

6 March 2015

The Actuarial Policy Team
Financial Reporting Council
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Dear Sirs

Consultation – A new framework for Technical Actuarial Standards

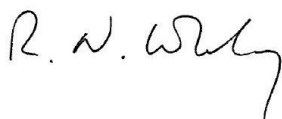
I am writing to provide Towers Watson's response to the FRC's consultation on a new framework for Technical Actuarial Standards, as set out in the consultation document dated November 2014.

Our detailed comments on the specific questions posed are set out in the appendix to this letter. However we have set out below the main areas where we would welcome further consideration by the FRC:

- 1 Whilst we have no objections in principle to the extension in scope, not least as this should contribute to users' continuing confidence in the work of actuaries, we believe that those responsible for commissioning work should be able to instruct their actuary to depart from specified requirements of TASs, for work that is neither Reserved nor Required.
- 2 We believe there is merit in revisiting the definition of actuarial work, and that the ISAP1 definition is a suitable starting point.
- 3 Our preference is for the new TAS framework to be introduced in a single change of regime in 2017 (or at least make compliance with TAS100 optional until then), in order to remove any confusion between the current TAS regime and the new TAS framework.

We would be happy to talk through these points in more detail if it would be helpful.

Yours faithfully



Neil Wharmby

Comments on questions

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 current “Scope and Authority of Technical Standards” allows, in paragraph 24c) (iii), those responsible for commissioning work to instruct the Actuary to depart from specified (or all) requirements of TASs, provided that the work is neither ‘Reserved’ nor ‘Required’.

However, the exposure draft of the Framework for FRC Actuarial Standards does not appear to contain any corresponding provision.

In today’s environment where users want to control the governance of their arrangements, as well as the costs of commissioning work, we think that this provision should be retained.

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 that it would be less confusing if the scope of Generic TASs was set out in the Generic TAS itself.

We note that definitions of, for example, Reserved Work, would need to be retained if the possibility to depart from the TASs for non-Reserved Work were retained.

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

We welcome the associated reduction in documentation.

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.

In principle, we accept that the extension in scope to cover all actuarial work would facilitate a confirmation of substantial consistency with ISAP1 and that it would give the benefit of additional assurance to users of actuarial advice.

However, this leaves the FRC’s standards being mandatory only for members of the IFoA and, when combined with the proposed removal of the ability for those commissioning the advice to instruct the actuary to depart from specified requirements of the TASs, this will produce a two tier market in which actuarial work can be commissioned. This may result in users commissioning actuarial work from non-actuaries purely to save costs, which may in turn result in the existence of the TASs reducing, rather than enhancing, the reliability of actuarial work received by users.

Therefore, we welcome the FRC’s collaboration with other regulators and its further efforts in relation to how the Reliability Objective can be met in relation to all actuarial work commissioned, not just that of IFoA members.

In the meantime, we would suggest an approach that allows more scope for departures from the TASs, particularly for non-Reserved work where the user of the advice is also the entity commissioning the 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).

Our main concern with the proposed definition is around the use of the word ‘central’, as judging whether techniques of actuarial science are central to a piece of work could be interpreted in very different ways. For example, would users of investment advice in relation to hedging pension scheme liabilities or asset liability modelling exercises generally see the underlying actuarial projections as being central to the advice in all cases?

In addition, is there a risk of misunderstanding about what is work that is presented as actuarial? For example, might users see differently work presented by an actuary working for an actuarial firm compared with work presented by an actuary working in an investment management firm?

We considered that the ISAP definition could be used as the basis for the definition of actuarial work for TAS100 purposes (and we note that, whilst ISAP1 applies to actuaries, the definition of actuarial work for ISAP is not so restricted, contrary to our understanding of the comments in paragraph 4.13 of the consultation document).

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

Increasingly, the provision of actuarial work involves multiple parties before it is delivered to the user (for example, the Scheme Actuary providing cashflows to an investment consultant for an asset liability modelling exercise, the Scheme Actuary being asked to use valuation calculations performed by third party software, or components of work carried out within insurance companies. Should actuarial work include the requesting of data or commissioning of component work for input to a wider process, in order for the user to be able to rely on the actuarial work as a whole?

We note that an example around actuarial software is included in Appendix E, but we believe further clarification/guidance is needed in this area, particular in relation to:

- what exactly is 'actuarial work' in these situations? Is it limited to, for example, the specification and configuration of the models used or can the software be described as 'complex calculations' and thus be caught by TAS 100? Is an actuary working as a software developer obliged to comply with TAS 100 in respect of the calculations even if another actuary configures and specifies the calculations?
- how the responsibility for that actuarial work (and therefore compliance with the relevant standards) is expected to be passed over from each party during the course of carrying out the work, and
- what happens if a firm of non-actuaries (eg a software provider) is one of the multiple parties involved?

Two places where the Appendix gives a strong steer to the work being non-actuarial are E.14 and E.18 (pension scheme trustees and insurance company NEDs). However, if trustees are responsible for deciding on actuarial factors that the scheme rules require to be actuarially-based, might that not be considered 'actuarial work' (especially where part of the reason that person was chosen as a trustee was their known actuarial expertise)? Another example is for a trustee actuary using actuarial knowledge in deciding what work to commission (or how software should be configured) in order to facilitate a decision.

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

We appreciate the need for users to understand where judgements have been made, but we would prefer to see a requirement to communicate the *most significant* judgements rather than *all material* judgements as to require the latter could run the risk of confusing rather than assisting users.

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

We believe that the decision on whether data is 'sufficient and reliable', and whether it should be improved, should be up to users to decide in circumstances where the user controls the scope of the work, and particularly where the work is not Reserved.

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

Commentary on 3rd party assumptions may be unwelcome from the perspective of the third party and the user as it could produce disagreement and additional cost, particularly where a difference of opinion exists. We would prefer a framework under which the 3rd party or user takes responsibility for their

assumptions, thus removing the need for full comment and impact assessment, or allow disclosure consistent with paragraph 2.8.2 of ISAP1.

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

We believe that similar provisions should apply for models set by a third party as for assumptions set by a third party.

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

We welcome the fact that the FRC is proposing to leave the concepts of 'materiality and proportionality' broadly unchanged, as we feel it is important for actuaries to be able to exercise their judgement in applying the TASs. However, we think the opportunity could be taken to clarify some aspects of the definitions that have caused some difficulty in interpretation, such as to clarify that it is the actuary who may judge 'materiality', on the basis of what he reasonably considers will be material to the user, and that the 'proportionality' principle *does* permit an actuary to say or do nothing in relation to specific TAS principles (rather than only allowing him to reduce what he says or does to a minimal amount).

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

We believe that compliance statements should not be made mandatory – many users will not be familiar with the concept of the TASs, so including a statement could be at best not valued and at worst confusing (and potentially obscuring more important information, contrary to the spirit of C.6.6 of the current TAS R). Users will expect actuaries to comply with the relevant standards, so we feel that including a statement will not be of benefit to them. It is worth noting that there is no requirement to include a statement confirming compliance with the Actuaries' Code.

As an alternative, we would propose that a statement of non-compliance should be made mandatory – ie where a provider of actuarial work has for any reason (other than materiality or proportionality) departed from the TASs, this should be stated.

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

We consider to the extent that guidance is necessary, it should become part of the standard itself.

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

We are broadly neutral on this point, although we do consider that there may be some slight merit in including the glossary in the TAS100 as to do otherwise would mean that actuaries will need to refer to three documents for most work (whereas 3.19 of the consultation document suggests it is only two).

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

We note that the word 'implementation' is shown in bold in the definition of other terms in the glossary, but is not defined itself.

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)?

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 consider that the starting point should be that TAS100 is sufficient for all actuarial work unless a good argument can be made to the contrary. On this basis, we would expect that additional principles and provisions above those in TAS100 would in general apply only to Reserved Work.

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

On balance, we expect the proposed new structure to be preferable, although ultimately this will depend on how the revised Specific TASs turn out. In particular, we welcome the proposal to discontinue the Transformations TAS and incorporate its relevant principles and provisions in the separate Pensions and Insurance TASs.

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

In order to avoid confusion between the current TASs and the new framework, our preference is for the new TAS framework to be introduced in a single change of regime in 2017 (or at least make compliance with TAS100 optional until then).

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

We believe that it could do so if there is the ability for users to instruct the actuary to depart from specific provisions of the TASs. Without this facility, there could be material or disproportionate costs of ensuring compliance in relation to smaller pieces of work.