

Sir Christopher Hogg
Chairman
Financial Reporting Council
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13 March 2009

Dear Chris

The Actuarial Profession welcomes the opportunity of making some comments in relation to the FRC's consultation paper on its Draft Plan 2009/10. We trust that the omission of reference to oversight of the regulatory activities of the professional actuarial bodies from the opening paragraph of your introduction was not a "Freudian slip" with regard to how you view our relationship!

The Actuarial Profession is very supportive of the work done by the FRC in relation to promoting confidence in corporate reporting and governance. We are certain that all the activities undertaken by the FRC's operating bodies are laudable, but given the recent financial turmoil we think that the FRC, in partnership with other statutory regulators, should address the fundamental question of why the arrangements for corporate reporting and governance did not signal the impending crisis that the country's banks are now in. We are of course willing to play our part in finding future solutions. In the light of this we feel that significantly more effort should be placed in the plan on Strategic Outcome Six – FRC Effectiveness.

Overall we think that the Strategic Framework provides a useful means of describing the various activities of the FRC. However we think that it brings with it a risk of compartmentalisation which potentially restricts the FRC from operating as an integrated whole. There is much more that could be done in co-ordinating the activities across the separate operating bodies so that they act more in concert and the total resources of the FRC are focused on the areas of greatest need.

For example: you have stated that in your view going forward that the most significant risk for Actuarial Practice is "Providing information which adequately reflects the uncertainties arising from tougher economic conditions may be challenging for actuaries". Future priorities of the FRC should be directed towards addressing this. We require our members to follow the technical

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actuarial standards published by the Board for Actuarial Standards (BAS). Yet, looking back over its three years of operation it has yet to produce a standard which actuaries are required to follow but the separate body, the Professional Oversight Board (POB), has published its “Actuarial Quality Framework”. This document is useful background but does not directly impact on the risk identified.

The POB has been rightly critical of our own slow progress in producing a new principles-based format for our primary ethical requirements for our members but as we are shortly to move to a final consultation stage we are hopeful that this will be delivered in the summer. While the delay is regrettable it has not, in our view, led to increased risk because during this time members have been required to comply with our Professional Conduct Standard. This might be over-wordy and prescriptive but does require a high standard of conduct.

We suggest that valuable activity could take place related to Outcome Six in the following areas:

- Objective and comparative risk analysis across the range of FRC responsibilities in order to target resources appropriately
- Improved engagement with the users of actuarial services to better identify risks and needs
- Review of the status and composition of the Stakeholder Interests Working Group
- Follow-up evaluation of regulatory intervention/activity
- Improved regulatory impact assessment and more cost/benefit analysis
- Co-ordination of requirements (if not single standards) in relation to BAS and ASB requirements for the financial statements of insurance companies and pension schemes
- Promotion to other regulators of the value of having members of professional bodies working in the area of risk management in financial institutions

The Actuarial Profession is small and comprises two bodies (the Faculty and the Institute) who only have 6,500 qualified members working in the UK. The Profession regulates individuals not firms, and is financed by its membership subscriptions and income from educational and training activity. We remain concerned that our financial contribution to the FRC has increased in three years by nearly 45%. We seek assurance that it will not increase further. Whatever the funding basis for the FRC it is essential that it controls its costs and focuses its activity on that which it believes is essential.

The Profession entered into its relationship with the FRC on a voluntary basis in April 2005. One of the reasons why we agreed to have public interest discipline cases involving actuaries undertaken by the Accountancy and Actuarial Discipline Board (AADB) was that we could see much merit in having the same investigation and Tribunal consider matters where both actuaries and accountants are involved. It is not clear to us that under the operation of the two separate

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schemes that this would be the case. As a result there is a downside risk that if there were such a matter and that it was handled differently because of the professional membership of the individuals concerned that it would undermine public confidence in the regime. We would like to see finding a means of achieving this integration as one of AADB's priorities in 2009/10.

We would, of course, be happy to discuss our views further at one of our regular meetings.

Yours sincerely

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Chief Executive

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