuarial work

- 4.5 We have amended “actuarial work” to “technical actuarial work” in the definition (see paragraph 2.26). We have also amended references to “actuarial work” throughout TAS 100 to “technical actuarial work”. Where this is the only change to a principle we have not separately identified the change.
- 4.6 We have inserted “performed for a user” into the first line of the definition (see paragraph 2.28).
- 4.7 We have changed the order of “judgement” and “principles and/or techniques of actuarial science” in the first leg of the definition (see paragraph 2.30) and changed the text in the second leg (see paragraph 2.29).

### Compliance

- 4.8 We have inserted new text “Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner”. This text is in the existing TASs and we have included it as we consider that it should be helpful to those applying TAS 100 (see paragraph 2.63).

### Materiality

- 4.9 The text from the first part of the exposure draft text has been amended to:  

“Each of the principles and provisions in TAS 100 shall be followed where they are relevant to the work”.
- 4.10 As this text is not concerned with materiality it has now been included before the materiality section.
- 4.11 The remaining text has been changed to:

Departures from the provisions concerning **communications** to **users** are permitted if they are unlikely to have a **material** effect on the decisions of **users**.

- 4.12 This makes the text similar to that in the existing TASs and addresses concerns raised by on practical application of the definition (see paragraphs 2.60 and 2.62).

#### *Proportionality*

- 4.13 The text “the risks inherent in” has been removed. This makes the text almost identical to that in the existing TASs (see paragraph 2.61).

#### *Aggregation*

- 4.14 The text on aggregation has been removed as the draft *Glossary of defined terms used in FRC technical actuarial standards* now contains definitions of communications and component communications (see paragraph 2.64).

#### *Disclosure*

- 4.15 As a disclosure statement will only be required for Reserved Work or work that is in the scope of a Specific TAS the text has been changed as follows:

**Communications for reserved work, work in the scope of a Specific TAS and technical actuarial work** which is central to a significant decision by the **user** shall include a statement confirming compliance with TAS 100. ~~Particulars of any material departure from TAS 100 shall be disclosed to the user with the reasons for the departure.~~

#### **Commencement date**

- 4.16 The commencement date had been changed so that TAS 100 will come into effect at the same time as the revised Specific TASs. (see paragraphs 2.84 and 2.85)

#### **Data**

- 4.17 The text “sufficient and reliable for the purpose of that work and” has been deleted from the principle (see paragraphs 2.36 to 2.37).

- 4.18 The text “for the purpose of the work” has been added to provision 2.1 (see paragraph 2.43).

- 4.19 The text “the checks and controls that have been applied, to the **data** and the actions taken to improve insufficient or unreliable data” has been moved from provision 2.4 (communication of data matters) to provision 2.3 (documentation of data matters) (see paragraph 2.45).

- 4.20 To clarify that only material uncertainties need to be communicated “material” has been added before uncertainty in provision 2.4 (see paragraph 2.46).

- 4.21 The text “rationale for the selection of the **data**” has been added to provision 2.4 (see paragraph 2.47).

#### **Assumptions**

- 4.22 Provision 3.1 has been amended to allow for the cases where assumptions have been set by a user, a third party or by regulation. This has been achieved by separating advice

on assumptions (in revised provision 3.1) from modelling using assumptions (now in provision 3.2). Provision 3.1 does not apply to cases where assumptions are set by the user, a third party or by regulation (see paragraph 2.47).

- 4.23 Provision 3.2 of the exposure draft (consistency of assumptions) has been merged into revised paragraphs 3.1 and 3.2 (see paragraph 2.48 and 2.48).
- 4.24 Provision 3.4 of the exposure draft has been split into two provisions – 3.3 and 3.4 in the review draft.
- 4.25 Provision 3.4 of the review draft has been amended from “any relevant previous actuarial work” to “the previous exercise (if one exists) carried out for the same purpose” for clarity and consistency with provisions 4.4 and 5.4 (see paragraph 2.50).
- 4.26 Provision 3.5 of the exposure draft has been deleted (see paragraph 2.58).
- 4.27 For clarification “a user” has been added to provision 3.4 (see paragraph 2.48).

### **Models**

- 4.28 The principle has been amended as follows:

**Models** used in **technical actuarial work** shall be fit for the purpose for which they are used and be subject to sufficient controls and testing so that **users** can rely on the resulting **actuarial information**. The changes have been made for clarification (see paragraphs 2.39 and 2.40).

- 4.29 Provision 4.1 has the same changes as in the principle.
- 4.30 The text “and measures” has been added after “methods” in provision 4.3 and “models” has been replaced by “methods and measures” in provision 4.4. These changes have enabled us to delete provision 5.5 of the exposure draft which covered communications of matters relating to measures.

### **Communications**

- 4.31 We have amended provision 5.1 to include a requirement that the scope of the work should be stated in communications. Additionally, we have split the requirements into those required for communications in aggregate (users, scope and purpose of the work) and those which are required for each component communications (purpose of the communication and addressee).
- 4.32 We have included a new provision 5.2 requiring that the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of their users (see paragraph 2.56).
- 4.33 We have deleted provision 5.2 of the exposure draft as we consider that provision 5.7 of the exposure draft adequately covers communication of uncertainty and communication of results is inherent in any actuarial work (see paragraph 2.57).
- 4.34 Provisions 5.5 and 5.6 of the exposure draft have been deleted (see paragraphs 2.56 and 2.58).

### **Documentation**

- 4.35 There are no changes to the text.

## 5 Glossary of defined terms used in FRC technical actuarial standards

### Introduction

5.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the draft Glossary in the November 2014 consultation. The changes made are described in this section and published an updated [Glossary](#). A version of the text that shows the changes from the text in the exposure draft is available on the FRC website. The changes below do not include definitions in the updated Glossary which are used solely in Specific TASs.

### Title

5.2 We have updated the title and have included “defined” into the title of the Glossary. This is consistent with the IAA’s *Glossary of Defined Terms Used in ISAPs*.

### Amended definitions

5.3 We have amended the following definitions:

- **communications** (see paragraph 4.14); and
- **user** (see paragraph 2.74).

### New definitions

5.4 We have included the following new definitions which are used in TAS 100:

- **component communication** (see paragraph 4.14);
- **implementation**, which is defined as “the formulae and algorithms of a **model** in a form that will perform the calculations required by the **specification**”. This definition is the same as that used in TAS M;
- **reserved work** which is “work required by regulations or other legal obligation and which is required to be performed by a Fellow of the Institute and Faculty of Actuaries”. This is needed as statements of compliance are required for reserved work; and
- **Specific TAS** which is “A Technical Actuarial Standard developed by the FRC for specified areas of work”.

## 6 Next steps

### Introduction

6.1 In this section we set out the next steps in our revision of our standards framework.

### Specific TASs

6.2 We have published a consultation on revisions to the Specific TASs.

### Final version of the TASs

6.3 When we have considered responses to the consultation on the Specific TASs we will issue final versions of TAS 100 and the three revised Specific TASs.

### Revised framework

6.4 The new document *Framework for FRC technical actuarial standards* will be published at the same time as the finalised TASs.

### Glossary

6.5 The new *Glossary of defined terms used in FRC technical actuarial standards* will be issued in conjunction with the revised suite of TASs.

### Implementation

6.6 We intend to implement the new framework in one stage rather than two as proposed in the November consultation with the *Framework for FRC technical actuarial standards*, TAS 100 and the new Specific TASs being effective from the second quarter of 2017. At the same date the *Scope & Authority of Technical Actuarial Standards* and existing TASs will be withdrawn. Early adoption of TAS 100 for work not in the scope of the existing TASs will be encouraged.

6.7 To support practitioners with the implementation of the new Framework and revised TASs including TAS 100 we are proposing to run events in conjunction with the IFoA. The IFoA is also considering other areas where its members may find support helpful including the provision of guidance on the application of the TASs.

# Appendix A: List of respondents to the November 2014 consultation

## **Professional and trade bodies**

Association of British Insurers  
Association of Consulting Actuaries  
International Actuarial Association

Institute and Faculty of Actuaries  
Society of Pensions Professionals

## **Insurers, consultants and actuaries**

Aon Hewitt  
Mark Graham, Antares Managing Agency  
Barnett Waddingham  
BWCI Consulting Limited  
Canopus Managing Agents Limited  
Capita Employee Benefits  
Simon Carne  
Catlin Holdings Limited  
Chaucer Syndicates Ltd  
Deloitte  
EY  
Matthew Evans  
First Actuarial LLP  
Hymans Robertson LLP  
J P Houghton

JLT Employee Benefits  
James Knight  
Trevor Llanwarne  
Lane Clark & Peacock LLP  
S A Meacock & Company Limited  
Mercer  
PwC  
P-Solve  
Punter Southall  
SL Investment Management  
Alastair Speare-Cole  
Talbot Underwriting  
Towers Watson  
Duncan Walsh  
Giles Woodruff  
Tony Jones, UMACS

## **Other entities**

Government Actuary's Department

Pension Protection Fund