

A New Framework for Technical Actuarial Standards Consultation

In November 2014 the Financial Reporting Council (FRC) published a consultation paper "A new framework for Technical Actuarial Standards". Below are the responses of the Pension Protection Fund (PPF) to the questions raised in the consultation.

The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

The PPF is a statutory fund run by the Board of the Pension Protection Fund (the Board), a statutory corporation established under the provisions of the Pensions Act 2004. The PPF became operational on 6 April 2005.

On 10 July 2009 the Board of the PPF was also given the responsibility of being the scheme manager for the Financial Assistance Scheme (FAS). FAS provides assistance to members of eligible under-funded defined benefit schemes that started to wind-up between 1 January 1997 and 5 April 2005, where an employer insolvency event occurred between 1 January 2005 and 22 December 2008.

The PPF welcomes the opportunity to respond to the consultation, in particular given that the paper includes proposals that would impact the actuaries working at the PPF.

PPF Response - "A new framework for Technical Actuarial Standards"

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 in principle with the draft Framework.

2.3.1 of the Exposure draft (Appendix A) refers to the "FRC's mission and responsibilities". We suggest that these are explicitly set out in the framework, perhaps in a footnote, so there is no need to cross-reference other documents.

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

We agree with the proposal to withdraw and archive the existing Scope & Authority, for the reason described in paragraph 3.27. If it is not withdrawn, then it should be modified to address the feedback in 3.27.

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

We agree with the proposed approach to the Significant Considerations documents. We think they have served their purpose, and can now be discontinued.

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 agree that the application would be of benefit to users, provided the definition of actuarial work is clear.

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 think that, under the proposed definition, much of the work done by most actuaries is clearly "actuarial work". However, there may be some types of work undertaken by some actuaries where the issue of whether it is "actuarial work" is not so clear. This matters because someone who is being challenged for poor actuarial work could argue the use of actuarial techniques was "not central" and therefore TAS 100 does not apply.

We note the inconsistency of the proposed definition with the definition stated in the Actuarial Profession Standard APS X2: Review of Actuarial Work, which was published by the Institute and Faculty of Actuaries on 29 January 2015. On the face of it, it would seem strange for the Actuarial Profession and the FRC to be working with different definitions of such a fundamental term.

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

Overall we consider this is a good analysis of different areas of work, but we have some specific comments:

E.8: We do not consider it is necessarily clear cut what constitutes actuarial work in these cases. For example, there could be situations where non-actuaries perform asset/liability modelling for an investment bank using a model that was set up by an actuary. The investment bank could make an assumption the work complies with TAS 100 as the model used was created by an actuary, however the person performing the work is not an actuary.

E.14 and E.18: We do not consider it is clear cut what constitutes actuarial work in these cases. There may be an expectation by other pension scheme trustees that an

actuary who acts as a trustee will be using his or her actuarial judgement and therefore his or her work will be “actuarial work”. A similar situation could arise for an actuary acting as a non-executive director.

E.24: Could you please provide some examples involving actuaries working in wider fields that would be covered by TAS 100?

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

Yes, the six high-level principles are reasonable.

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

Yes we agree, the proposed provisions on data seem reasonable.

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

Yes we agree, the proposed provisions on assumptions seem reasonable.

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

Yes we broadly agree the proposed provisions on modelling.

We would, however, comment in relation to 4.5, that it might not be possible to communicate significant limitations of the model if the limitations are not known at the time. Often with complex models limitations only become apparent after several years of use.

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

We agree in principle with the proposed provisions on communications, subject to the point below.

Communications are sometimes addressed to a wide-ranging audience with different levels of understanding. An example might be when an actuary addresses a meeting of pension scheme members. In such cases, the requirements of 5.1 to 5.9 could seem excessive.

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

The application as set out in the paragraphs seem reasonable.

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

We do not agree that a compliance statement should be required. It should be optional for an actuary to state that they have complied with TAS 100.

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

Will there be other material available on the website if no guidance document is issued (e.g. FAQs as mentioned in 5.34)? We consider that members, students, particularly new members to the profession would appreciate some guidance as it is not always clear when the principles should apply.

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

Yes, it makes sense to have one separate glossary that covers all the TASs.

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

Yes, we agree except for the definition of actuarial work, which we suggest requires further clarity (see our response to Q4.2). Also, we have noticed that two of the terms in the glossary in bold ("implemented" and "implementation") do not themselves have a definition in the glossary.

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

Principle 6. Documentation of the exposure draft refers to a "technically competent person". Please could you provide some guidance on what the term "technically competent person" means, bearing in mind that a user might have very little financial knowledge

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 cannot easily comment as the current specific TASs do not directly affect the work carried out by the PPF actuaries.

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)?

At this stage, we have no suggestions, since we have little familiarity with the Specific TASs.

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

The proposed structure seems reasonable.

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

We have no further comments.

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

Please could you explain why the current TAS cannot be removed and replaced by the new TAS immediately at the same time?

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

We do not think the interim arrangements are entirely clear. For example it is not clear what arrangements would apply where an organisation voluntarily complies with the current TASs.

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

We tend to agree, having regard to the actuarial work carried out within the PPF.

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

It would be helpful and interesting if you were to provide some examples illustrating where you envisage other regulators and contracting parties requiring TAS 100 compliance (as mentioned in paragraph 8.22 and also paragraph 4.24).

Other Comments

Members of the IFoA must comply when performing actuarial work; however individuals who are not members are not required to comply. A user has potential redress if the actuarial work is performed by an actuary and does not comply with TAS 100, but has no redress if work is completed by a non-actuary. This benefit might incline users of actuarial work to choose to employ an actuary rather than a non-actuary.

Conversely, there could be negative consequences of applying TAS 100 to a wide range of actuarial work. Companies may be unwilling to employ actuaries in fields which are less mainstream where non-actuaries could do the work, as to avoid the cost of complying with TAS 100. Conceivably actuaries may leave the profession if the work they are employed to do does not presently fall under the current TASs, but would be subject to compliance with TAS 100.

On the other hand, it is possible that non-actuaries/other regulators/organisations might voluntarily decide to comply with TAS 100, which may improve standards and provide additional confidence to users of the work in question.

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