

## MEMORANDUM OF UNDERSTANDING BETWEEN THE FINANCIAL REPORTING COUNCIL AND THE UK ACTUARIAL PROFESSION IN RELATION TO OVERSIGHT AND ACTUARIAL TECHNICAL STANDARDS

Following the Morris Review of the Actuarial Profession, published in March 2005, HM Treasury asked the Financial Reporting Council (FRC) to take on responsibility for independent oversight of the UK Actuarial Profession and the independent setting of actuarial technical standards.

Through the new regime, the FRC will seek to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession - to the benefit of all those who rely on actuarial advice or who are affected by actuarial advice.

The new arrangements should support mutual efforts to enhance public respect for, and confidence in, the Actuarial Profession and its members.

This Memorandum of Understanding summarises the respective responsibilities of the FRC and the Actuarial Profession in relation to the new regime.

The FRC sets actuarial technical standards, the scope of the application of which is published on the FRC web site and will be kept up to date. It also oversees the regulatory activities of the Actuarial Profession.

The Actuarial Profession has the primary responsibility for the regulation<sup>1</sup> of its members acting in their professional capacity.

### The FRC

The Financial Reporting Council (FRC) is the United Kingdom's independent regulator responsible for promoting confidence in corporate reporting and governance. The FRC's published Regulatory Strategy sets out its aim and objectives, its regulatory principles, its approach to achieving its objectives and its governance, funding and accountability. The FRC publishes an annual Plan & Budget setting out its work programme, expenditure and funding.

The FRC's responsibilities relate to oversight of the UK Actuarial Profession and the independent setting of actuarial technical standards. The FRC delivers these responsibilities principally through three of its operating bodies:

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<sup>1</sup> Primarily setting ethical standards; administering the education system and continuing professional development scheme; administering disciplinary procedures; and such monitoring of compliance with professional standards as is undertaken by the Profession.

- The Board for Actuarial Standards (BAS) sets the actuarial technical standards that apply within its jurisdiction (the terms of which will be published), in consultation with the Actuarial Profession and other interests. The BAS has a Board comprising actuaries and others, reflecting a cross-section of groups with an interest in actuarial standards, including the users and providers of actuarial advice. The BAS will notify the Actuarial Profession of any planned changes to its standards. The BAS takes full responsibility for all actuarial technical standards which it issues and for the 'book' of Guidance Notes (originally produced by the Actuarial Profession) which it adopted on handover, and takes full responsibility for ensuring that these are kept up to date as necessary, including as a result of legislative or regulatory change.
- The Professional Oversight Board (POB) oversees the way in which the Actuarial Profession exercises regulation of its members acting in their professional capacity. The POB will undertake an annual programme of work to discharge its oversight responsibilities, established in consultation with the Actuarial Profession, and may initiate additional action if necessary.
- The Accountancy Investigation and Discipline Board (AIDB) is preparing and will implement an investigation and discipline scheme in relation to matters involving members of the actuarial professional bodies which raise or appear to raise important issues affecting the public interest in the UK.

### The Actuarial Profession

The Actuarial Profession comprises the two UK actuarial professional bodies: the Faculty of Actuaries in Scotland and the Institute of Actuaries.

The Actuarial Profession has the primary responsibility for the regulation of its members acting in their professional capacity.

The Actuarial Profession is committed to:

- Publicising BAS standards and requiring those members to whom the standards are intended to apply to observe them. The terms on which the Actuarial Profession imposes this requirement are set out in Annex A to this agreement. The FRC and the Actuarial Profession will maintain appropriate communication arrangements by which BAS will notify the Actuarial Profession of any changes to its standards, and in turn, the Actuarial Profession will bring these changes to the attention of its members. The Profession will provide appropriate support for any

reasonable arrangements that the BAS may establish for dealing with interpretation of standards and with urgent issues.

- Responding to the recommendations of the POB in relation to the Profession's responsibilities for regulating its members, either by implementing them within a reasonable period, or giving reasons in writing for not doing so, on the basis that these reasons will be published.
- Co-operating with the FRC to facilitate, and assist with, the discharge of the FRC's responsibilities by, amongst other things, sharing relevant information, early notification of current and proposed developments in the Profession's activities related to regulation of its members, and the identification of cases, issues and areas which it believes may warrant or benefit from regulatory action by the FRC.

There will be a separate agreement between the FRC and the Actuarial Profession in relation to arrangements for investigation and discipline in public interest cases. The Actuarial Profession will remain responsible for disciplinary cases which do not raise matters affecting the public interest.

#### Communication

The FRC and the Actuarial Profession will, within 6 months of the signing of this Memorandum, develop, and thereafter maintain arrangements to co-operate, consult and notify each other on issues relevant to their respective responsibilities.


#### The terms of this Understanding

These arrangements will continue by mutual consent. Either party may withdraw its consent, but as a matter of practicality and courtesy to the other party, 6 months' notice of the termination of this arrangement will be given prior to any termination. Any revisions can be suggested at any time and will be effective by mutual consent.

The Actuarial Profession will work with the FRC as appropriate in liaising with the Government in relation to any legislative changes which may be proposed with regard to the FRC's actuarial functions.



For the FRC



For the Faculty



For the Institute

17 May 2006

The Actuarial Profession has made express provision in terms of Rule 1.6 of the Disciplinary Schemes of the Faculty and Institute of Actuaries, such that failure by its members to comply with BAS standards may be taken into account for the purposes of disciplinary proceedings instigated in terms of those Schemes. Rule 1.6 is set out below

**Definition of misconduct in the disciplinary schemes of the Faculty and Institute**

Misconduct means:

(a) any breach of the [Bye-laws of the Institute/Rules and Bye-laws of the Faculty];

and/or

(b) any conduct, by a Member, whether committed in the United Kingdom or elsewhere, in the course of carrying out professional duties or otherwise constituting failure by that Member to comply with the standards of behaviour, integrity, competence or professional judgement which other Members or the public might reasonably expect of a Member having regard to any advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute/Faculty] and/or, for so long as there is a relevant Memorandum of Understanding in force, by the Board for Actuarial Standards and to all other relevant circumstances.