

**EY response to the Financial Reporting
Council Consultation on Technical
Actuarial Standard 100: Principles for
Actuarial Work**

6 March 2015

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1. About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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In the UK, we employ over 200 Students and Fellows of the Institute and Faculty of Actuaries ("IFoA") and provide advice and assurance in all of the IFoA's practice areas.

As a result of our work EY is both a user and producer of actuarial work and information.

2. Overview of our response

EY welcomes the opportunity to comment on the FRC's consultation "A new framework for Technical Actuarial Standards published November 2014" regarding the framework for Technical Actuarial Standards and specifically the proposed introduction of "TAS 100".

We have responded to the individual questions for the consultation in the following section. We have also highlighted below some of our key comments:

- We are supportive of many of the objectives underlying the proposed introduction of the amended Technical Actuarial Standards and in particular the goal of simplifying the TASs.
- We believe the existing work captured by the scope of the TASs is currently working in the industry and we are not aware that users would see additional benefit from the proposed extension in the scope of the TASs which would outweigh the additional cost.
- We note that in working for EY there are internal standards that we need to comply with in our work, deliverables and advice to clients. By having the TASs in addition to these requirements this creates more work for us to ensure we have complied with both which has no discernible extra benefit for the clients in many cases.
- We believe it is important for the TASs to appreciate the nature of the scope requested from the User of the information and that the TAS should recognise that the requested scope should be able to override the TAS requirements when appropriate.
- In relation to the proposed timing of the proposed introduction we would suggest that TAS 100 should be introduced together with the additional TASs rather than in advance. This will help avoid substantial confusion for both the actuarial profession and the users of the information.
- We note that the proposed extension of scope of the TASs to cover "actuarial work" represents an extension to the scope of the TASs which may not be proportional to the work involved. In particular for actuaries within industry where frequent requests are made for small pieces of work which involve actuarial science. This has the potential to create a substantial overhead which will not benefit the users of the information. In practice this may have less impact on our work as consultants due to the nature of our work.
- The proposed extension of scope of the TASs to cover all "actuarial work" also has the potential of discouraging the use of actuaries to address work where their skills may be useful and relevant but where the work is not exclusively performed by actuaries. This may be most relevant in areas which have not traditionally employed actuaries to perform these tasks.

3. Responses to questions

Our answers to the specific questions in the consultation paper are as attached:

Q3.1 Do you have any comments on the draft *Framework for FRC Actuarial Standards* (paragraphs 3.5 to 3.8 and Appendix A)?

We agree that the suggested consolidation of the existing TASs is a potentially good proposal to make it easier for users to understand and for actuaries to consider whether their work is compliant.

We note though that the existing framework largely appears to be working and that with many other changes happening (particularly with Solvency II within the Insurance Industry) that it may be simpler to delay making any changes until these new regulations are in place.

The document itself is generally clearer than the preceding Scope & Authority.

Q3.2 Do you have any comments on our proposal to withdraw and archive the existing *Scope & Authority* (paragraphs 3.26 to 3.29)?

Assuming that the proposed Framework for FRC Actuarial standards is introduced then we agree it would make sense to withdraw and archive the existing Scope & Authority to avoid any confusion.

We note however that consideration needs to be made about what happens with work that starts before the new Framework applies but is not completed. In this case clarity is needed regarding what Framework the actuary should be compliant with, if this is the existing Scope & Authority then the document should not be withdrawn until later (eg ongoing at the introduction date for around 3 months or so after the introduction of the new Framework).

Q3.3 Do you have any comments on our proposed approach to the Significant Considerations documents (paragraphs 3.30 to 3.31)?

We would agree with respect to the proposals for the Significant Considerations document as we no longer refer to these.

Q4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.

We believe there is currently some confusion by users regarding what is in and out of scope under the existing TAS framework. By consolidating into one document as proposed for what is in scope we believe this is useful (rather than spread across the Insurance TAS, Pensions TAS etc).

We are however not convinced that the proposed extension beyond the existing requirements to cover all actuarial work would be of benefit to our clients who are users of actuarial work.

- We are not aware in any discussions we have with users of actuarial work that they would like more work to be incorporated within the scope of the TASs.
- Where any bespoke work does occur that was not in the scope of the existing TASs and the user was keen for the work to be performed under the scope of the TASs the user could request this from the actuary.
- There are a lot of small pieces of work that are performed by actuaries which would fall under the definition of actuarial work and lead to the requirement to be compliant with TAS 100. This will mean that in some cases the information provided to the user may take more time and less may be achieved by the actuary in a given period of time as a result of ensuring compliance. We note that this is more likely to affect actuaries working in industry in their day to day roles supporting the business and

lots of small ad-hoc pieces of advice where strict compliance would have and time and cost impact. Given the small size of this work, we do not believe that TAS compliance could be achieved in a way that is proportionate to the size of the underlying piece of work.

- We would also note that actuarial presentations and papers presented at educational conferences/seminars etc may also fall under the scope of the TASs as they would be based on actuarial work and it is not clear if this is the intention of the update. We believe it would be useful for this to be specifically excluded. (We also note that it is also not always clear in this situation who the “user” would be if in fact there are any as often there is a specific comment to the extent that the material cannot be relied upon).
- Finally, we are concerned that the extension to all actuarial work will cover tasks which are currently not exclusively performed by actuaries; which would then introduce different standards according to who is performing the work. This is of particular relevance where an actuarial qualification is not commonly held by the individuals performing the task; and may lead to either operational complexity (in that differential standards are applied) or a preference for non-actuaries over actuaries to complete the work. Our response to Q4.2 discusses this point further.

Q4.2 Do you agree with the proposed definition of actuarial work? If not please provide reasons and suggest an alternative approach (paragraph 4.11). & Q4.3 Do you agree with the analysis of different areas of work in Appendix E?

We would agree that it is very hard to define what actuarial work is. We note that the definition itself is relatively easy to understand but we would draw attention to our comments in Q4.1 that we believe that this extension in scope for the TASs is unlikely to be beneficial.

In addition, we think it should be clear that work that can be competently done by non-actuaries, even if it is typically done by actuaries, does not necessarily fall under the definition of actuarial work. For example, a statistician applying an existing (perhaps third party) investment model.

We agree that:

- Work stated as complying with the TASs should comply with the TASs.
- Mechanical calculations with no judgement should not be required to comply with the TASs
- Programming should not be required to comply with the TASs
- The suggestion that the review of another actuary (but not internal peer review) should be in scope when it involves performing actuarial calculations to review the work.

The suggestion of including financial modelling in banks being in scope when it involves judgement is unlikely to be useful to the users. This is likely to create demand to use non-actuaries rather than actuaries to perform these calculations which in itself is unlikely to be useful to the users or in the public interest and goes against the initiatives to increase actuarial presence in wider fields. Similarly, E.24 is another example where extending the scope may create demand for non-actuaries over actuaries.

We agree that it is sensible not to require the routine work of a trustee (even when performed by an actuary) to fall within the scope of actuarial work.

Much of the work that is currently not in the scope of the existing TASs would involve small miscellaneous pieces of work supporting businesses. For these small pieces of work which may often be communicated via email or a very short note it seems impractical to then require compliance with TASs in all these circumstances.

There is no comment in relation to presenting material at conferences (either internal to a firm or external) or writing actuarial papers. It would be useful to confirm whether the intention of the TAS is to include these within the scope of the TASs.

Q5.1 Do you agree with the proposed high-level principles (paragraph 5.3)?

We believe that the proposed wording, expressed in absolute terms, is overly simplistic for such a topic.

The definition that the user can “rely” on the actuarial information arising from models is a very complex area. There is a danger in the current proposed wording that the user of the information might anticipate that when the actuary has performed their work that they can then “rely” on the information without understanding the context and limitations of the work when making their decisions.

We note that the definition of the user is also key to the interpretation of the high-level principles. In particular what consideration should the actuary make in complying with the TAS around the specific nature of the user (for example if the user is a qualified actuary can it be assumed that the user will understand actuarial concepts and so these do not need to be explained?).

In some areas (eg data and models) it would be useful to have more clarity that the actuary can be assumed to rely on information in certain circumstances as long as this is clearly stated within the communication provided to the users. Specific examples would be that if the scope of the work had specifically agreed that data items could be relied on then it would not seem useful to the user to require the actuary to then do additional work around data which they would not value.

Q5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

We believe they are broadly reasonable although it would be useful to provide clarity on what the actuary can “rely” on as long as they provide a clear explanation to the user. In particular to make clear that the actuary does not need to “audit” the data to be able to perform their work. This will help avoid confusion and misunderstanding about the extent that the actuary needs to go to verify the reliability of the data.

For example, in our experience it is common for clients to agree with us a scope of work which excludes the performance of activities to review the data being provided. In such circumstances we believe that the clients’ requirements should be paramount.

Q5.3 Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?

We believe it is very important that the proposed provisions consider the scope of work the actuary has been asked to perform. For instance there may be circumstances where the user does not want the actuary to see previous assumptions used to provide a fresh independent view or where confidentiality reasons means it is not possible to see results of previous analysis. These are some of many examples that could be shown where the requested scope may mean that areas of the TAS cannot be complied with. It would be useful to explain within the TAS how the actuary should respond to this situation.

Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling (Appendix B)?

We believe it is very important that the proposed provisions consider the scope of work the actuary has been asked to perform which could put the actuary in a position of not being able to comply with the TAS requirements. It would be useful to explain within the TAS how the actuary should respond to this situation.

An example of this is a suggestion in paragraph 4.4 that changes in the model since a previous version run should be commented on. As a consultant in some cases we are performing work that was previously performed by a different consultant and we do not access to the details of the model that was previously run (or in some cases even the results of the previous model). We believe it would be useful to specifically exclude this as a requirement within TAS 100.

Q5.5 Do you agree with the proposed provisions in TAS 100 on communications (Appendix B)?

The comments in question 5.4 also apply to question 5.5. In addition we note the following:

There is a suggestion in paragraph 5.4 of TAS 100 that changes in the model since a previous version run should be communicated. As a consultant in some cases we are performing work that was previously performed by a different consultant and we do not have access to the details of the model that was previously run (or in some cases even the results of the previous model). We believe it would be useful to specifically exclude this as a requirement within TAS 100.

We believe it would be useful to confirm within the TAS what the requirement for communication of issues to a user when a full report is not possible in advance of the user making their decision due to time constraints.

We note that under both the existing TAS regime and the proposed TAS 100 it can often be difficult to determine how best to meet the requirements when part of a larger team including non-actuaries. Specially, where we perform work as part of a larger multi-disciplinary team it can often be difficult to isolate the “actuarial” element of the final deliverables and advice and how this can be separately captured. We believe it would be useful to have explicit guidance on this point within the TAS.

In conjunction with this we note that in working for EY there are internal standards that we need to comply with in our work, deliverables and advice to clients. By having the TASs in addition to these requirements this creates more work for us to ensure we have complied with both and no discernible extra benefit for the clients in many cases.

Q5.6 Do you have any comments on the application of TAS 100 (paragraphs 5.25 to 5.29)?

The determination of materiality is often a source of discussion and we believe more guidance / clarity should be provided within TAS 100 to help obtain more consistency across the industry where we see wide ranges of views taken. Also it should be made clear who determines what is material – is this the actuary, the user or a combination of both?

Similarly to materiality, proportionality is also often very difficult to determine. We believe more guidance / clarity should be provided within TAS 100 to help obtain more consistency across the industry where we currently see a wide range of views taken. Also it should be made clear who determines what is proportional – is this intended to be the actuary, the user or a combination of both?

There are often many small items of work which involve the use of actuarial science where the requirements of compliance within the TAS are not proportionate (eg explicitly commenting on compliance with the TAS). We would find it useful for this to be made clear how the actuary should respond in this circumstance.

Q5.7 Do you agree that a compliance statement should be required (paragraph 5.30)?

A compliance statement helps to ensure that consideration is given to the documents for formal reports and so we would largely support including a compliance statement within the communications made.

However, we note that for many small pieces of work this is practically difficult (Eg when the deliverable is a short email summarising a very small piece of work). For work alongside other non-actuarial practitioners as well it can be difficult to explain which elements are intended to be compliant and which are not.

Q5.8 Do you agree with the proposed approach on guidance material (paragraphs 5.32 to 5.34)?

For the TAS itself we agree that a simple document which enables clear consideration of what should be included is useful without the additional guidance in the TAS itself. However, we do believe additional guidance is very useful to provide to help actuaries in understanding how to apply the TASs. We would therefore suggest keeping FAQs or summaries explaining points in addition to the TAS itself (eg the comments on which areas of work fall within scope of “actuarial work”).

Q5.9 Do you agree with the proposal to include defined terms in a separate glossary (paragraph 5.35)?

Yes – as long as the link is given and references in the TAS itself. A website link within the TAS itself would be useful to enable users and actuaries to be able to find the glossary.

Q5.10 Do you consider the definitions of the terms in the glossary are clear (paragraph 5.35)?

We note that the definition of the user is also key to the interpretation of the high-level principles. In particular what consideration should the actuary make in complying with the TAS around the specific nature of the user (for example if the user is a qualified actuary can it be assumed that the user will understand actuarial concepts and so these do not need to be explained?).

Q5.11 Do you have any other comments on the exposure draft of TAS 100?

We generally support the clearer text from the previous set of the 3 TASs.

Q6.1 What areas of work specified in scope of the current Specific TASs do you consider should not be subject to more detailed actuarial standards (paragraph 6.8)?

We believe that the work currently within scope of the existing TASs is a reasonable set of work items to be covered by the TASs. Although as we have commented some additional clarity on the requirements would be useful.

Q6.2 What work which is not currently in the scope of the Specific TASs do you consider should be subject to the more detailed standards (paragraph 6.8)?

We are not aware of any areas of work currently not in the scope of the TASs that would benefit from inclusion within the scope.

Q6.3 Do you agree with the proposed structure of the TASs (paragraphs 6.9 to 6.12)?

Generally we believe that fewer documents are better and so the proposed structure may be reasonable. We note that until we are able to see the proposed drafts on the TAS 200 etc it is hard to confirm whether we would have any other comments on the proposed structure and content of TAS 100.

It is not clear to us what benefit the user will gain from the additional TASs beyond the proposed TAS 100. For example the existing Insurance TAS adds little beyond extending the scope of work that was to comply with the TAS-D, TAS-M, TAS-R in the existing structure and given this is not going to be included in TAS 200 there is unlikely to be much benefit of having TAS 200.

Q6.4 Do you have any other comments on the proposals for technical actuarial standards in section 6?

No

Q7.1 Do you have any comments on the proposed implementation of the new framework in Section 7?

There is likely to be confusion with the proposal to have interim arrangements when some work will be required to comply with TAS 100 and other work to comply with the previous TASs. We would suggest the system would be much clearer for both users and actuaries by having a date when all the proposed new structure should be introduced. Although this may mean slightly delaying the introduction date of TAS 100 this would be outweighed by the confusion of having the two systems operating at the same time.

In addition more clarity is required to provide guidance on what to do about work that starts under the existing regime and continues into the new regime as to what TASs the work should seek to comply with (we would suggest that it should be based on the regime in place when the work started for a short period).

Q7.2 Are the proposed interim arrangements clear (paragraphs 7.7 to 7.9)?

See comments to Q7.1,

Q8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?

No. We believe there will be the following areas of additional work that would be disproportionate:

- The inclusion of additional, potentially small pieces of work, within the scope will mean that the additional cost of confirming compliance with the TAS requirements will increase the marginal cost of these pieces of work substantially. This is likely either increase costs or lead to some of this work not being commissioned, which is unlikely to be in the user or public interest.
- For consultancies that focus on advising sponsoring employers of pension schemes, most of the work was not within the scope of the TASs. Although the broad principles of the TASs were followed, there will be a significant cost to ensure compliance.
- The existing work already within the scope of the TASs will largely be unaffected although the checking and confirmation of compliance will add an overhead in the short term which will not benefit the users.
- When the TASs were first introduced we undertook substantial training within our team and setting up processes to ensure we were compliant with the requirements. We will need to update both of these with little impact on the final outputs we are providing so the users are unlikely to see a benefit of this additional activity.

Q8.2 Do you have any comments on our analysis of the impact of the changes set out in section 8?

We believe the impact analysis understates the amount of work involved. We anticipate that the introduction of TAS 100 would involve a substantial amount of additional work for our organisation. We need to introduce training, communicate the messages to internal non-actuarial stakeholders and our clients. We also need to amend established processes to ensure that we in compliance with the updated versions of the TAS.