



# Government Actuary's Department

From the Government Actuary  
**Martin Clarke**

Finlaison House  
15-17 Furnival Street  
London  
EC4A 1AB

The Actuarial Policy Team  
Financial Reporting Council  
8<sup>th</sup> Floor,  
125 London Wall  
London EC2Y 5AS

T 0207 211 2620  
E [martin.clarke@gad.gov.uk](mailto:martin.clarke@gad.gov.uk)

[www.gov.uk/gad](http://www.gov.uk/gad)

[TASReview@frc.org.uk](mailto:TASReview@frc.org.uk)

6 March 2015

Dear Sirs,

**Subject: A new framework for Technical Actuarial Standards Consultation**

I am writing to set out the views of the Government Actuary's Department (GAD) on the above consultation paper issued in November 2014. GAD welcomes the opportunity to offer input.

We welcome the recognition, intrinsic to the proposed new TAS100, that there are certain principles that should be applied to all actuarial work. This is consistent with the approach we have adopted within GAD as set out in our [Principles for Actuarial Quality](#) (PAQ), and we have found that this usefully places the emphasis on the impact and quality of the work we do. We believe that this outcomes focussed approach, applied to all "actuarial work", helps improve quality and that this move will do the same within the wider actuarial profession.

We are also encouraged by the closer working between the FRC and the Institute & Faculty of Actuaries which we believe will enhance the regulatory oversight of the profession.

We have grouped our comments on the specific proposals under several broad themes as follows.

## **1. The Proposed New Framework and Implementation**

As set out above, we support the move to a generally applied set of principles set out in paragraph 5.3 that apply to all actuarial work and believe this will bring benefits to users of actuarial work.

We think that there are a couple of points that the FRC should bear in mind in its implementation.

- We have concerns about the very long transitional period before TAS 100 will apply to all work. This is because inevitably, where new regulation is introduced, those subject to that regulation tend to focus more on the regulation itself and compliance. Whilst this is not a bad thing per se, it does mean that there is some loss of focus on the big picture. This temporary effect does, for a period somewhat negate what TAS100 is setting out to achieve. Obviously whilst this is unavoidable as part of a transition to a new regime, we feel it would be better to minimise these impacts. Accordingly would it not be better to

introduce the new regime in a single stage rather than as a two-step process even if this involves a delay in its introduction?

- The paper sets out FRC's intention (subject to the outcome of the analysis of the JFAR) to base the TASs for specific work on the existing TASs. We think that this is reasonable but would, however, make a couple of observations:
  1. As set out above, and in our response of 19 February to the JFAR paper "JFAR Discussion Paper: A risk perspective", it is important that regulation is proportionate, simple and well-targeted. As we set out in that letter, regulation is not the only possible response to identified risks. Other approaches, such as education, should be considered as alternatives.
  2. Given the unique role that GAD (and actuarial staff employed at GAD) have in our role and as part of government, we would urge the FRC to continue to work with us, both to take advantage of the perspective this gives, and to ensure that any revised standards do not have unintended consequences for the public sector, notably (but not limited to) public service pension schemes.

## **2. Definition of Actuarial Work**

We note that the FRC's objective in setting this definition is to ensure wide applicability without capturing work done by actuaries in other capacities. We concur that there is no single, easy, robust definition that can be used and commend the FRC for producing a workable definition that extends the remit of their standards to the majority of work carried out by members.

Nevertheless there is a certain lack of clarity inherent in the definition as may be evidenced by the circularity arguments which the consultation paper alludes to. Moreover, whilst examples are useful to demonstrate the intended impact, there is a danger that this lack of clarity could be used to argue (possibly after the event) that work was in scope.

At present we require all our actuarial staff to apply our Principles for Actuarial Quality to all work carried out in a professional capacity. Whilst we accept that this definition is not robust outside the remit of an individual employer, an alternative, which whilst still open to a degree of interpretation is clear in intention would be to define actuarial work so that it is measured against the reasonable expectations of users (that is, so that if it is reasonable to believe that users are likely to think they are getting, looking at, or have commissioned actuarial work or advice, the work will fall within the scope of TAS100).

We would also urge the FRC to encourage members to adopt the principles in all their work unless there is a good reason not to do so. This may deal to an extent with the uncertainty point noted above.

Whilst we have flagged these issues, for the avoidance of doubt we do feel that the definition is workable, and note that this does not prevent individual employers from requiring that the principles are adopted more widely (e.g. to all work for that employer).

## **3. The Fundamental Principles outlined in the TAS100 exposure draft**

We support the high level principles and feel that they target important areas for actuarial staff.

There are a few areas about which we have concerns and where modification will improve their focus and avoid oversimplification.

Of particular concern are the “Data”, “Assumptions” and “Models” high-level principles. As drafted (taken alone) these appear to imply a somewhat theoretical perfect world scenario in which advice should be given. In practice actuaries operate in an imperfect world where it is not always possible to fulfil the high level principles as written. Paragraph 5.9 might be read as meaning that the only recourse where data are insufficient or unreliable (for the purpose required) is to seek improvements or additional data. In certain practical situations where that may not be possible, we believe it might often be appropriate to agree amendments to the terms of engagement or to ensure that users are properly informed of the limitations and implications of any data shortcomings inherent in that work.

In light of this, whilst we note that some of the provisions underlying the high-level principles recognise this “imperfect world” reality, it is our view that the practical high-level principles themselves also need to do so. What is important is properly communicating to users so that they can make informed decisions, allowing for these limitations. Including this real world recognition within the high-level principles should also ensure that the focus remains on the outcome/impact of the actuarial work rather than on the work itself.

We also have a particular concern with the “assumptions” principle and in particular provision 3.6 underlying that principle. This requires the member to state whether they believe assumptions set by a third party or by regulation are not reasonable for the purpose of the work. This appears to be stronger than the equivalent provision in the current pensions TAS although it is perhaps a little ambiguous about whether positive confirmation is required where the assumptions are considered reasonable. Our PAQ currently sets out that staff do not need to comment on assumptions or methodology set by a third party (or in legislation or equivalent) other than to state who has set the assumption or methodology unless they have a statutory duty to or [they believe] that such a comment could affect any decisions made. GAD and the Government Actuary have to carry out various areas of work using assumptions either laid down in statute or set by other parts of government (for example HM Treasury) and it would not normally be appropriate for us to comment in this way. In practice, other steps would be taken to discuss with the third party the potential issues with an unreasonable or contentious assumption.

Additionally it may not be possible to fulfil other requirements relating to assumptions where the member is not free to set that assumption. We would be happy to discuss in more detail some of the specific areas of our work where assumptions are set by statute.

Finally while we agree that it is important that “user” is considered in a wider context than the direct recipient of the actuarial work, we still feel that the proposed definition of user is too narrow. A revised definition along the lines of “people who may be affected, act or make decisions, as a direct result of that work” would address this concern.

## **In summary**

As these points are somewhat detailed we feel it is worth summarising the broad themes we have identified, namely:

- We support the objective and broad approach that FRC are taking with the revised framework and TAS100 in particular, with certain reservations.
- FRC and the IFoA should continue to work closely together to ensure that regulation of actuarial work is proportionate, simple and well-targeted.
- We would suggest that implementation is carried out in a single step once decisions have been made on the TASs for specific work.

- The proposed definition is actuarial work is workable although we feel this could be improved by shifting the focus to the users of our work.
- The high level principles are reasonable but they should be refocused to reflect the imperfections of the real world within which members operate.
- More consideration should be given in respect of assumptions set by third parties

Please do let us know if you would like to discuss any aspect of this letter or any of the proposals regarding the framework or revised TASs in more detail. We would reiterate our willingness to work with you to help address the issues outlined.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Martin Clarke', written in a cursive style.

Martin Clarke  
Government Actuary

0315-01 MC