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FAO: The Actuarial Policy Team

Dear Sirs

## **Consultation paper on a new framework for Technical Actuarial Standards**

We are pleased to respond on behalf of Deloitte LLP with comments on your consultation paper "A new framework for Technical Actuarial Standards". We welcome your consultative approach.

We agree with the overall aim of the new TAS 100 standard to promote high quality actuarial work.

The areas of work which the standard would apply to is very wide. In this context, we consider that it would be beneficial for the standard to include a clear statement that TAS 100 is not to be interpreted as requiring work to be performed that is additional to the scope of work agreed between an actuary and their client.

The reason for this is that there are some projects where a user will deliberately and reasonably request a limited scope review. We think there is a risk that some actuaries may read the standard as requiring additional work to be carried out in some such situations.

We have set out more detail in our answers to your questions in the attached appendix.

We hope that you will find our comments useful in developing appropriate standards. If you would like to discuss further any of the points we have raised, please contact Tamsin Abbey (Life Insurance, 020 7303 3154), Andrew Smith (Capital Markets, 020 7303 5844), Shreyas Shah (General Insurance, 020 7303 5685) or Paul Yates (Pensions, 020 7007 2238).

Yours faithfully

A handwritten signature in grey ink that reads "Tamsin J Abbey".

Tamsin Abbey  
Deloitte MCS Limited

## **Comments on the FRC consultation paper “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)?**

No.

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

No.

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

No.

**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 with the overall aim of promoting high quality actuarial work.

There are areas of work sometimes undertaken by actuaries where we believe the additional costs of applying Technical Actuarial Standards may not be justified by the potential benefit to users.

This particularly applies to areas where other professionals typically provide advice, and additional compliance requirements could make actuaries uncompetitive. If the result was a reduction in the advice being provided by actuaries in these areas, the overall impact might not be beneficial to users.

We therefore have some reservations about the wide applicability of TAS 100. Although, as previously mentioned, we support the aim of the standard.

Also, TAS 100 appears to be written with a detailed actuarial investigation in mind, it may not be well suited to smaller projects (or larger projects with a small actuarial input), some wider fields projects, or projects involving a review of another actuary's work. There is a risk that TAS 100 could be read as placing onerous obligations on actuaries, to carry out work which may not be required by users.

We believe this risk can be mitigated by the inclusion of a clear statement that TAS 100 is not to be interpreted as requiring work to be performed that is additional to the scope of work agreed between an actuary and their client.

We note that the proportionality requirement in TAS 100 (which is broadly that TAS 100 does not require work that is not proportionate to the assignment) will be helpful in regard to this issue for many engagements. However, adding the statement we have suggested above would be beneficial.

Finally, we have some concerns that the definition of actuarial work could be interpreted too broadly. It is difficult to envisage any area of financial work not included within one of the areas of work included in the description of actuarial science in paragraph 4.15 of the consultation document (“financial modelling, contingent events, the time value of money, probabilities, demographic tables, analysis of risk and statistical techniques”). That said, this wording does not appear within TAS 100 itself. We believe the TAS 100 definition of actuarial work can be applied sensibly by actuaries, albeit with the risk that different actuaries and users might interpret “actuarial work” differently.

**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 consider the definition of actuarial work to be broadly workable. However we have the following comments:

- Actuarial science is undefined and, as per our answer to question 4.1, could be subject to different interpretations.
- “Work presented as actuarial ... by implication” is potentially open to misinterpretation. We would be concerned if, for example, this wording was read as saying that a project was actuarial work because the firm stated that the project team included actuaries. (There may be occasions where a firm wished to make such a statement – e.g. to emphasize the project team was experienced in performing detailed modelling – without wishing to imply that the particular project was actuarial work.) It is unclear to us that including “whether expressly or by implication” at the end of the definition is beneficial.

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

We have no comments to raise on Appendix E.

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

The principle for data states that data shall be “sufficient and reliable ... subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information”.

We note that the principles for assumptions and models contain similar wording about users’ ability to rely on actuarial information. Also, the purpose statement at the beginning of TAS 100 states that users should be able to place “a high degree of reliance” on the information.

Data is clearly of vital importance to actuarial work. However, there are circumstances where it would be reasonable for a client to ask an actuary to base their work on data provided without incurring costs from scrutinising or checking the data. There are many actuarial projects where this would not be appropriate. However, we have some concerns that the wording of this principle could be read as placing onerous requirements on actuaries in some scenarios, and discourage actuaries from carrying out work proportionately and in line with client instructions.

A specific example of this is that in some areas of review work, there will be “agreed procedures” which the actuary carries out and reports back to the client on specified areas. The agreed procedures might not include reviewing data – perhaps because the client is satisfied over the controls it has in place to govern

data, or data has been reviewed by another party. TAS 100 should not oblige actuaries to carry out additional work in such circumstances, where the client neither wants the advice nor desires to pay for it.

We believe this issue would be addressed by our suggestion in the answer to question 4.1, that TAS 100 includes a clear statement that the standard does not require work additional to the scope agreed with the client.

While we have focussed on the data principle above, there are other areas where TAS 100 could be read as placing onerous requirements on actuaries. For example:

- TAS 100 paragraph 3.4 requires material assumptions to be stated, their rationale described, and a comparison with assumptions used in “any relevant previous actuarial work, with an explanation of any differences, and a description of any change in rationale”; and
- paragraph 4.4 requires “an explanation of any changes to the models used from the previous exercise”.

There will be some areas of actuarial work where these requirements will not be proportionate (e.g. reviewing another actuaries work, where the other actuary’s advice has covered these points; or carrying out a piece of work where the actuary was not involved in the previous exercise and the client does not wish for a detailed investigation of what had been done previously).

The materiality and proportionality sections in TAS 100 will be helpful in regard to this issue for many engagements. However, adding the statement we have suggested would be beneficial.

The use of the term “rely” in the various principles is potentially ambiguous. For example, there is inevitably a large degree of uncertainty as to how life expectancies will change in the future. In other areas of actuarial work, there will often be an inevitable assumption that future experience will in some way show similar characteristics to the past. In this context, a principle that “users can rely on the resulting actuarial information” risks giving users the impression that actuarial work gives more certainty than can realistically be expected in some areas. We consider that this wording could be removed from the principles, and that the wording in other principles that users should be able to make informed decisions is preferable.

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

The answer to this question should be read in conjunction with the answer to question 5.1.

Paragraph 2.5 says that “Communication shall state any limitations in the actuarial information resulting from the use of insufficient or unreliable data and provide an indication of their impact on the actuarial information.”

This may not be appropriate in all circumstances. Furthermore, there will be scenarios where it is simply not possible to indicate the impact of missing or unreliable data on actuarial information.

Adding a statement to TAS 100 clarifying that work additional to the agreed scope is not required would address this point.

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

The answer to this question should be read in conjunction with the answer to question 5.1.

Paragraph 3.2 requires that assumptions used in actuarial work shall be consistent with each other.

Paragraph 3.5 requires that communications shall describe the relationship of any assumptions which are not neutral to neutral assumptions.

Paragraph 3.6 requires that communications shall state whether any assumptions set by a third party are not reasonable for the calculation, and provide an indication of their impact on the actuarial work.

These requirements may not be appropriate in all circumstances, in particular where an actuary is engaged to provide a high level review of another actuary's work. Consistency of assumptions with each other may not be possible if some of the assumptions are set by a third party or client. For example, in a general insurance reserve review, a client may set a discount rate assumption which is inconsistent with an inflation rate assumption selected by the actuary.

Adding a statement to TAS 100 clarifying that work additional to the agreed scope is not required would address this point.

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

We have no comments additional to those in our answer to question 5.1 to raise on the modelling provisions.

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

Paragraph 5.7 requires that communications shall state the nature and extent of any material uncertainty, state the nature and significance of each material risk faced and explain the approach taken to the risk.

These requirements may not be appropriate in all circumstances, in particular the requirement for "any" and "each" material uncertainty and risk to be stated, and for the approach taken to be explained (the approach to some of the risks potentially being out of the actuary's scope of work).

Paragraphs 5.4 and 5.5 require "comparison" or "explanation" resulting from changes from "... the previous exercise". This may not be proportionate if the actuary was not involved in the previous exercise and the client does not wish for a detailed investigation of what had been done previously.

Adding a statement to TAS 100 clarifying that work additional to the agreed scope is not required would address these points.

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

No.

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

No, we do not agree that a compliance statement should be required.

We do not believe the statement is helpful to users, who will expect that actuarial work is carried out in accordance with the relevant standards whether such a comment is included or not.

We consider that the requirement to include such a statement would risk making actuaries' communications cumbersome – especially for small pieces of advice (e.g. a “one-off” email) and given the context of TAS 100 being applicable to an extremely wide range of actuarial work.

We are not aware of other professions having a similar requirement to state they have followed professional guidance on every piece of work they undertake which relates to their particular professional skills.

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

Yes.

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

Yes.

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

Yes in general, although please see our response to Q4.2 above.

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

We observe that sections 3 and 4 contain requirements relating to communications. It may be more helpful to include these within the communications section of TAS 100 (section 5).

Regarding the proposal in 5.31 of the consultation document, we agree that compliance with reporting principles should apply to the aggregation of reports rather than to each report separately. We understand that there is no proposal to require aggregate reports to specify their component reports (i.e. there is no equivalent requirement to C2.3 in TAS-R). We note that we agree with not including such a requirement.

**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)?**

Given the Specific TASs are now established and actuaries are used to applying the TASs to those areas of work, we would not suggest changing the areas of work covered by Specific TASs.

**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 do not see a need for additional areas of work to be included in the Specific TASs.

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

We have some concerns that the resulting TASs may be long and unwieldy. Although we accept the benefit that the approach will involve less change from the current requirements, so will be easier for actuaries to apply.

**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?**

We consider that it would be preferable for TAS 100 and the new Specific TASs to be introduced with effect from a single date, rather than a staggered introduction.

It appears that some areas of work will need to comply with the current Generic TASs and Specific TASs, as well as TAS 100, for a period of time up to 6 months. It would be preferable for this overlap between TAS 100 and the current TASs to be avoided.

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

Yes.

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

We consider that disproportionate costs can be avoided by including a statement in TAS 100 to clarify that work additional to the scope agreed with the client is not required.

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

We disagree with the statement in paragraph 8.19 of the consultation document that the costs of implementing TAS 100 for areas not currently subject to TASs will be lower than the implementation costs of the TASs. The current TASs apply mainly to reserved work where the standards are reasonably well suited to the kinds of work within scope. TAS 100 applies to an extremely wide range of actuarial work, and for some of those areas of work the requirements may not fit as well with the nature of work. We envisage there will be areas where actuaries could incur time considering the extent to which different requirements are applicable, and how best to comply in a way that addresses the wording of TAS 100 and



does not impact client advice detrimentally (e.g. make sure that if additional information is required by TAS 100, that additional information does not obscure the main messages to clients). This time will either increase firms' overheads or increase clients' costs.

In relation to paragraph 8.20, we consider that the long-term costs of complying with TAS 100 can be reduced by including a statement in TAS 100 to clarify that work additional to the scope agreed with the client is not required.