



Financial Reporting Council

# Technical Actuarial Standard 400: Funeral Plans

Consultation Paper

February 2023

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# 1. Introduction

## Background

- 1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for issuing and maintaining technical actuarial standards.
- 1.2 Version 2 of Technical Actuarial Standard 400: Funeral Plan Trusts (TAS 400<sup>1</sup>) was issued in July 2020, becoming effective 1 December 2020. This replaced version 1 of TAS 400, published December 2016, and incorporated specific changes to actuarial work in response to amendments to the Funeral Planning Authority Rules.
- 1.3 The FRC keeps the Technical Actuarial Standards (TASs) and other actuarial standards under regular review and reconsidered at least once every five years.
- 1.4 The FRC published a Call For Feedback (CFF) in May 2022<sup>2</sup> as part of the post implementation review of the sector specific TASs, which includes TAS 400.

## Regime change

- 1.5 At the time of the publication of TAS 400 Versions 1 and 2, funeral plan trusts (FPTs) were supervised on a voluntary basis by the Funeral Planning Authority (FPA). The vast majority of FPTs were members of the FPA, but not all were, and burial societies of communal organisations sat outside any regulatory framework.
- 1.6 A review of the pre-paid funeral market by HM Treasury in 2018 and 2019 resulted in legislation to require that all funeral plan providers would be regulated by the Financial Conduct Authority (FCA). During the period of the transition from FPA to FCA authorisation and supervision, FPA changed their rules to require an Annual Adequacy Report. This change was reflected in version 2 of TAS 400 effected on 1 December 2020.
- 1.7 Following a period of assessing funeral plan providers in order to grant authorisation in the new regime, FCA regulation of the funeral plan market commenced on 29 July 2022. FCA's regulation seeks to [bring higher standards and boost consumer protection](#). There are new rules relating to:
  - Bans on cold calling and commission payments to intermediaries;
  - A requirement for a funeral plan to deliver a funeral unless a customer dies within two years of taking out the plan<sup>3</sup>; and
  - Annual valuations required by funeral plan providers to demonstrate solvency ([the Solvency Assessment Report – SAR](#)).

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<sup>1</sup> <https://www.frc.org.uk/getattachment/7c531301-230c-4c9b-9fe1-1ddd10aeca56/TAS-400-Jul-20-Full.pdf>

<sup>2</sup> [https://www.frc.org.uk/getattachment/5e4a71e0-3edb-437f-a56e-48cda3bd6fde/FRC-Post-Implementation-Review-Technical-Actuarial-Standards\\_May-2022.pdf](https://www.frc.org.uk/getattachment/5e4a71e0-3edb-437f-a56e-48cda3bd6fde/FRC-Post-Implementation-Review-Technical-Actuarial-Standards_May-2022.pdf)

<sup>3</sup> <https://www.fca.org.uk/news/press-releases/fca-regulation-boosts-consumer-protection-funeral-plans-market>

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- 1.8 The rules which determine how funeral plan providers must operate under FCA authorisation are set out in the FCA's Funeral Plans: Conduct of Business Sourcebook ([FPCOB](#)).
- 1.9 Central to the work which actuaries carry out under FCA supervision of funeral plans is the SAR which is likely to replace (but may differ from) the previous annual funding valuations carried out for funeral plan trusts under the FPA supervision of its members.
- 1.10 In addition, FPCOB requires the Actuary to approve or sign off on [Remediation Plans and Withdrawals](#) following the completion of the SAR (depending on the funding level revealed by the SAR) and certifying transfers of parts of funeral plan business from one funeral plan provider to another.
- 1.11 Plans issued by Burial Societies are not intended to be authorised by the FCA and will therefore remain outside of regulation completely.

## Purpose and audience

- 1.12 The aim of this paper is to consult on proposed amendments to TAS 400. Our consultation has been written for those carrying out or reviewing technical actuarial work in relation to funeral plan trusts, and for those who rely on such technical actuarial work.
- 1.13 Sections 2 and 3 of this paper describe the proposed changes. Section 4 contains our impact assessment in relation to the proposed changes and section 5 summarises the questions asked in this consultation. Annex 1 contains the Exposure Draft of the proposed revised TAS 400.
- 1.14 We are grateful to all those who provided input to us as part of the CFF and outreach programme.

## Actuarial Regulatory Reform

- 1.15 In the Independent Review of the FRC in 2018, Sir John Kingman raised the question of the FRC's (or its successor, Audit, Reporting and Governance Authority) role in overseeing the actuarial profession. The Government considered Sir John Kingman's recommendations and published a consultation in March 2021 and have subsequently published its position on reform in May 2022<sup>4</sup>.
- 1.16 The FRC welcomes the Government's publication of its position on the reform and has issued a position paper<sup>5</sup> setting out how the FRC will support the Government's reforms as we transition into the Audit, Reporting and Governance Authority (ARGA). In the meantime, as the proposed changes in this consultation will still be necessary for the period before FRC's successor is created, and will likely remain relevant after, the FRC will continue to discharge its duty to keep the TASs and other actuarial standards under regular review and proceed with the consultation on the revised TAS 400.

<sup>4</sup> <https://www.gov.uk/government/consultations/restoring-trust-in-audit-and-corporate-governance-proposals-on-reforms>

<sup>5</sup> [https://www.frc.org.uk/getattachment/aafabbc3-81a3-4db3-9199-8aaebb070c7f/FRC-Position-Paper-July\\_2022\\_.pdf](https://www.frc.org.uk/getattachment/aafabbc3-81a3-4db3-9199-8aaebb070c7f/FRC-Position-Paper-July_2022_.pdf)

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## How to Respond

1.17 Comments should be sent electronically to [APT@frc.org.uk](mailto:APT@frc.org.uk). Comments may also be sent in hard copy form to:

The Director of Actuarial Policy  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

1.18 Comments should reach the FRC by 12 April 2023. It is advisable to send your response electronically.

1.19 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. If you are sending a confidential response by email, please include the word 'confidential' in the subject line of your email.

1.20 We will publish non-confidential responses on our website. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

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## 2. Summary of Feedback

- 2.1 The Call For Feedback for all sector specific TASs (which included TAS 200, 300 and 400) closed in July 2022. The FRC published a position paper including the summary of feedback to the two responses in relation to TAS 400. The CFF was supplemented with seven outreach sessions with actuarial practitioners who provide services to the funeral plan market and three meetings with relevant stakeholders (including regulators). These sessions covered the vast majority of practitioners who provide actuarial advice in this area - particularly to those FPTs that achieved authorisation to operate under FCA supervision.
- 2.2 The feedback we received was in favour of the principles-based approach of TAS 400. However, some respondents did ask for more prescription in particular for those matters which are brought more sharply into focus by the transition to FCA supervision (for example standardising terminology and clarification of terms used by the FCA in the SAR).
- 2.3 Respondents emphasised the value of accelerating the implementation timetable for the TAS 400 revisions for example on deriving specific assumptions like expense reserves and lapses.
- 2.4 More generally through the outreach sessions, there was agreement that TAS 400 requires changes following the change in regulatory regime. Feedback included:
- Requesting additional explanation on the definition of best estimate assumptions;
  - requesting clarity on the content of a SAR and specifically what information should be published online.
- 2.5 In respect of the requirement of the actuary's role in approving withdrawals and remediation plans, whilst some practitioners raised concerns that such responsibility has been placed on the actuary, others were comfortable with such requirements. It should be noted that this requirement has been introduced by the FCA and the role of TAS 400 is simply to specify any considerations that the actuary needs to take into account when fulfilling their responsibilities.
- 2.6 In addition, we considered the recommendations from a recent thematic survey conducted by the Institute and Faculty of Actuaries (IFoA)<sup>6</sup> on work carried out by actuaries on funeral plan trusts which highlighted some areas for improvement. The recommendations included:
- Harmonising common terminology for communicating and describing various aspects of the valuation of funeral plans.
  - Improving how funeral plan benefits and assumption derivation are explained by actuaries in valuation reports.

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<sup>6</sup> <https://www.actuaries.org.uk/system/files/field/document/Funeral%20Trusts%20Thematic%20Review.pdf>

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## 3. Proposed changes to TAS 400

### Overall approach to the revision of TAS 400

- 3.1 The FRC proposes to retain the principles-based approach to TAS 400. The FRC believes that a principles-based approach leaves room for practitioners to apply judgement and proportionality. Feedback received also supported this approach.
- 3.2 The key proposed changes to TAS 400 relates to the revision of provisions to allow for the change of regime. The changes mainly relate to:
- Revision to existing provisions in relation to risk identification and valuations carried out under the new FCA regime rather than the FPA rules.
  - Introducing new provisions in relation to new responsibilities such as approvals and transfers.
- 3.3 In addition, the FRC proposes changes to TAS 400 in relation to syntax in line with proposed changes to TAS 100 as highlighted below. The FRC will consider any amendments to TAS 400 as a result of further amendments made in the finalisation of TAS 100.
- Actuaries working in and around pensions will be familiar with the use of the term 'must' in the context of insurance and pensions regulation in the UK. We proposed to align TAS 100 with this terminology by replacing 'shall' with 'must', which also further distinguishes mandatory requirements ('must') from the regulatory expectations ('should'). The FRC proposes the same to apply to TAS 400. In particular, the FRC proposes to revise some provisions which were previously within TAS 400 (and therefore mandatory) from a mandatory nature ("shall") to regulatory expectation (i.e. "should") which means that the FRC expects these provisions to be followed but there may be occasion when – for documented good reason – the practitioner may adopt an alternative approach.
  - As set out in the consultation on TAS 100, the FRC proposes appending a Glossary of the defined terms applicable to TAS 400 to the standard itself which would allow practitioners to reference the definitions more easily. This is part of the process of replacing the stand-alone glossary which currently houses all terms relevant to the suite of Technical Actuarial Standards with a relevant Glossary for each TAS.
  - We propose changes to the structure of the standard to bring out more clearly those provisions related to communications. The proposal is that these will now appear at the end of the relevant provisions and are marked as related to communications.
- 3.4 The FRC will consider whether there is a need for further guidance on any areas of the proposed new standard following review of the feedback to this consultation.

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## Scope

- 3.5 The FRC proposes updating the existing scope for TAS 400 by replacing the reference to FPA rules with reference to the FCA's FPCOB and to valuing funeral plans for the purposes of the accounts of the provider where an actuary is involved with such valuation.
- 3.6 The FPA rules were in respect of funeral plan trusts and hence the technical actuarial work in scope was more likely to be in respect of work carried out by actuaries for trustees. FPCOB rules relate to funeral providers. The revised scope has been designed to reflect that work will be carried out for the funeral plan provider and/or trust and that at least some of the work will be published and available to plan members.
- 3.7 The proposed revised scope will capture valuation work carried out to meet:
- requirements set out within the provisions of funeral plan rules
  - requirements from FPCOB which are broadly in respect of bulk transfers, SARs, withdrawals from funeral plans and remediation plans for funeral plan providers
  - requirements for accounting purposes.
- 3.8 As per FPCOB section 3.2, funeral plans funded by insurance policies are excluded from the SAR. The FCA set out the reason for this is that such policies are protected by the Financial Services Compensation Scheme and provided by insurers who are subject to supervision under both Prudential Regulation Authority and FCA prudential regimes, and therefore further protection is deemed to be unnecessary. There are no provisions within TAS 400 for practitioners working within insurance companies. However, we propose to include a provision in respect of liabilities within the accounts for funeral plan providers whose plans are funded by insurance policies where the insurance policy sums assured appear to fall short of the expected cost of the funerals.
- 3.9 During the course of the outreach sessions, some concerns were raised that work carried out for burial societies does not fall within the scope of TAS 400. Burial societies are typically attached to a religious (or other) community and funds are held as part of that community's overall funds. Authorisation and supervision of these societies is not within the scope of the FCA nor are they within the scope of TAS 400. We considered bringing them within scope of TAS 400 but are mindful that their assets may be difficult to define or measure and that the solvency of these societies is tied integrally to the overall viability of their communities. On balance we have omitted burial societies from the scope of TAS 400 for this review.



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### Question 1

What are your views on the revised scope of TAS 400? Do you envisage any significant actuarial work being carried out in relation to funeral plans which is not adequately covered by the revised scope and should be included?

### Question 2

Should burial societies be considered in the next review of TAS 400? Please provide your reasoning and any evidence to support your views.

## Assumptions

- 3.10 It is important that assumptions are derived appropriately and that the method and rationale of this derivation is communicated effectively to intended users. Some of the feedback received from our outreach sessions suggested that on occasion, practitioners were not providing the requisite level of detail for intended users to fully understand the derivation of assumptions. There was also a concern that terminology used was not consistent between different practitioners.
- 3.11 The FRC proposes to revise the provisions to state that assumptions must be based on sufficient information/data. While we expect that this has been applied in the majority of cases, it is intended that this additional wording, accompanied by the new layout will add clarity to our desire to see that the assumptions that are listed in the standard, are well defined and well communicated.
- 3.12 The introduction of SAR valuations brings focus on best estimate assumptions since they are defined to be the basis used for these valuations by the FCA in the FPCOB rules. We received some feedback from outreach sessions requesting further clarity on the definition of best estimate provided in FPCOB. Specifically, some questioned whether stochastic analysis was being implied by the definition. The FRC recognises practitioners will have to apply their judgement in forming their views on what best estimate means for each of their assumptions, and considers that the requirements in TAS 100 and the proposed revised provisions in TAS 400 are sufficient to address this while allowing practitioners to exercise judgement under a principles-based approach.
- 3.13 The FRC proposes to revise the provisions in relation to communication of the assumptions to ensure intended users are in a position to understand the judgements made.
- 3.14 The FRC recognises that there may be circumstances in which it is unreasonable to expect that each of the individual assumptions is derived on a best estimate basis. The FRC proposes to include Provision P1.2 to allow practitioners to deviate from individual best estimates of each assumption to be able to produce a valuation result that reflects a best estimate basis overall.

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### Question 3

What are your views on the proposed changes to the provisions under Assumptions? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.

## Estimating the value of assets and liabilities

- 3.15 The FPCOB rules introduce the Solvency Assessment Report (SAR). These rules specify the assumptions and also the minimum amount of information to be included in the SAR. Despite the change from FPA to FCA supervision and authorisation for funeral plans, the FRC considers the majority of the current provisions in relation to estimating the value of assets and liabilities and the communication of such are still fundamentally applicable. We therefore are not proposing significant changes from the provisions already set out in the current version of TAS 400.
- 3.16 We observed that funeral plan contracts have segmented due to the regime change from FPA and FCA, with contracts entered into after July 2022 having different requirements and hence features to those entered into before that date. We expect the most common situation is where the business continues to maintain contracts from before the FCA regime and continues to write new business under FCA rules. The FRC expects practitioners to take account of the conditions which could differ between the two sets of plan holders and proposes to introduce Provision P2.4 to capture such.
- 3.17 The case of failed funeral plan provider Safe Hands has received press attention as well as being the subject of a ministerial debate at Westminster Hall. It is too early for the FRC to have a view on whether actuarial work for the plan contributed to or failed to prevent the failure of Safe Hands. Nevertheless, the FRC has included some learnings from information publicly available to propose augmentations to the provisions in TAS 400.
- 3.18 IFoA's [thematic review](#) highlighted that there were examples where reports did not allow the intended users to fully understand the obligations under the trust rules. Our outreach sessions with practitioners suggested that, where this was the case, this was due to the complexity and range of business models and arrangements. The FRC considers the communication of vital information such as the obligations of the trust to be central to compliance with the reliability objective<sup>7</sup> and to good actuarial reporting. We have therefore retained the requirement that "estimates of liabilities... must reflect the obligations of the trust under the trust deed" in Provision P2.1 and included Provision P2.12 to cover communication of this. We believe that Provisions P2.1 and P2.12 in TAS 400 and the provisions in TAS 100 in respect of communications provide practitioners with sufficient clarity.

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#### Question 4

Would you find further FRC technical guidance beneficial in relation to communicating the obligations of funeral plan trusts under their trust deed? If so, please provide details on what guidance you would like to see.

- 3.19 The outreach highlighted a number of areas where funeral providers or Directors have a direct influence on assumption setting and data provisions which can have a significant impact on valuation results. The current version of TAS 400 includes a provision relating to actions and communications in respect of relying on third party data or opinions in relation to Asset Adequacy Reports<sup>8</sup>. During the outreach it was suggested that the requirements around this could be clearer.
- 3.20 Whilst the FRC recognises that practitioners may not be able to obtain more accurate or reliable data or opinions independent of these third parties, the FRC expects practitioners to satisfy themselves that the information provided is reasonable. The FRC has not specified how practitioners should do so in order to give room for judgement and application of proportionality, but has made clear that the assessment must include the evaluation of evidence supplied to support the information received, as the FRC expects practitioners to have sufficient knowledge and expertise of the funeral plan market or have access to resources to enable them to critically assess the information on which they rely to provide advice. The FRC proposes revised wordings to this provision to make clear our expectations.

#### Question 5

Do the proposed changes to TAS 400 provide sufficient support to allow a practitioner to understand how to handle and justify assumptions, data or methodologies driven by third party opinions? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.

- 3.21 Before the transition of supervision to the FCA, the focus of actuarial valuation was on the trust itself. In this environment the focus of TAS 400 was similarly on measurement of solvency in the trust. FPCOB changes the scope of supervisory activity to the provider. We propose to introduce Provision P2.5 where we require that the valuation of assets and liabilities for the purposes of the accounts of the provider should reflect actuarial assumptions which are consistent with those adopted for the SAR. Through stakeholder outreach the FRC understands that there have been examples of accounting reserves for funeral costs being calculated on a book reserve basis and being less than the current best estimate cost. The FRC does not consider that this reflects the true solvency position of the funeral plan provider.

<sup>8</sup> Asset Adequacy Reports were annual valuations of funeral plan trusts required by the FPA from 2020.. They are no longer required under the FCA's supervisory regime.

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The FRC notes that funeral plans which are underpinned by insurance policies will not be required to produce a SAR. The proposed provision recognises this by including “where applicable” in the provision.

- 3.22 The FRC recognises that Provision P2.5 will have effect where a member of the IFoA is involved in the calculation of assets and liabilities for the provider’s corporate accounts. The FRC encourages funeral plan providers to apply this provision more widely.
- 3.23 In addition, the FRC proposes to introduce Provision P2.6 to capture valuations practitioners may carry out on request by trustees and where the trustees may have a legitimate reason to consider more prudent assumptions than that in the SAR.
- 3.24 The FRC considers the scope of TAS 400 in relation to valuation should not extend to funeral plans underpinned by insurance policies. However, where the current estimate of the cost of agreed funerals exceeds the total sum assured, the FRC considers that this should be clearly reflected in the accounts and has therefore introduced Provision P2.7. This allows the practitioner to choose the most appropriate way of calculating the deficiency to be shown in the provider’s corporate accounts and make a recommendation on an adjustment. The FRC notes that the FCA Handbook SUP 16 already requires information to be reported on the insurance policies and the plans to which the policies underpin.

### **Question 6**

What are your views on the proposed changes to TAS 400 in relation to the valuation of the assets and liabilities in respect of the provider’s corporate accounts and in respect of trustees?

- 3.25 Communications are central to achieving the objective of high-quality actuarial work. The FRC therefore proposes a number of changes to the communications aspect of TAS 400 considered under three headings: SAR, other actuarial work, and marketing materials. It should be noted that funeral plan providers are subject to the requirements of FCA’s new Consumer Duty<sup>9</sup> and this is likely to influence communications provided by practitioners to funeral plan providers. Practitioners will need to be aware of this duty at all times, particularly where funeral plan providers, acting on the requirements of the duty, provide feedback on the practitioner’s communications.

### **SAR**

- 3.26 FPCOB requires that the SAR should be published by the funeral provider on its website. The FRC understands that the aim of SARs is primarily to aid FCA with its supervision of funeral

<sup>9</sup> <https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty>

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plan providers and that the requirement to publish SARs is intended to increase transparency on how funeral plans operate.

- 3.27 From our outreach, we understand the market interprets that in addition to being a regulatory submission, the SAR is also for use by current and potential plan holders. Some respondents had cited that it would be difficult for the report to satisfy the regulatory requirements whilst being sufficiently simple and clear to be understood by plan holders.
- 3.28 FPCOB also requires that the SAR is produced 'taking account of any relevant professional and technical standards, guidance and notes.' Some of the participants at outreach sessions queried what items should be included in the SAR and requested that TAS 400 provide detail of what should be in the SAR, with suggestions that there could be separate reports for publishing and submitting to FCA.
- 3.29 The SAR is specified by the FCA and is presented as a standard list of items. As such, it is only the items that the FCA has specified that must be included in the SAR and published on the website. Practitioners may wish to provide supplementary advice or justification to the provider which is not part of the SAR nor is it required to be placed in the public domain. Any such supplementary advice is also subject to the provisions of TAS 400.
- 3.30 The FRC proposes adding Provision 2.11 that asks actuaries to make reasonable steps to ensure the valuation material takes into account the level of sophistication of plan holders. As this is a new requirement, we propose providing further guidance on this point should the responses to this consultation suggest such guidance is necessary.
- 3.31 In addition, the FRC proposes adding Provision 2.8 which requires practitioners to be clear on who is the intended recipient of all information provided, given the potential multiple recipients of the actuarial information.

## **Other actuarial communications to the provider or trustees**

- 3.32 As mentioned above, there was acknowledgement that there is a lack of common terminology adopted by practitioners in the presentation of valuation results. This is unhelpful where reports find their way into the public domain or where there is a change in practitioner. Feedback from respondents on how to tackle this varied, with some suggesting that TAS 400 or accompanying guidance could define common terminology to be mandated. Others suggested that actuaries working in funeral plan valuation might be better placed to create such a lexicon.
- 3.33 The FRC does not consider a principles-based standard is an appropriate place to create such a tool but agrees that such a tool would be a helpful development to support consistent reporting and communication. The FRC encourages practitioners operating in the funeral plan space to engage collectively to develop a solution to this issue.

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## Marketing materials

- 3.34 There have been observations expressed both as part of the outreach sessions and from consumer advocates about how the work of actuaries in relation to the security and funding of funeral plan arrangements is being represented, particularly in sales brochures.
- 3.35 The appropriateness of marketing material is not within FRC's remit but where there are instances of such material expressing facts which contradict a practitioner's advice, this could be an indication of that the practitioner's communications are inadequate. Therefore, the FRC is proposing to add Provision 2.10 to require actuaries to make reasonable efforts to ensure that their recommendations and advice are not materially misstated or misrepresented.

### Question 7

Do you envisage any difficulties complying with Provision 2.10 in regard to ensuring your communications are not materially misstated or misrepresented? If so, please provide examples.

### Question 8

Do you agree with the degree of detail in TAS 400 around the communications of reports to plan holders? In particular how this applies to publishing SAR valuations.

### Question 9

Do you agree with the decision not to tackle the common terminology issue within TAS 400?

## Risk Assessment

- 3.36 In the current version of TAS 400, Provision 9 requires practitioners to quantify the liability cash flows for each future twelve-month period for an appropriate number of years. This has been carried forward to the revised TAS 400 as P3.3. The FRC proposes to supplement this provision by adding Provisions P3.4 and 3.5(b) which require practitioners to consider specifically the liquidity needs of the trust and provider and to consider whether the assets are suitable to meet the liabilities as they fall due.
- 3.37 The current version of TAS 400 Provision 15(b) already requires practitioners to communicate risks arising from differences between the nature, term and characteristics of the cashflows arising from the assets and liabilities of the funeral plan trusts. Further, the FRC proposes to add Provision P3.6 to make clear that such consideration is required for both funeral plan trusts and the provider, where appropriate, and the consideration should also be extended to accessibility of the assets and liquidity needs.

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3.38 In assessing the risks to the plan holders, the FRC considers that it may be a useful exercise for practitioners to consider what could cause the funeral plan to fail, and relatedly, for the provider itself to fail. Such exercise is typically now considered to be part of a set of risk management tools and the FRC therefore proposes to introduce Provision P3.7 which sets out our expectation for practitioners to carry out scenario analyses to identify such circumstances of failure.

### Question 10

What are your views on the proposed changes to TAS 400 in relation to the Risk Assessment provisions?

## Actuarial Approvals

- 3.39 FPCOB introduces two new responsibilities which were not present under the FPA supervisory regime (though may have been present in some funeral plan trust deeds and rules). The actuary's approval is now required when the funeral plan provider prepares a remediation plan<sup>10</sup> and when the funeral plan provider wishes to withdraw funds from the funeral plan trust<sup>11</sup>. During the outreach sessions, some practitioners requested direction from the FRC on the considerations to be applied in making these decisions.
- 3.40 The FRC proposes to introduce provisions in "Actuarial Approvals" which set out matters an actuary is required to consider when providing approvals, such as those required by FPCOB outlined above. The list is by no means exhaustive, and practitioners should apply their judgement to consider other important factors relevant to their specific cases.
- 3.41 The FRC considers that it is critical that practitioners providing actuarial approvals to their clients can do so with a comprehensive understanding of as much information relating to external factors and plan history as is reasonably possible to obtain. This might include information held by practitioners who held the appointment before the current practitioner. We are therefore proposing provisions P4.3 and P4.4 to support an orderly handover of information when a practitioner requires information from a separate practitioner to carry out their technical actuarial work in respect of actuarial approvals.
- 3.42 We understand from the outreach sessions, that informal handovers to this effect have been in taking place for a number of actuarial appointments and therefore do not expect compliance with these new principles to be onerous.
- 3.43 In the proposed provisions, P4.5(b) sets out FRC's expectation that the actuary brings to the attention of the provider, plausible scenarios in which the withdrawal of requested funds may lead to solvency falling below par within one year (one year being FCA's time horizon implied

<sup>10</sup> [FPCOB 3.2.6](#) - "If a solvency assessment report concludes that the assets of the trust are not sufficient to cover the liabilities of the trust, a funeral plan provider must prepare a remediation plan that is approved by an actuary who is a fellow of the Institute and Faculty of Actuaries".

<sup>11</sup> [FPCOB 3.2.12](#) - "A funeral plan provider must not withdraw any surpluses from the trust except and only to the extent that: (1) the solvency level of the trust is above 110% when calculated on a best estimate basis; and (2) the withdrawal has been approved by an actuary who is a fellow of the Institute and Faculty of Actuaries."

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by SAR valuations being required annually). In this regard we expect the actuary to use professional judgment to assess which scenarios are plausible and how many to bring to the attention of the provider.

3.44 Provision 4.5 applies where the actuary is asked to certify a withdrawal from a trust which is funded to at least 110% as per FPCOB 3.2.12. In these circumstances it is important for the withdrawal not to be expected to create a deficit in the trust over the next year. As such, this provision is intended to ensure that the practitioner is satisfied that the withdrawal can be expected to leave sufficient funds within the trust so that members' rights remain secure.

### **Question 11**

What are your views on the proposed provisions in Section 4 in respect of actuarial approvals? Are there further requirements which should be included? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.



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## Transfers

- 3.45 FPCOB 3.1.9 states that payments “on a transfer by the funeral plan provider of all or part of its funeral plan business to another funeral plan provider” can be made “provided that an actuary, who is a fellow of the Institute and Faculty of Actuaries, has certified the sufficiency of the arrangements for the purpose of providing the agreed funerals under the funeral plan contracts transferred and any contracts which are not transferred”.
- 3.46 To support practitioners in their decision making when certifying such transactions, the FRC proposes a non-exhaustive list of matters the actuary must consider in this situation. These are set out in Section 5 of TAS 400. These provisions are intended to give effect to FPCOB 3.19 and provide an equivalent to Part VII transfers and also bulk transfers to/from pension schemes which are certified by an actuary.

### Question 12

What are your views on the proposed provisions in Section 5 in respect of bulk transfers? Do they provide sufficient support for actuaries to certify bulk transfers under FPCOB?

## Timing and Implementation

- 3.47 The anniversary of the commencement of the FCA regime will be in July 2023. The FRC appreciates that the period without appropriately revised actuarial standards which reflect the new regime should be minimised as far as possible, without diminishing the quality of the standard produced. We anticipate publishing the final standard in July 2023 and propose an immediate effective date (so that work carried out on or after this date is in scope). This is subject to there being no substantial changes to the exposure draft and the feedback from affected practitioners, funeral plan providers and policyholder representatives.

### Question 13

Do you have any views on the July 2023 proposed publishing date with immediate implementation? How long do you expect to need to implement a new TAS 400 standard (assuming no substantial changes to the exposure draft)?

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## 4. Impact Assessment

### Benefits

- 4.1 The majority of the proposed changes to TAS 400 have been developed as responses to the requirements of FPCOB following the transition of authorisation and supervision of funeral plans from FPA to FCA. The impact of the transition from FPA to FCA on practitioners can be broadly summarised as:
- a. The requirement to produce annual solvency assessment reports for funeral providers.
  - b. The requirement to approve remediation plans or withdrawal applications which may follow SARs.
  - c. The requirement to certify bulk transfers of funeral plans business.
- 4.2 In response, the proposed changes to TAS 400 are designed to ensure practitioners adequately meet the requirements above and that the professional standards reflect the intentions of the FCA to adequately protect plan members.
- 4.3 In particular the proposed changes are aimed at
- a. making sure that the of risk of adverse outcomes for plan holders is not unreasonably increased by, withdrawals of funds by funeral providers or bulk transfers,
  - b. ensuring that proposed remediation plans are not inadequate; and
  - c. removing potential barriers to practitioners being able to provide well informed advice in respect of these transactions.
- 4.4 Further we note that the IFoA AMS thematic review and other feedback received as part of our outreach effort suggested practitioners did not always explain clearly the derivation of assumptions. The changes proposed to TAS 400 seek to ensure intended users of work under scope of TAS 400 receive the required level of explanation regarding assumption derivation.

### Costs

- 4.5 It is recognised that there will be an element of one-off cost associated with reading the revised TAS 400 and updating processes and procedures, where these exist. Whilst the proposed structure of TAS 400 differs from the current version, it is not proposed to revise the provisions which already exist in the current version of TAS 400 in a material way, other than to reflect the new regulatory environment. We envisage practitioners being required to make some changes to template valuation reports where these exist, to ensure they are suitable for use as SARs and emphasise some of the communication principles proposed. We do not however, expect these to result in material additional costs for practitioners.

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- 4.6 Given the small number of practitioners and providers operating in the funeral plan space we do not expect the overall cost to practitioners in the funeral plan sector to update their procedures in relation to provisions in relation to assumptions, valuations of funeral plan trusts and funeral plans and risk assessment to exceed £100,000. This estimate reflects the cost to cover the time practitioners will spend reading and familiarising themselves with the revised TAS 400 and making appropriate changes to work templates.
- 4.7 The proposed amendments to TAS 400 in respect of approvals and transfers relate to possible additional ongoing work for practitioners which have arisen following the responsibility imposed on actuaries by the new FCA supervisory regime. Any costs on the actuarial profession which arise from the amendments to TAS 400 in respect to these additional responsibilities are due to new FCA supervisory regime. The FCA set out its Cost Benefit Analysis in their consultation<sup>12</sup>.
- 4.8 In circumstances where valuation results require a deficit to be made good, or, in the case of withdrawals, a funeral provider request a withdrawal of funds, practitioners will have additional analysis to carry out in order to meet the requirements of the proposed changes to TAS 400.
- 4.9 We expect in making decisions on remediation plans and withdrawals, much of the additional analysis will be based on existing models and thus do not expect significant additional costs to be incurred. With the FCA regime in its infancy it is not possible to estimate with any degree of accuracy, the frequency that the additional work may be required.

#### **Question 14**

Do you agree with our impact assessment? Please give reasons for your response.

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<sup>12</sup> <https://www.fca.org.uk/publication/consultation/cp21-4.pdf> from page 105. The costs covered in the FRC's Consultation Paper are in addition to those in the FCA's analysis.

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## 5. Summary of consultation questions

1. What are your views on the revised scope of TAS 400? Do you envisage any significant actuarial work being carried out in relation to funeral plans which is not adequately covered by the revised scope and should be included?
2. Should burial societies be considered in the next review of TAS 400? Please provide your reasoning and any evidence to support your views?
3. What are your views on the proposed changes to the provisions under Assumptions? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.
4. Would you find further FRC technical guidance beneficial in relation to communicating the obligations of funeral plan trusts under their trust deed? If so, please provide details on what guidance you would like to see
5. Do the proposed changes to TAS 400 provide sufficient support to allow a practitioner to understand how to handle and justify assumptions, data or methodologies driven by third party opinions? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.
6. What are your views on the proposed changes to TAS 400 in relation to the valuation of the assets and liabilities in respect of the provider's corporate accounts and in respect of trustees?
7. Do you envisage any difficulties complying with Provision 2.10 in regard to ensuring your communications are not materially misstated or misrepresented? If so, please provide examples.
8. Do you agree with the degree of detail in TAS 400 around the communications of reports to plan holders? In particular how this applies to publishing SAR valuations.
9. Do you agree with the decision not to tackle the common terminology issue within TAS 400?
10. What are your views on the proposed changes to TAS 400 in relation to the Risk Assessment provisions?
11. What are your views on the proposed provisions in Section 4 in respect of actuarial approvals? Are there further requirements which should be included? Would you find further FRC technical guidance beneficial? If so, please provide details on what guidance you would like to see.

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12. What are your views on the proposed provisions in Section 5 in respect of bulk transfers? Do they provide sufficient support for actuaries to certify bulk transfers under FPCOB?
  13. Do you have any views on the July 2023 proposed publishing date with immediate implementation? How long do you expect to need to implement a new TAS 400 standard (assuming no substantial changes to the exposure draft)?
  14. Do you agree with our impact assessment? Please give reasons for your response.



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