

## COMMENTS ON THE PROPOSED FRAMEWORK FOR TECHNICAL ACTUARIAL STANDARDS

### Introduction and overview

There is much that is cumbersome about the current TASs. The new framework suggests a real improvement. Despite BAS setting out with the goal of principles-based regulation, it was difficult to see how the subsequent TASs matched that aspiration. (Or, to put it another way, how much different would, or could, the TASs have been if BAS had opted for a rules-based approach?)

I participated in a number of workshops organised by the FRC during the development of TAS 100 and have made a number comments, some of which I see reflected in the current draft (indirectly, if not directly). There are, however, two issues that remain which are of concern to me: the failure to provide any rationale at all for the very significant increase in regulation now being proposed; and the failure of the generic actuarial standard to address matters which are actuarial. The bizarre result is a wide extension of regulation to actuaries and actuarial work without addressing the issues that are actuarial.

### There needs to be a reason for change (Q4.1)

I don't think it should be controversial for me to suggest that the proposal to extend the generic TAS to all actuarial work needs to be supported by a reason. I have made this point in private to the FRC and also publicly in an article.<sup>1</sup> Sadly, it has not been taken up

The closest that the consultation paper gets to a reason is in paragraph 4.5 where the FRC says that practitioners are comfortable with the existing TASs and not encountering resistance from users. I should jolly well hope not! If users were resistant, there would need to be a winding back of the scope. But the absence of resistance does not imply that an extension is required – certainly not to new users and new areas where the TASs haven't been applied in the past and where resistance hasn't been tested.

Paragraph 4.6 argues that TAS 100 contains the minimum requirements for actuarial work to be professional and competent, which the FRC considers users have the right to expect. Quite apart from the fact that the draft TAS falls well below that target (for reasons I explain below), no reason is given why a compulsory standard is required in order to deliver that goal. It has *always* been true that (self)-regulators of actuaries have considered that actuarial work should be professional and competent, but it has *never* hitherto been the case that a standard was imposed on all actuarial work.

So what has changed? The FRC doesn't seem to want to tell us.

To be clear, I am not suggesting a very high hurdle here. Regulators are entitled to make decisions that are judgemental; the decisions may be finely balanced; they may even be controversial. I am simply asserting that there needs to be something which is recognisable as a "reason" that a right-thinking regulator could plausibly arrive at in the circumstances.

The need for an explanation is all the more important since the FRC addressed this issue once before and come to the opposite conclusion. In the Conceptual Framework for Technical Actuarial Standards, published in July 2008, the FRC concluded that the scope – even for Generic Standards – should not stretch as far as all actuarial work. That stance was not, of course, set in stone. The FRC is entitled to reconsider the matter and to decide that the decision made last time around can be improved upon (whether or not there has been a change in the underlying circumstances).

But, in the interests of good regulation, those affected by the new decision are entitled to be told why the previous thinking has been overturned. Indeed, one might expect that the FRC would want to demonstrate why the new thinking is an improvement, so as to avoid looking capricious.

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<sup>1</sup> <http://www.theactuary.com/features/2014/03/is-regulation-still-good-for-us/>

### **Scope of TAS 100 (Q4.2)**

In light of the above, the FRC might at least consider making an exception so that TAS 100 does not need to apply to:

***non-reserved*** work for which the person commissioning the work has (a) been given prior notice that the work may not comply with TAS 100 and (b) been given the opportunity to instruct that the TAS should be complied with and declined that opportunity.

Where this exception has been taken advantage of, the work itself should include a statement to that effect.

### **Will TAS 100 prove to be a useful document? (Q5.11)**

The ideas in TAS 100 all seem very sensible. They also seem widely applicable – so wide, in fact, that it is hard to see why the proposed standard has been labelled “actuarial”. It seems equally applicable to any work involving data or modelling, from business planning to weather forecasting, from epidemiology to unemployment statistics. The FRC does not, of course, regulate all areas of data and modelling work, but it does regulate the accounting profession. Why not apply TAS 100 to all accounting work as well?

Herein lies the essential weakness in the proposed TAS: it does not address those concepts which the FRC articulated in paragraphs 4.15 of the consultation paper as constituting actuarial science, ie “combinations of financial modelling, projections of contingent events, the consideration of the time value of money, probabilities, demographic tables, analysis of risk and statistical techniques.”

One might have expected the generic *actuarial* standards to address matters such as:

- the setting of discount rates – a topic of some controversy in recent years and which has been the subject of much research within the actuarial community of late, leading to the differentiation between discount rates for “matching” calculations and those for “budgeting”;
- the determination of suitable mortality assumptions – another topic which has been much researched in recent years, especially in relation to the need to distinguish between current mortality and projected mortality; and
- consistency between the valuation of assets and liabilities – earlier this week Ashok Gupta, a member of the FRC’s Actuarial Council, gave a talk at SIAS on the need for actuaries to re-think the manner in which it delivers consistency between the valuation of assets and liabilities, in order to prevent the problems of pro-cyclicality which a recent Bank of England Report concluded had contributed to the Financial Crash of 2008.

But TAS 100 is silent on all three of these.

I would invite the FRC to consider what might be made of this, if there were ever to be another Morris-type review of the profession. Morris’s successor would look at TAS 100 and wonder whether actuarial techniques existed separately from any other profession’s and, if it does, why TAS 100 imposes regulation on actuaries and actuarial work without addressing the issues that are actuarial.

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