

3026162

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Page 1 of 9

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Dear Sir/Madam

A new framework for Technical Actuarial Standards

I am writing on behalf of Lane Clark & Peacock LLP in response to the above named consultation document issued on 18 November 2014.

Lane Clark & Peacock LLP ("LCP") is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics. LCP is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. LCP has offices in London and Winchester in the UK. In Europe, the LCP group includes offices in Belgium, Ireland and the Netherlands.

The general framework suggested within the consultation paper is good (in fact it is close to the internal processes LCP has in place for consulting work) and we are pleased it is more consistent with ISAP 1. However, there are some key issues we want to raise:

- The extension in scope of the TASs to all actuarial work is reasonable in principle and it will be clearer to users of actuarial work. However paragraph 1.4.4 of ISAP 1 notes that where an actuary is performing actuarial services for an affiliated party the actuary should interpret ISAP 1 in the context of practices that apply normally within or in relation to the affiliated party. We believe that, except where the public interest necessitates (such as where the actuary is an "actuarial function holder"), a similar exemption should be made to actuaries providing actuarial services to their employer (including where actuaries are seconded to an employer).

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A list of members' names is available for inspection at 95 Wigmore Street, London, W1U 1DQ, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. Locations in London, Winchester, Belgium, the Netherlands, Ireland and the UAE.

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3026162

Page 2 of 9

- In a similar vein, the extension in scope of the TASs to all actuarial work is reasonable provided the TASs only include high level principles. It is imperative that the Specific TASs do not include detailed principles that will apply to broad areas of work, otherwise compliance costs will escalate significantly. Given that the Specific TASs are no longer required to bring work within scope of TAS 100 and the FRC can issue guidance on specific areas, are Specific TASs still required at all?
- If the new TAS regime is introduced, there should be no overlap in the different TAS regimes. In other words, it would be much easier for all parties if the introduction of TAS 100 was delayed until the other TASs are ready.
- Rather than lengthy TAS compliance statements referring to each TAS complied with, we believe that the users of actuarial work would appreciate some sort of simple stamp which signifies that the work complies with the relevant FRC standards.

We are happy for our comments, which represent the collective view of a number of partners and actuaries within LCP, to be attributed to LCP. We hope that our response is helpful but if you have any questions, or would like to discuss anything further, then please contact me.

Yours faithfully

+ Prepared as an attachment to an email
at 18:00 on 8 March 2015

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Our thoughts, in relation to the questions posed by the consultation document, are as follows:

PROPOSALS FOR THE FRC'S ACTUARIAL STANDARDS FRAMEWORK

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

The framework generally appears reasonable. Whilst we approve of the TASs becoming more consistent with ISAP 1, section 2.3 of the proposed Framework also requires that “the anticipated benefits of the change outweigh the costs”. We would like to see some evidence that the users of actuarial work will value the changes to the Framework as they will, of course, bear the cost.

See our response to question 4.2 below on the definition of actuarial work.

The statement in paragraph 4.4 of the proposed Framework can only apply to the topic-specific TASs.

The consultation paper at paragraphs 5.25 – 5.29 describes a three stage process which we support, but the first step (Applicability) is not mentioned in the Framework. We suggest that the whole of the above paragraphs are taken into the Framework. Given that the second and third steps are mentioned within TAS 100, we would also like to see the first step mentioned.

We do have a concern with the phrase in section 4.6 of the Framework “Each of the principles and relevant supporting provisions in the TASs should be followed unless compliance with it **can** have no material effect on the decisions of users” (our emphasis). It is impossible to know exactly what will drive every client decision, so we strongly prefer “can” be replaced by “can reasonably be expected to”.

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

This seems reasonable.

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

We are supportive of the proposal to remove the Significant Considerations documents provided the intentions behind them still remain. Actuarial firms have developed their

3026162

Page 4 of 9

processes on the basis of the documents issued by the FRC, including the Significant Considerations documents. It would cause unnecessary work if we now had to consider whether those processes should change because we no longer have written evidence of the FRC's intentions.

SCOPE OF TAS 100: PRINCIPLES FOR ACTUARIAL WORK

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.

The move from “Reserved Work” to “Actuarial Work” is the most significant proposal in the consultation paper, and we are pleased that it is becoming more consistent with ISAP 1.

However, paragraph 1.4.4 of ISAP 1 notes that where an actuary is performing actuarial services for an affiliated party the actuary should interpret ISAP 1 in the context of practices that apply normally within or in relation to the affiliated party. We believe that a similar exemption should be made to actuaries providing actuarial services to their employer, including actuaries on secondment to another employer. Actuaries employed by, or on secondment with, an employer are providing assistance not advice. As such the provisions of TAS 100 and ISAP 1, which are both focussed on giving advice, should not apply. Where it is in the public interest for the actuary performing services for an affiliated party to comply with TAS 100, for instance if they are the actuarial function holder, it seems appropriate that TAS 100 still apply.

We believe it would be against the public interest if companies that do not currently employ any actuaries were put off from hiring an actuary because of the additional compliance costs that would entail. You should not underestimate the costs of compliance for an employer whose workforce do not currently need to comply with the TASs, and this is particularly acute when the actuary would be performing actuarial services for that employer alone. The suggested exemption above would help to mitigate this.

The extension of scope does create an uneven playing field in certain areas, for example investment consultancy, where both actuaries and non-actuaries produce asset liability models for pension schemes. We urge the FRC to engage with the professional bodies of those who give advice in the same areas as actuaries to encourage them to adopt TAS 100 practices. Otherwise there is a real danger that clients will be tempted by cheaper, potentially lower quality advisers and we do not believe that is in the public interest. Alternatively, specific parts of the process (such as initially setting up the model) could be termed “actuarial” whilst other parts (such as giving the investment advice) could be deemed outside the scope of TAS 100.

3026162

Page 5 of 9

Although in this question you talk about an “extension of scope” we believe that it is not all one way – some previously Reserved Work will become outside the scope of the TASs (for example, an Actuarial Certification of Deficit Reduction Contributions is Reserved Work but, where there is no pension accrual, would have no actuarial element to it and so not be Actuarial Work).

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 appreciate the difficulties all parties have had over the past few years defining Actuarial Work and, whilst the proposed definition is not perfect (there is some circularity in its second alternative definition), on its own it seems fit enough for purpose. However, it does differ from that used by the Actuarial Profession in its Review of Actuarial Work (APS X2) standard – we feel it essential that the same definition is used across both sets of standards. We believe the definition set out in APS X2¹ is clear and avoids the above problem and so we suggest that you move to that definition.

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

Whilst we accept that scope is increasing in line with ISAP 1 we do not think you should underestimate how significant a compliance cost there could be for companies whose workforce do not currently need to comply with the TASs.

TAS 100: PRINCIPLES FOR ACTUARIAL WORK

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

The term “material judgements” is difficult to apply as it relates to two different parties – the judgement is the actuary’s, but the materiality is the client’s (depending on the decision they are making). We prefer “judgements that can be reasonably expected to be material”.

We also note that many of the terms assume that there is a definite correct answer – for example, data should be sufficient and reliable, assumptions should be appropriate and models should be fit for purpose. The real world is often less perfect than this, and we believe TAS 100 should recognise that an actuary’s best endeavours can be useful to a client even if they fall short of all the proposed requirements (as long as this is communicated to the client).

¹ [APS X2](#) defines Actuarial Work as “Work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings, or opinions.”

3026162 Q5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

Page 6 of 9 As noted above, TAS 100 should recognise that it is not always possible to adjust or supplement data.

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

They appear reasonable.

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

The phrase “fit for purpose” could be misconstrued by users to mean that the model is “correct”. In fact very few complex models are “correct”; they are necessarily simplifications of the real world. We would prefer the phrase “fit for purpose” be removed.

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

They appear reasonable. However, in the second bullet of 5.7 the words “state the nature and significance of each material risk or uncertainty” refer to the risks that the user finds material. The actuary cannot know what these are unless each user has specified which risks/uncertainties are material to them. We believe the quoted phrase above should be replaced by “state the nature and significance of those risks and uncertainties that can reasonably be expected to be material”.

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

This is the approach that we currently use; we believe it works well.

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

Not in its current form. Our clients do not generally appreciate the several lines of text outlining which of the individual TASs we have complied with. They would much prefer a symbol that lets them know we have complied with the standards we believe are relevant.

3026162

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

Page 7 of 9

Similarly to the Significant Considerations documents, we are happy for the guidance to be removed provided the intentions behind it have not changed.

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

This seems reasonable.

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

We are having difficulties interpreting the term “individually or collectively” in the definition of material. As an example, consider a calculation with five assumptions, two of which are individually material to the decision and three of which are not. If you take the five assumptions collectively then they are all material and so it could be considered they would all need to be included in the advice. We do not believe that is the intention.

In the definition of material we also prefer the word “could” be replaced by “could be reasonably expected to”

The last sentence of the definition of documentation – “Documentation is material if it concerns a material matter” – is not easy to understand. We would prefer that is replaced by “Records should be kept if they concern a material matter”.

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

We are happy with the general structure and application of TAS 100 – it is very similar to our own internal standards.

TECHNICAL ACTUARIAL STANDARDS FOR SPECIFIED WORK

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)?

and

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 agree with the extension in scope of TAS 100 on the understanding that only higher level principles will apply to this increased scope. As such, we are not anticipating seeing any detailed principles within the Specific TASs.

3026162

Page 8 of 9

The Specific TASs are not required for scoping purposes either now, given that TAS 100 applies to all actuarial work. So it appears that the Specific TASs will have a very narrow purpose – to give assistance with specific areas of work (for example listing the requirements of a Scheme Funding actuarial valuation report). We believe items such as the actuarial valuation requirements could more usefully be given in guidance form by the FRC, with no further need for Specific TASs.

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

Yes, the structure appears reasonable. However we do encourage you to consider whether the Specific TASs are actually required, or whether FRC guidance would be sufficient.

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

As noted in question 6.1/6.2, we hope that any Specific TASs (if actually required) will adopt a similar high level principles approach to that in the proposed TAS 100. We understand that the increased scope of the TASs would be offset by higher level principles, but this will be undone if the Specific TASs add significant points of detail.

IMPLEMENTATION

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

We much prefer delaying the introduction of TAS 100 until the new 200/300/etc series TASs are available (if indeed they are needed). Otherwise there will be additional cost/difficulties in identifying and communicating exactly which standards are being met at a given time. This risk would be mitigated if the actuarial work did not have to specify exactly which FRC standards it was complying with, maybe if a generic “this work complies with the relevant FRC standards” stamp was developed.

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

They seem clear, but will cause additional expense unless adjusted (see the response above).

3026162 IMPACT ASSESSMENT

Page 9 of 9

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

and

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

In principle TAS 100 could be applied to a wide range of work for those that are used to complying with TASs. We already have a system that applies the majority of the principles to our consulting work.

Whilst we agree the costs for work already in scope would be limited, there needs to be recognition of the following:

- the TAS “learning curve” that those actuaries whose practice areas are such that they are not within scope of the current TASs may need to go through; and
- the back office work necessary to move from the current TAS suite to that being proposed. For example, many starter documents may have been produced over the years which point to relevant paragraphs of the TAS suite – all will need to be adjusted on this aspect alone. There may also be a need to carry out an analysis of what is and what is not actuarial work in the same way as work was carried out on the meaning of Reserved Work.

So it is hoped that in five more years no structural change would be needed to the standards.