A new framework for Technical Actuarial Standards
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Introduction

We set out below Aon Hewitt's response to the Financial Reporting Council's consultation on the above.

By way of background, Aon Hewitt is a global company providing human resource consulting and outsourcing solutions with more than 29,000 professionals in 90 countries. We have over 400 qualified actuaries and students working either in fields which are covered by the current Technical Actuarial Standards or in wider fields impacted by the proposals.

We have concentrated our comments on those points on which you particularly welcomed views (summarised in section 9 of the consultation paper).

Summary

We are broadly in favour of the proposals, but have some reservations.

We support the move to one generic TAS and we see that this will generate an improvement in structure and content of the standard. We do note that users have become used to the separate TASs and a move to combine them will bring a further period of consolidation work, but this may not be a material burden on firms or users.

However in some respects the proposed TAS100 goes further than the existing TASs. For example the data principle has moved from the current requirement to assess the data required and how reliability can be improved, to the requirement that the data is sufficient and reliable for the purpose of that work.

In addition the broadening of the scope of the standards will not be welcomed by all (whether actuaries or users of actuarial information). Depending on how regulators seek to apply TAS100 principles, it may also create a non-level playing field between actuaries and non-actuaries carrying out the same work.

In this regard it could be argued that the exercise runs counter to the principles for development of codes, standards and guidance – because it does not satisfy the four drivers for change.

We are also not comfortable with the transition approach, and believe this is likely to cause difficulties.

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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 are happy overall with the draft framework. However we do have concerns about the widened scope. Partly this is because of the wider scope itself but also because at present there is a facility (for non-reserved/required work) for the recipient to instruct the actuary to depart from some aspects of the TAS. This would disappear with the new structure.

In addition, by including work (for example asset liability modelling) which can equally well be done by non-actuaries it creates a non-level playing field (assuming other regulators do not adopt TAS100 and users do not request compliance). See our comment on Q4.1. Those actuaries whose employers might not already encourage practices similar to those of the TASs might even be prompted to relinquish their actuarial professional status to avoid being constrained by the TASs.

Also, many actuaries in investment will be regulated by the Financial Conduct Authority and will see that as providing their framework for standards of conduct.

However asset liability modelling is an example of work that clearly has actuarial input (in determining the liability side in this instance) but for which other aspects of the task may have nothing to do with actuarial work (as demonstrated by the fact that they are done by non-actuaries). At some level it makes sense to apply TAS100 to the whole of a piece of work if a significant part of it is covered by the definition of actuarial work in order to avoid uncertainty for a user of the work.

We also have concerns about what 'guidance' will appear in the lowest level of the structure. The suggestion is that this guidance would usually be issued by FRC but might be issued by the IFoA. However there is material already in existence that acts as guidance and should not be removed under the new structure. The Significant Considerations

documents are discussed below, but FRC has also issued a FAQs document for practitioners, which has been useful in helping actuaries to interpret the requirements.

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

Certainly if a new framework is developed we agree that it is appropriate to withdraw the existing Scope and Authority, with the proposed framework document covering most of the same ground. However if it were decided to retain the facility for the user to request non-compliance where the work is neither reserved nor required, then the discussion of those definitions would need to be reinstated.

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

When considering the approach to compliance with TASs we have found the Significant Considerations documents very useful. We would therefore suggest that these documents are retained noting that they were issued during development of the earlier TASs. Otherwise there is a risk that this

material will be lost, and the thought processes behind the TAS principles will be forgotten. This may be particularly useful for areas where the scope is now being widened (so that actuaries will need to comply where they have had no knowledge of the background and rationale) or where non-actuaries are attempting to comply with the principles.

Indeed a better approach (particularly if the scope of TAS100 is extended as proposed) might be to produce a new Significant Consideration document to accompany the new TAS100 – this would allow discussion on some of the subtle changes proposed between the old and new versions.

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 do not feel that the extension of the scope of application to all actuarial work would necessarily benefit the users of actuarial work. Indeed we feel there would be some resistance to the extra reporting required for some elements of the work (in a similar way to the initial resistance encountered when the generic TASs were first developed).

Much investment work carried out by actuaries (and non-actuaries) is already regulated by the Financial Conduct Authority and users are likely to question the value of additional controls.

We believe that in some cases, even where actuarial work is outside scope of the current TASs it is already of sufficient quality to benefit the users, and therefore the formal extension of scope will add nothing to the work processes required or the quality of work output to users.

However clearly there will be some areas where TAS compliance has not been needed and no attempt has been made to replicate the requirements. In these areas, those involved in the work will need to change their processes and output. It is possible that for this work, the output to users may be improved and the users would see a benefit.

In respect of any new work brought into scope, we believe that some users (particularly in fast-moving situations) will resist the move towards confirmation of all advice into permanent form and will not see that as an improvement in the quality of work provided to them.

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).

We accept that it is difficult to come up with a reasonable definition of actuarial work, and we agree that linking the definition to the use of actuarial techniques and judgement is sensible. However at present the proposed definition would bring any work presented as actuarial work into scope, even where it does not feature judgment or actuarial principles. This may make the definition wider than otherwise intended. We note that 4.23 states ‘Other regulators, professional bodies or those commissioning work can and may wish to require compliance with TAS 100 by entities and individuals, who may or may not be actuaries, for actuarial work,

particularly where the work is complex and where there is a significant public interest.' This does therefore suggest the intention that it is only work that is complex or involving judgment that might be within scope if presented as actuarial work.

Paragraph 4.15 lists the techniques of 'actuarial science' but many of these techniques are used by other professionals. Those who are CFA Charterholders could just as easily claim that these principles and techniques are 'CFA science' and that asset liability modelling is 'CFA-work',

Paragraph 4.18 states that 'whether actuarial involvement was necessary' is a factor which can be considered. Actuarial involvement is not required in any investment work done by actuaries and so could be argued to be not strictly necessary and therefore out of scope.

Therefore perhaps a more appropriate definition of actuarial work might be that which:

- Either is presented as actuarial or
- Both
    - has to be carried out by someone with actuarial training and skills and
    - Either uses techniques which are exclusively the preserve of actuarial science or involves actuarial judgement.

If this simpler definition is used, it could be seen that anything else would appear to be an attempt to apply actuarial regulation to other disciplines.

Q4.3 **Do you agree with the analysis of different areas of work in Appendix E?**

We agree overall with the analysis. It is helpful to see confirmation that simple calculations using actuarial factors are not regarded as actuarial work (although the production of the factors clearly would be actuarial work). It is also helpful to see confirmation that work of a pension scheme trustee (even if carried out by an actuary) would not be regarded as actuarial work, but merely the use of actuarial work already provided by others.

We note that E8 and E24 refer to work being carried out by other individuals (non-actuaries), and that these paragraphs suggest that the recipient or a regulator might demand their compliance with TAS 100. This may depend on the outcome of the definition of actuarial work, as discussed above, particularly in relation to investment.

It would also be helpful to note that consolidation of work already carried out by another actuary (where no additional actuarial work is added) is itself not actuarial work so imposes no requirements from TAS100.

Although merger work is mentioned in 8.17, it would be helpful to cover this within Appendix E. Similarly trustee training work was previously considered by FRC not to be actuarial work – although in some cases this training might be based on particular areas of actuarial work (for example scheme funding exercises).

Q5.1

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

We agree with the high level principles although we note that these are raising the bar somewhat compared to the current TASs (for example in the requirement for communication of judgements and the amended principle on the sufficiency and reliability of data) – see further discussion below.

Q5.2

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

As noted above the data principle has moved from the current requirement that an assessment is made of the data required (with documented checks to determine the extent to which the data is sufficiently accurate, relevant and complete plus assessment of how reliability can be improved), to the requirement that the data is sufficient and reliable for the purpose of that work and subject to sufficient scrutiny and checking (including a requirement that any insufficient data must be improved).

While it seems to be suggested that the two principles are the same, we believe that the new wording is significantly more onerous. We do note that the requirement in principle 2.2 to improve data is subject to the proportionate consideration. However the actuary might not have control over the data and it may not be possible to improve the data to the level desired (even to a proportionate extent). This provision should therefore be 'where possible'.

Principle 2.1 requires that data should be relevant to the entity. This is not quite the same as the existing requirement in TAS D that 'the data is sufficiently accurate, relevant and complete ..' We suggest that it is not necessary (or that it is just misleading) for the data to be relevant to the entity, rather than to be relevant to the user.

There may also be arguments over what is defined as 'sufficient and reliable'. This may need to be linked to the actuary's (reasonable) judgement of this.

We also note that there is an increase in the level of communication of the data used and checks/corrective action carried out – currently the requirement is only to document this action.

Q5.3

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

As above, it may be necessary to caveat sufficiency as that judged by the actuary to be sufficient. In 3.4, it may be necessary to more carefully define relevant previous actuarial work (so that earlier work used for a different purpose or for a different user need not be brought into the comparison). This might be done by using the phrase 'for the same purpose' which is used elsewhere.

In 3.6 it is not clear what is meant by 'third party'. In the context of the principle this may be the recipient of the advice – who would not necessarily be regarded as a third party. Perhaps the text should be limited to assumptions being set 'by someone other than the [actuary]'

Q5.4

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

These seem reasonable – although in 4.4 there should be a reference to material changes rather than just changes.

Q5.5

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

In 5.2 there may be circumstances where it is not practical or necessary to show sensitivity of results, so this should be caveated by 'where appropriate'.

The reference to 'adverse deviations' in 5.6 has no comparison in the existing TASs, and we would question its inclusion here.

Q5.6

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

We agree the staged process for determining whether a principle is applicable, material in impact and proportionate in compliance. One of the concerns that has been expressed is that actuarial output is more detailed than necessary for compliance – this has probably arisen from the development of the existing TASs and the fear that actuaries will be accused of non-compliance (either at the current time or later with the benefit of hindsight). Those newly moving to the standards might prefer a 'lighter touch' (particularly if they have experience of the actions of colleagues for reserved work etc) – but it is likely that most would still rather over-comply than under-comply.

As for the current provisions of TAS R, the aggregation approach will be seen as helpful in that actuaries can refer back to other material that meets particular compliance needs, rather than restating the information.

Q5.7

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

We do not believe that the compliance statement adds anything to the user's understanding of the work. Other than the point that the user might be receiving work not prepared by an actuary (who would therefore not be required to conform with TAS 100) it would (following the widened scope) now be expected that any work provided to the user by an actuary would be subject to TAS 100 and would therefore need to conform. However we accept that in order for users to know whether there needs to be, or has been, compliance it is necessary for the user to be told – and it would be sensible to tell them both in situations where it is obvious that compliance is necessary and in the situations where it is not obvious.

Q5.8

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

We are happy with the proposed approach to withdraw the 'boxed' guidance material. However it needs to be made clearer that the text augmenting the main principles in TAS100 should be regarded as having equal importance to the principles themselves (not having 'supplementary' status as in the current TASs). This is referred to in 5.16 of the consultation document, but those who move from the old TAS format into

the new format without considering the full consultation might not appreciate the difference in approach.

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

We do support that proposal, although we believe that some terms need to be added. In particular, the term proportionate is not defined (it is referred to in the main text but materiality is both referred to and defined) and 'third party' may need to be specified. Other terms used in the current generic TASs (for example aggregate report and implementation) would also usefully be included (we note that the term 'component report' no longer appears in TAS 100).

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

We believe that 'non-permanent form' needs to be made clearer (within the definition of communication). Para 5.13 in the consultation document is the only place where this is referred to, and it is stated to include oral reports but may be implied to include other formats.

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

We do not see the need for defining actuarial work in the main TAS and also in the glossary (which will be part of the TAS). Cross referring to the glossary should suffice.

In addition the layout is misleading – the spacing does not clearly distinguish between the principles and their relevant augmenting bullets.

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)?**

As already noted by FRC following responses to its earlier consultations, we believe that there is no need for a separate specific TAS on transformations. The relevant points can be covered by expanding the Pensions TAS or the Insurance TAS.

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)?**

There are other areas within pensions work that might benefit from treatment within a specific TAS – such as merger work, employer debts, liability management and scheme design work.

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

We agree with the proposed structure of the specific TASs as outlined in 6.12.

Q6.4	**Do you have any other comments on the proposals for technical actuarial standards in section 6?**
	Without seeing what is intended to appear in these specific TASs we cannot comment further on the structure and approach.
Q7.1	**Do you have any comments on the proposed implementation of the new framework in Section 7?**
	We feel that the staged adopting of the new structure is not a suitable approach. In particular the areas of work that are currently compliant with the generic TASs (and which therefore might have less difficulty in moving to the new structure) are having their move delayed – and instead the areas of work which involve more of a change in approach are faced with early compliance with the new regime. We are also concerned that the piecemeal approach could be derailed if finalisation of the specific TASs is delayed for any reason, which would mean that the window during which some work relies on TAS100 and some relies on the existing TAS framework is lengthened.
Q7.2	**Are the proposed interim arrangements clear (paragraphs 7.7 to 7.9)?**
	We do not agree that the proposed interim arrangements are clear. The text of the standard suggests that it applies to work not within scope of the generic TASs and completed on or after 1 January 2016. Work which is within scope of the generic TASs is therefore not mentioned. The implication seems to be that at such time as the generic TASs cease to exist, the 'commencement date' paragraph in TAS100 then no longer applies to this work. We believe that it would be far clearer to spell this out (assuming the interim arrangements do go ahead as proposed, see our comments above).
Q8.1	**Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?**
	Although the cost of extending TAS application to a wider range of work may not be very large, in some cases it may be disproportionate to the work involved. In this regard we note again that 'proportionate' is not actually defined (although it is discussed in the body of the document) – if would be helpful if it was defined. In addition, most companies are under pressure to reduce costs, so any additional cost is not helpful in the current environment. Passing the actuarial firm's costs on to users may be very difficult, particularly in relation to work that can just as easily be commissioned from non-actuaries.
Q8.2	**Do you have any comments on our analysis of the impact of the changes set out in section 8?**
	We do not believe that the impact of the proposals will be 'non-significant'. Although in many cases actuaries will already be complying with the spirit of the TASs even for work that is not within scope (sometimes because they have become used to complying for the work that is within scope), this relates to the work they are carrying out 'behind the scenes'. The additional communications required for compliance would not have

insignificant cost – and firms (or teams) of actuaries who have never had to comply with the TASs for their other work will find the change in mindset harder.

In addition, it may have more of an impact on non-actuaries forced to comply in order to have a common approach between actuaries and non-actuaries carrying out the same work within a firm.