



**BOARD FOR ACTUARIAL STANDARDS**

**SCOPE & AUTHORITY OF TECHNICAL STANDARDS**

**NOVEMBER 2009**

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# SCOPE & AUTHORITY OF TECHNICAL STANDARDS

As set out more specifically in this document, compliance with all relevant Technical Actuarial Standards is compulsory for Actuaries (as defined in paragraph 8) operating within the geographic scope of Technical Actuarial Standards (as set out in paragraph 13) and responsible for the work in question (as described in paragraph 27), except to the extent of any departures and exemptions permitted or required (as set out in paragraphs 23-24). Technical Actuarial Standards labelled “Generic” apply to work specified in the Schedule to this *Scope & Authority*.

## HISTORICAL CONTEXT

- 1 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 setting technical actuarial standards.<sup>1</sup> The FRC created an operating body, the Board for Actuarial Standards (BAS), to fulfil that obligation. Further details regarding the role of the BAS, the composition of its Board and the nature of its work can be found on the FRC website at [www.frc.org.uk/bas](http://www.frc.org.uk/bas).
- 2 In addition to the technical actuarial standards under development by the BAS, there are a number of Guidance Notes (GNs) which were issued by the Actuarial Profession<sup>2</sup> before the BAS came into existence. With effect from 19 May 2006 (and, in some case, 6 April 2007), the BAS adopted a total of 37 of the Actuarial Profession’s GNs. A further eight GNs were retained by the Actuarial Profession and remain under their authority and control. The GNs adopted by the BAS can be found on the FRC website.
- 3 The 37 GNs adopted by the BAS will be deleted over time by the BAS as new standards are introduced to replace them. In the meantime, they continue to be known as GNs. Where necessary, the legacy GNs will be revised, remaining under the GN banner, if a change is deemed necessary before the replacement standard has been developed. Some of the legacy GNs may be deleted without replacement if the BAS determines the GN to be obsolete or out of scope.

## INTRODUCTION

- 4 Technical standards developed by the BAS are designated Technical Actuarial Standards (TASs).
- 5 This *Scope & Authority of Technical Standards* relates to such TASs and, where stated, to the GNs adopted by the BAS. This document explains the authority,

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<sup>1</sup> HM Treasury also asked the FRC to take on responsibility for oversight of the UK Actuarial Profession, which the FRC carries out through a separate operating body, the Professional Oversight Board. This document relates only to pronouncements of the BAS.

<sup>2</sup> The Actuarial Profession is the name by which the Institute of Actuaries and the Faculty of Actuaries are known when working together. At the time of writing this document, the Councils of the Institute and of the Faculty have recommended to their members a merger of the two bodies, but no decision has yet been taken. Pending any revisions to this document to reflect such a merger, references in this document to “The Actuarial Profession” and to an “Actuarial Professional Body” include any successor body.

scope and application of TASs and GNs. It also describes the procedure by which the BAS issues new standards.

- 6 TASs are developed in line with the *Conceptual Framework for Actuarial Standards* published by the BAS. As stated in that document, the *Conceptual Framework* itself is not a standard. The *Conceptual Framework* exists to provide coherence and consistency to TASs. The *Conceptual Framework* does not create or impose any requirements on actuarial work. It is only when material appears in a TAS (or in a GN) that it becomes a requirement. The Compliance section of this document addresses the status and enforceability of TASs and of GNs adopted by the BAS.
- 7 The BAS may make pronouncements other than TASs or legacy GNs, for example Statutory Money Purchase Illustrations (known as TM1) and, potentially, bulletins on emerging issues. This *Scope & Authority* applies only to TASs and GNs. The authority, scope and application of any other BAS pronouncements are, or will be, identified in those documents themselves (as they are in TM1).

## INTERPRETATION

- 8 The following terms have a particular meaning in this document, regardless of their meaning in other documents or in ordinary English usage.

**Actuarial Professional Body** means either or both of the Institute of Actuaries and the Faculty of Actuaries in Scotland and any successor body in the event of a merger (see footnote 2 on page 3).

**Actuary** means any individual who is subject to a disciplinary scheme of an Actuarial Professional Body.

**Specific Technical Actuarial Standard** (and **Specific TAS**) means any TAS which is not designated by the BAS as a Generic TAS.

Some TASs are designated as a **Generic Technical Actuarial Standard** (or **Generic TAS**). This designation indicates that the standard applies to work specified in the Schedule to this *Scope & Authority*.

Unless defined otherwise in a TAS, matters are **Material** if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing Materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.

**Reliability Objective** means the objective that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

**Required Work** has the meaning ascribed to it in paragraph 15 below.

**Reserved Work** has the meaning ascribed to it in paragraph 17 below.

**Required But Not Reserved** refers to work which falls within the class of Required Work, but is not Reserved Work.

- 9 These terms are used in this document with the initial letters capitalised. Italics are used for emphasis or, as will be clear in the context, to refer to the

names of documents. In this document, italics do not denote defined terms. This is a departure from the practice adopted by the Actuarial Profession in its GNs, including those adopted by the BAS.

### **AUTHORITY OF BAS PRONOUNCEMENTS**

- 10 The authority of BAS standards derives from the powers of those bodies which decide to recognise BAS standards and adopt any or all of them as a requirement imposed on individuals or entities which the body in question has power over. Specifically:
- The disciplinary schemes of the Actuarial Professional Bodies and the Accountancy & Actuarial Discipline Board recognise the authority of BAS standards by providing that any departure from a BAS standard may amount to misconduct, rendering the Actuary liable to disciplinary action.
  - The regulatory regimes for pensions and for insurance have recognised certain BAS standards for the purposes of requirements imposed on the entities they regulate.
  - Compliance with BAS standards is likely to be taken into account when the adequacy of actuarial work is being considered in a court of law or in other contested situations.

### **SCOPE AND APPLICATION OF TECHNICAL ACTUARIAL STANDARDS**

- 11 Any TAS developed by the BAS will be targeted at work (or a class of work) that is commonly (but not necessarily exclusively) performed by Actuaries. The relevant area of work will be identified within the TAS.
- 12 Even though an entity, a firm or an individual who is not an actuary may not be obliged to apply BAS standards, the BAS recognises that:
- employers or clients of Actuaries may agree to make it a contractual condition that a particular piece of work be carried out in compliance with one or more stated TASs (which may be either Generic TASs or Specific TASs), so long as the standard(s) are relevant to the work;
  - other regulators may make it a requirement of their regulatory regime that an entity or an individual adopts one or more stated TASs (which may be either Generic TASs or Specific TASs), so long as the standard(s) are relevant to the work; and/or
  - entities or individuals who are not Actuaries may apply TASs voluntarily and, if they do so, may assert that the information they have produced complies with TASs published by the BAS.
- 13 The BAS develops TASs in the context of UK legislation and regulation. The geographic scope of TASs is, therefore, limited to work done in relation to the UK operations of entities and any overseas operations which report into the UK within the context of UK legislation or regulation. This definition of scope applies regardless of the location or domicile of the person carrying out the work.
- 14 If a TAS is applied in relation to work which falls outside the geographic scope described in paragraph 13, those making the decision to apply the TAS must take responsibility for ensuring that the TAS is appropriate in the local conditions.

**REQUIRED WORK**

- 15 Some work carried out by Actuaries is undertaken in order that the entity commissioning the work complies with regulations, or with some other legal obligation, that require the entity to have the work carried out (or make certain outcomes conditional on the work having been carried out). Such work is referred to in this *Scope & Authority* as Required Work.
- 16 For the purposes of this definition of Required Work:
- a) The term *regulation* is used with its ordinary English meaning of a rule or order issued by an appropriate authority. This definition embraces primary and secondary legislation (Acts of Parliament and Statutory Instruments) and also pronouncements by those with executive authority to make binding statements.<sup>3</sup>
  - b) The *legal obligation* referred to above is the obligation on the *entity* to commission the work, as found for example in a pension scheme trust deed or an insurance policy contract. It is not the obligation on the individual(s) who carry out the work. The creation of a contract between an entity and one or more individuals to carry out the work does not make the work “required”.

**RESERVED WORK**

- 17 In some cases of Required Work, the regulations or other legal obligation require the entity in question to commission the work from an individual who holds a prescribed qualification (usually Fellowship) from an Actuarial Professional Body. Such work is referred to in this *Scope & Authority* as Reserved Work.
- 18 For the purposes of this definition, Reserved Work does not include:
- a) work assigned by regulations to the holder of a unique post;<sup>4</sup> or
  - b) monitoring the work of another Actuary.
- 19 There may, however, be circumstances where an entity is required to commission some Reserved Work and elects to commission a unique post-holder to carry out that work. That work remains Reserved Work and TASs apply to that work exactly as if the entity had elected to commission any other Actuary.

**COMPLIANCE WITH TECHNICAL ACTUARIAL STANDARDS**

- 20 TASs are intended to assist in the achievement of the Reliability Objective. In applying TASs, it is important to be guided by the spirit and reasoning behind them, as well as following any detailed rules. The spirit and reasoning (as well as any rules) are set out in the individual TASs.

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<sup>3</sup> This definition *includes*, for example, accounting standards. The definition does *not* include Codes of Practice published by the Pensions Regulator, but these Codes often refer to other documents (eg legislation and statutory instruments) which *are*, of themselves, regulations.

<sup>4</sup> A “unique post” is one for which the post mentioned in the regulations exists uniquely, for example the Government Actuary, PPF Actuary or Lloyd’s Actuary. Scheme Actuary and Actuarial Function Holder are not unique posts, because there are many of them, notwithstanding that each pension scheme or insurance company has only one.

- 21 Compliance with all relevant TASs is compulsory for Actuaries, except to the extent of any departures permitted or required by paragraphs 23-24 below and disclosed in accordance with the requirements of paragraph 22.
- 22 Particulars of any Material departure from a TAS should be identified in the document which communicates the results of the work to which the TAS applied. The reasons for the departure should be stated, together with the further disclosures required by paragraphs 24(b)(iv) and 24(c)(ii). It is important that the document should not be passed on to intended users of the information without all the information relating to the departure being included. A statement to this effect should be included, in appropriate terms, in the document itself so that readers of the document are made aware of the point.
- 23 To the extent that departures from a TAS do not have a Material effect on the results of the work in question, they need not be considered as departures and they need not be disclosed.
- 24 Further departures from a TAS are permitted or required as follows:

**a) Reserved Work**

- (i) There may be extremely rare circumstances in which the Actuary responsible for a piece of Reserved Work concludes that compliance with all the requirements of a particular TAS would be so wrong or misleading that it would conflict with the Reliability Objective.

In such cases, the Actuary *should* depart from the requirements, but only to the minimum extent necessary to remove the conflict with the Reliability Objective. Informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with the actuarial and commercial characteristics of the circumstances concerned, as well as consistent with the Reliability Objective.

- (ii) In addition, there may be circumstances in which compliance with a TAS would result in a failure to meet the legal or contractual obligation that governs the Reserved Work. In such cases, the Actuary *may* depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.

**b) Work that is Required But Not Reserved**

- (i) The departures required in rare circumstances by paragraph 24(a)(i) above are required also in relation to work that is Required But Not Reserved.
- (ii) In addition, there may be circumstances in which compliance with a TAS would result in a failure to meet the legal or contractual obligation that governs the Required Work. In such cases, the Actuary *may* depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.
- (iii) In addition, there may be circumstances in which the Actuary responsible for a piece of work concludes that the objectives for which the work was commissioned would be better met by departing from

some of the requirements of a relevant TAS. In such cases, the Actuary *may* depart from the requirements so long as the departure is identified, the reasons for the departure are given and the result is consistent with the Reliability Objective.

- (iv) Where it is feasible to do so, without adding disproportionately to the costs, the document which communicates the results of the work should include a quantification of the effect of any departure permitted by paragraph 24(b)(ii) or, in the case of qualitative information, the implications of the departure.

**c) All other work**

- (i) The departures required in rare circumstances by paragraph 24(a)(i) above are also required in relation to all other work.
- (ii) The departures permitted by paragraph 24(b)(iii) above are also permitted in relation to all other work, provided that disclosures are made as set out in paragraph 24(b)(iv).
- (iii) In addition, those responsible for commissioning work may instruct the Actuary responsible for carrying it out to depart from specified (or all) requirements of TASs. Notwithstanding that those who commissioned the work instructed the departure(s), the disclosure requirements set out in paragraph 22 above still apply (but not those required by paragraph 24(c)(ii)).

**ACTUARIES WORKING IN CONJUNCTION WITH OTHERS**

- 25 As noted in paragraph 10, the authority of BAS standards derives from the powers of those bodies which decide to recognise BAS standards, not from the BAS itself. In some cases, the authority derives from the regulatory regime governing the entity which commissions work from the Actuary and the TAS applies, therefore, to the entity.
- 26 In other cases, however, for example in relation to disciplinary action taken by an Actuarial Professional Body, the authority is solely over Actuaries, not over the entity that commissioned the work from the Actuary. Where the authority is over the Actuary, not the entity, and one or more Actuaries work alongside non-Actuaries, the Actuaries are required to apply TASs only to the extent that one or more of the Actuaries is responsible for each part of the work for which a TAS is relevant.
- 27 For this purpose, an Actuary is defined as being “responsible” for (part of) the work, if he or she has the authority to determine, or to veto, the content of (the relevant part of) the final work product, whether or not any other individual also has an equivalent authority, or power of veto, over the work. This is a matter which, in the event of an allegation of misconduct or negligence, may have to be determined by the appropriate tribunal.
- 28 For the purposes of the BAS’s definition of “responsible”, being a signatory or a joint signatory of the work would normally be strong prima facie evidence that the individual had the authority to prevent, or to disclose, departures from TASs. But delegating the role of signatory to another person would not, of course, prove that someone other than the Actuary was responsible for the work.

**COMPLIANCE WITH LEGACY GUIDANCE NOTES**

- 29 The GNs published by the Actuarial Profession were classified as Practice Standard, Recommended Practice or a combination of the two. That same classification has been retained by the BAS unaltered in relation to the GNs adopted by the BAS and the meaning associated with those classifications remains unchanged, as set out below.
- 30 A GN adopted by the BAS and classified as Practice Standard is mandatory unless the Actuary can show that any departure from strict compliance with any aspect of the GN had been adequately disclosed and that there was reasonable justification for the course of action in question.
- 31 A GN adopted by the BAS and classified as Recommended Practice is not mandatory. The contents are recommendations only.

**THE DEVELOPMENT OF TECHNICAL ACTUARIAL STANDARDS**

- 32 Topics that become the subject of a TAS are identified by the BAS either from its own research or from external sources, including submissions from interested parties. In particular, the BAS liaises regularly with the Actuarial Profession regarding areas of practice for which new standards may be required.
- 33 When a topic is identified by the BAS as potentially requiring the issue of a TAS, the Board commissions its staff to undertake a programme of research and consultation. This programme involves consideration of and consultation on the relevant conceptual issues, existing pronouncements and practice in the United Kingdom and overseas and the economic, legal and practical implications of the introduction of particular actuarial requirements.
- 34 When the issues have been identified and debated by the BAS, a consultation paper is normally produced and notification of it is circulated to relevant parties, including actuaries and those who have registered their interest with the BAS.
- 35 In the case of a new TAS or substantial revisions to an existing TAS, the first consultation document normally identifies the relevant issues, together with one or more policy options and questions on which the BAS would like respondents to express their views. Once the BAS has given due consideration to the submissions received, it develops and publishes an exposure draft of the proposed content of the TAS. Respondents are invited to comment on the content and also to indicate their views on the time needed (if any) to prepare for implementation of the TAS.
- 36 Where exposure drafts would cause changes to be made to other previously issued publications, any such consequential changes will be identified.
- 37 The text of the proposed TAS will be refined in the light of feedback on the exposure draft. If the BAS deems it necessary, there may be a further period of public or selective exposure prior to the issue of the TAS. Once the text has been finalised and approved by the BAS, the TAS will be published including an announcement of the start date. As a practical matter, the start date will be set sufficiently into the future to enable those who will be affected by the standard to prepare for its implementation.
- 38 Written representations received in response to public consultations and exposure drafts are given full and proper consideration by the BAS, and will

be published on the FRC's website, unless the respondent requests confidentiality. Although the BAS weighs carefully the views of interested parties, the ultimate content of a TAS must be determined by the Board's own judgement based on research, public consultation and careful deliberation about the benefits and costs of providing the resulting information.

- 39 In the case of minor revisions to an existing TAS, or revisions required to reflect changes in external circumstances which leave no real scope for debate about the required revisions, the BAS may proceed straight to an exposure draft. In rare cases, where the revisions are of such a minor nature that even an exposure draft is unnecessary (for example because the change relates to a legislative cross-reference which has been altered), the BAS may proceed straight to an amended version of the TAS without any public consultation.

### **UNFORESEEN CIRCUMSTANCES**

- 40 It is conceivable that unforeseen circumstances may arise in which it becomes a matter of some urgency that a new standard should be written or an existing standard amended. In the event of such an occurrence, the BAS will issue an "Urgent Issue TAS", adopting an expedited development process commensurate with the urgency of the circumstances (and an early review – see paragraph 47 below).
- 41 Unless stated otherwise in the Urgent Issue TAS, it will have the same scope and authority as set out in this document.

### **TECHNICAL ACTUARIAL STANDARDS AND THE LEGAL FRAMEWORK**

- 42 In deciding the most appropriate treatment, the BAS must consider the environment in which its standards are to be applied. The legislation which reporting entities must comply with forms an important part of that environment. Accordingly, TASs are drafted in the context of prevailing United Kingdom legislation and European Union Directives with the aim of ensuring consistency between actuarial standards and the law. More specifically, the BAS will take account, where appropriate, of the regulatory requirements of the Financial Services Authority, the Pensions Regulator and any other relevant regulatory body.

### **EARLY ADOPTION OF TECHNICAL ACTUARIAL STANDARDS**

- 43 Some individuals or entities may wish to comply with a standard in advance of the published start date. In some circumstances this is acceptable and is to be encouraged if the individual or entity concerned does not need the full amount of time allowed to prepare for implementation.
- 44 There are, however, occasions when early adoption is not appropriate. This would typically be the case when, for example:
- a) compliance with the new standard would put the entity in breach of the existing standard; and/or
  - b) a standard is to come into force in parallel with other events, such as a change in legislation, without which the adoption of the standard would be premature.
- 45 When announcing a new standard, the BAS will normally indicate whether early adoption is appropriate or not.

## REVIEWS OF EXISTING TECHNICAL ACTUARIAL STANDARDS

- 46 TASs are issued against the background of a business environment that evolves over time. Once published, the BAS will keep TASs under review. The BAS will liaise in particular with the Actuarial Profession, the relevant financial regulators and users for their comments on the continuing effectiveness of standards. The BAS welcomes comments from others who may wish to make direct representations.
- 47 It will normally be appropriate to allow new TASs a period in which to become established before commencing a review. For some standards, a substantial period of time may be needed before their effectiveness can be judged, but there may be reasons why an earlier review is appropriate in some cases, especially so in the case of an Urgent Issue TAS (see paragraphs 40-41 above).

## SCHEDULE

- 48 The Schedule referred to in the definition of “Generic TAS” in paragraph 8 of this *Scope & Authority* is set out on the following page.

Approved with effect from 30 November 2009.

### *Scope & Authority*

<i>Version</i>	<i>Effective from</i>
1	31 July 2008
2	30 September 2009
3	30 November 2009

## SCHEDULE

For the purposes of the definition of “Generic TAS” in paragraph 8 of this *Scope & Authority*, the specified work to which a Generic TAS applies is as follows:

Work which falls within the scope of one or more Specific TASs.

Reserved Work.

Any work which is presented as complying with TASs whether expressly or by implication.

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