



Institute of Actuaries of Australia

30 September 2008

Ms Christina Trickett
Professional Oversight Board

Ms Emily Brown
Financial Reporting Council

5th Floor Aldwych House
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Dear Christina and Emily

Comments on FCR Paper on Promoting Actuarial Quality Comments of POB Paper on Monitoring and Scrutiny of Actuarial Work

I refer to the above two Discussion Papers and the meetings I attended at the FCR in London in June this year that were arranged by Mr Paul Kennedy. Amongst other matters, we discussed the above two Discussion Papers and it was requested that the Institute of Actuaries of Australia (the Institute) consider providing comments on them.

As a result of this request, the discussion papers have been considered within the Institute, including by a number of our industry and practice area focused Practice Committees.

We observe that the overall direction taken in the UK by the actuarial profession, the UK Institute and Faculty, the regulators and legislators has significant differences from that which has been taken in Australia in recent years. There are many substantive and subtle difference between the two in terms of the interaction of the actuarial profession and the regulators and indeed the audit profession; the structure of our regulators; the relative standing and interlinking of professional and regulatory standards; the approval, appointment, monitoring and sanctioning of actuaries and actuarial behaviour; the role of the actuary and auditor; and the interaction of general purpose financial statement reporting, regulatory reporting and regulatory capital requirement assessments.

As consequence the lesson and observations from our Australian experience have restricted applicability to the current and prospective UK regime.

Nonetheless, we have a few comments we hope will of relevance and interest.

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Comments & Observations

The Institute broadly supports the high level aims of the two streams of activity.

Nonetheless, we suggest that it may be appropriate to take some initial steps and assess their effectiveness, before considering more intrusive regulation which may prove excessive. It is difficult to step back from regulation once implemented.

Generally, the FRC Paper's main "drivers of actuarial quality" appear to us to be conceptually useful, particularly where professional quality may be challenged by political and other influences.

One area of concern we would raise is that the papers suggest a narrow view of "actuarial work" (focused on modelling, financial reporting etc) and promote a "one size fits all" approach to defining quality.

The full range of actuarial work undertaken today (including, for example, non-modelling based advice and advice in developing market areas such as ERM) suggests that different levels of quality assurance requirements can be appropriate. This is important from at least two perspectives:

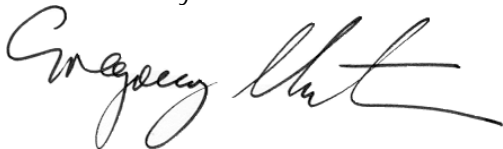
- In the absence of such a focus, excessive regulatory requirements may be imposed with significant attending economic costs without sufficient evidence of harm to be avoided or public interest to be promoted; and
- In non-statutory areas of actuarial work at least, actuaries will be competing with other professions and an excessive or unjustifiable regulation overlay may ultimately undermine the intended result (driving clients to non-regulated advisers).

There should be appropriate monitoring and scrutiny of actuarial work but the level of this should depend on the work undertaken:

- For example, there needs to be a clear delineation of the "reserved" role that can be heavily regulated (including compulsory external peer review, as evidenced in the Australian general insurance regulatory regime). As noted above, mandating peer reviews outside of such arenas may lead to other less regulated professions providing the required service.
- Consideration of financial significance, the role of other parties (e.g. auditors) and realistic advice variability given the nature of the advice and the standards that apply, are also relevant. We do not have mandatory peer review in Australia in life insurance largely reflecting consideration of these issues and our prudential regulator appears to be reconsidering its use of the one size fits all approach. Inter alia, a one size fits all approach can be a barrier to entry and/or innovation.

Please do not hesitate to contact the Chief Executive, John Maroney (+ 61 2 9233 3466; email: john.maroney@actuaries.asn.au) if you wish to discuss any of our comments.

Yours sincerely



Greg Martin
President