

Minutes of a special meeting of the Actuarial Council held on Thursday, 8 February 2018 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	Member
Martin Burke	Member
Ashok Gupta	Member
David Hindley	Member
Joanne Livingstone	Member
Dominic Veney	Member

Observer:

Des Hudson	IFoA Observer
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In attendance:

Siân Barr	Project Director, Professional Oversight Team
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Council Secretary
Kate Davies	Assistant General Counsel (For Minute 17 only)
Mario Dunn	Director of Strategic Communications (For Minute 7 only)
Melanie McLaren	Executive Director, Audit & Actuarial Regulation
Ann Muldoon	Director of Actuarial Profession
Erica Nicholson	Project Director, Actuarial Policy Team
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

- 1.1 The Chair welcomed everyone to the meeting. The Chair reminded all Members to provide their feedback on the IFRS 17 training sessions to Erica Nicholson (EN), to enable her to prepare a proposal for future training.
- 1.2 Apologies were noted from Angela Darlington (Council Member) and Stephanie Paul (HM Treasury Observer).
- 1.3 The Chair informed the Council that the format of the agenda had been changed to allocate sufficient time to discuss important topics.

2. Declaration of conflicts of interests

There were none to be reported.

3. AS TM1 Assumptions

- 3.1 Simon Wasserman (SW) introduced the paper. He thanked the members of the Council AS TM1 working group for their constructive contribution to the paper.
- 3.2 SW took his paper as read and noted key points of the paper including:
 - The paper sets out consideration of the AS TM1 assumptions in the context of the current economic assumptions and proposes that the inflation assumptions should not change at this time.
 - The FCA has recently consulted and is proposing to amend its inflation assumptions for financial projections.

- The difference in purpose of SMPs (which are underpinned by AS TM1) and the FCA COBS projections.
- The recognition that consistent feedback from providers suggested that harmonisation of the two projections was desirable.
- The launch of Pensions Dashboard will require consistency in the future across all types of pension projections.
- As a consequence, the AS TM1 economic assumptions review has included a focus on the desirability and feasibility of harmonisation.
- The paper concludes that harmonisation will be inevitable once the Pensions Dashboard is operative.
- Feedback was sought from the practitioner working group and they considered that a wage inflation assumption set in line with the FCA assumptions would result in an assumption that would be difficult to justify in the context of an inflation assumption of 2%.
- The Council was asked for advice on the assumptions and on whether to consult if no change was proposed.

3.3 The Council debated at length whether the FRC should change the AS TM1 economic assumptions (inflation and wage growth) at this time and gave consideration to a number of points and made observations including:

- The FCA is changing the inflation index used to measure price inflation from RPI to CPI which would reduce the price inflation assumption from 2.5% pa (RPI basis) to 2% pa (CPI basis) and wage growth from 4.0% to 3.5% pa (to maintain a 1.5% gap between wage growth and price inflation assumptions).
- It was noted that as per FRC's policies and procedures, changes should only be made in circumstances where there is a compelling reason to make a change and that this proposal would not satisfy the requirement.
- The Council was clear that the assumptions set for AS TM1 should be appropriate and should only be changed if appropriate for the purposes of AS TM1.
- The Council considered that it remained appropriate not to tie the AS TM1 inflation rate to CPI or RPI but to set it with the aim of capturing the inflation rate over the long term and with particular regard to the GDP deflator.
- Furthermore, Council noted that the GDP deflator and long-term inflation rate remained unchanged and that it is difficult therefore to determine a basis for change.
- The Council did not see any compelling reason to change the inflation assumption at this time – noting that this would result in ongoing inconsistency with the FCA assumptions which are for a different purpose.
- The Council discussed whether there should be a positive gap between the assumptions for price inflation and wage inflation (noting that the two assumptions were proposed to be identical).
- The Council discussed the basis on which ad-hoc projections are calculated and noted that such projections are determined on the FCA basis but that they are typically requested by an IFA who is therefore able to explain the basis to the customer.
- The Council questioned the timing of the introduction of the Pensions Dashboard and agreed that the price and wage inflation assumptions should be reviewed again next year as part of the annual review.
- The Council noted that it is also important to consider consistency of assumptions and therefore consistency of projections from year to year would provide consistency for members.
- The Council discussed whether it is necessary to undertake a consultation on the decision not to change assumptions. In the current matter, the Council considered that there is no evidence of significant detriment or risk to the public interest in

maintaining the assumptions as they are and therefore, there were no compelling reasons to propose a consultation to ask whether there should be a change.

- 3.4 In light of the above discussion, the Council concluded that there were no pressing reasons to change the inflation and wage growth assumptions in AS TM1. The Council concluded that the only reason to change the basis is a growing discomfort with there being no gap between wage growth and price inflation but considered it as too early to make a change; and with the anticipation of the development of the Pensions Dashboard, the Council concluded that the matter should be revisited again during 2019. The Council asked for additional background information on wage inflation vs price inflation next year.
- 3.5 The Council noted that the Executive would seek feedback from the practitioner working group on the proposed approach to ensure that there were no material issues arising which had not been considered by Council. The Council therefore advised that no formal consultation should be undertaken on this matter but agreed that the FRC should publish a note on the website to state that the Council had considered changing the AS TM1 assumptions and to provide the rationale for its advice for not changing the assumptions at this time. The Chair requested to view this communication before it is published on the website and that Council be advised when published.
- 3.6 The Council considered if any other changes should be made to AS TM1 now and none were noted. It was suggested that it would be beneficial to use the annual survey that the FRC collect on the AS TM1 accumulation rates to review the economic assumptions in further detail with providers.
- 3.7 The Council noted the ongoing discussions with Government on the ownership of AS TM1, and that in light of the introduction of the Pensions Dashboard, reaffirmed its view that all parties should be working towards a world in which all projections are consistent and the basis for such projections is overseen by a single body such as the Single Financial Guidance Body.

4. Review of Scope of the Specific TASs

- 4.1 SW introduced the purpose of the paper which was to review the risk assessment supporting the scope of TAS 200 and TAS 300 and consider if there was a need for changes to scope of existing specific TASs or for further specific TASs to cover areas other than insurance, pensions and funeral plan trusts. SW noted the current environment, regulatory changes in its review and the team's work supporting the Audit Quality Review work and the TAS Outreach programme.

TAS 200: Insurance

- 4.2 The Council noted that the IFRS 17 is likely to be a key area of focus for actuaries working in insurance over the coming years and is covered by the existing scope in TAS 200 financial statements.
- 4.3 The Chair highlighted that the review of the scope of specific TASs should be two-fold:
 - a) To include work that has not previously been separately identified before and therefore not in the Risk Matrices¹;
 - b) If the work is included in the Risk Matrices, to review whether it is in the right box.

¹ Risk Matrices : the consultation and feedback documents accompanying the draft and final Specific TAS 200 and 300 standards included risk matrices which set out the areas of work in Insurance and Pensions respectively and categorised them by risk rating using a 2-dimensional table assessing likelihood and impact. Areas of work with a rating of Medium-High or High in either or both dimensions were included in the scope of TAS 200 or TAS 400.

- 4.4 In response to a query, Ann Muldoon (AM) clarified that although the paper only mentioned IFRS17 as a key issue that should be considered, the review did take account of changing regulation, the JFAR Risk Perspective and the IFoA Risk Alerts.

TAS 300: Pensions

- 4.5 The Council noted that the paper raised the question of whether the approach to assessing technical actuarial work supporting IAS19 accounting for the purpose of TAS 300 scope should be reviewed, and particularly in light of further issues arising with Carillion since the paper was drafted. The Council also noted that the Actuarial Policy Team has been supporting AQR reviews including pensions accounting and intend to produce thematic feedback to actuaries supporting the major audit firms. The results of this work would also be used to inform a review of TAS 300.
- 4.6 Through discussion, many points and comments were made including:
- Whether 'Audit of pensions information in financial statements' and 'Financial statements – calculation' should be moved to a higher impact and likelihood rating.
 - Consideration should be given to actuaries' role in integrated risk management, covenant assessment, advising on recovery plans, investment strategy, etc. considering current challenges in pension schemes and whether TAS 300 is sufficient. Des Hudson (DH) highlighted that IFoA evidence suggests that actuaries play only a minor role in advising on covenant assessments.
 - It was also noted that the Green Paper would also be a prompt for review as it is likely to highlight changes.
- 4.7 The Council considered that further detailed work needed to be done in the area of pensions to cover the points raised in 4.6 and to factor in the results of the AQR thematic review. The Council considered that the pension practitioner group should be re-convened to ensure that all areas of actuarial work in pensions have been identified at a sufficiently granular level and to test the Risk Assessment for TAS 300.

Need any new Specific TASs?

- 4.8 The Council was asked to consider if there were any new areas of work which could be considered for Specific TAS and the paper had two suggestions clarifying that new areas would be considered as part of the Post Implementation Review of Technical Actuarial Standards:
- a) Actuaries working in investment management; and
 - b) Actuaries working in Banking and Credit Risk analysis (including covenant assessment).
- 4.9 Council noted that TAS 100 has only just been introduced for these areas of work and that some time should be allowed for these to be embedded before considering whether additional standards were required. Council suggested considering actuaries' work involving Data Science and risks arising from the General Data Protection Regulation. The Chair requested that the scope of the Post Implementation Review of the TASs be presented to Council for its input in late 2018, noting that the review itself would commence in mid-2019.

5. Consultation on ISAP 6 (Enterprise Risk Management Programs and IAIA Insurance Core Principles)

The Council considered the draft response to the IAA exposure draft of the proposed ISAP 6 (Enterprise Risk Management Programs and IAIA Insurance Core Principles) and were supportive of the suggestions for amendments.

6. Risk Management Report

- 6.1 The Chair introduced the paper and opened discussion in relation to the Principal Risk (PR6² on the Risk Register) to FRC associated with actuarial responsibilities from the perspective of both standard setting and oversight. Through discussion the Members made a few comments and suggestions including:
- The PR6 is drafted in broad sense to include varieties of risks in relation to compliance of standards and professional behaviour.
 - That one of the biggest risks to the FRC was that the Actuarial Standards are not fit for purpose. It was noted that PR6 includes both that the standards have been set appropriately and compliance with those standards. It was also noted that the wording of PR6 captures the broader need for actuaries to act in a professional manner.
 - The relevance of standards was important - relevance to public interest and to actuaries. There is a further risk that regulations could undermine professionalism through unintended consequence of poor regulation. The Council suggested that the other Principal Risks be reviewed to ensure that this point is appropriately reflected.
 - Council also suggested that the terms 'investment and other decisions' be re-visited and suggested that the term 'decisions' on its own was sufficient. The Council also suggested linking the wording of PR6 with the Reliability Objective.
- 6.2 It was suggested and agreed that a paper that includes the other relevant Principal Risks and all sub risks relating to actuarial work would be presented to Council at a future meeting.

7. Stakeholder Survey Results

- 7.1 Mario Dunn (MD) introduced himself to the meeting and presented the paper which highlighted the outcome of the 2016/17 survey of FRC stakeholders.
- 7.2 MD noted that the results of the survey had been published and highlighted that, where respondents were familiar with the work of the actuaries at FRC, the results were very favourable but results were less favourable where respondents were not familiar. He also drew a distinction between the perception that the actuarial work of the FRC was not a priority for the organisation against the reality that it was.
- 7.3 The Council considered whether it was more important that those who were aware of the actuarial work were positive rather than whether a broader population was aware of the work of FRC in actuarial matters. The Council concluded that a broader awareness of the FRC's actuarial work would result in a wider range of feedback on the FRC's work which would potentially have greater impact and would ensure greater challenge of the work. If stakeholders have greater awareness of FRC's profile and work on actuarial standards and oversight, the FRC's work could potentially achieve greater impact.
- 7.4 It was confirmed that in terms of participation in the survey, a quantitative survey including stakeholder panels was undertaken that was based largely on the wide range of stakeholders that the FRC regulate.
- 7.5 The Council also noted the importance of the scope of the FRC's role as regulator being well understood. The Council suggested that senior FRC executives could raise their public profile within the actuarial profession.

² PR6 Investment and other decisions based on the work of actuaries are ill-founded due to a failure of such work to meet the professional standards expected.

- 7.6 The Council discussed the possibility of having a more actuarial focussed survey. It was noted that this was done previously but the feedback from the Board was for a more integrated survey which has now been implemented.
- 7.7 In terms of promoting TAS and raising FRC profile, AM reported on the activities which were undertaken or planned for the coming months which related to further TAS Outreach, JFAR Perspective outreach and increasing membership on the FRC Stakeholder Panel.
- 7.8 The Chair thanked MD and the Council for their contribution.
- 8. Update from the Chair**
The Chair informed the Council that the FRC Governance Review had been concluded and that in her view there was no substantive change to the work of the Actuarial Council proposed. As a result of the review, the Secretariat, with input from the Council Chairs, would be revising the terms of references of the FRC's Councils for approval by the FRC Board.
- 9. Update from the Executive Director, Audit & Actuarial Regulation**
Melanie McLaren (MM) provided a brief update on the matters considered at the Board meetings held on 6 December 2017 and 7 February 2018.
- 10. Report of the Director of Actuarial Policy**
AM informed that the JFAR Risk Perspective: 2017 Update had been published on 8 February 2018. Hazel Beveridge (HB) informed the Council of plans for publicising the document which would include rolling out at various conferences. She agreed to provide the list of conferences to the Members. The Council considered that the integrated approach of regulators in forming the JFAR Risk Perspective document was helpful.
- 11. Update from the Director of Professional Oversight**
Siân Barr (SB) provided a brief update on the Professional Oversight activities which included:
- The FRC reports its visit findings on the IFoA's processes for handling Practising Certificate applications, CPD validation, complaints & discipline matters and professional exams, etc. The findings in these private reports were agreed with the IFoA and the key findings would be published in the FRC's annual report in the Summer.
 - Two draft reports had been issued to the IFoA with the findings from the oversight visits to its Oxford and Edinburgh offices during the Autumn and other oversight activities.
 - The IFoA's paper and outline consultation document on Actuarial Monitoring had been discussed by the Council on 18 January 2018. A more complete draft of the IFoA's consultation document would be considered by the Council in March.
- 12. IFoA Observer's Report**
- 12.1 DH introduced the paper and outlined the following points:
- A Risk Alert on General Data Protection Regulation was issued after Christmas in 2017. This would be circulated to Council via email.
 - On the Actuarial Monitoring proposal, positive progress and follow up continues with the PRA following the constructive meeting in December. The GDPR has resulted in some issues with the Practising Certificate renewal process and the Council noted its interim solution.

- 12.2 The Council noted that the total number of members leaving the IFoA either by resigning their membership or defaulting due to non-payment of subscriptions is consistent with previous years. It was confirmed that there was no quantitative evidence of an increase in the number of leavers because of concerns about standards or regulations.
- 13. Update from the HM Treasury Observer**
Stephanie Paul had informed that the HM Treasury had no substantial update for the Council.
- 14. Council Effectiveness Review**
The Council Effectiveness Review log was noted.
- 15. Minutes of the Actuarial Council meetings and rolling action log**
- 15.1 The minutes of the meeting held on 7 November 2017 were approved for publication subject to minor amendments.
- 15.2 The minutes of the meeting held on 18 January 2018 were approved for publication.
- 15.3 The rolling action log was noted.
- 16. Forward Agenda**
The Forward Agenda was noted.
- 17. Any other business**
FRC Information Policies
Kate Davies (KD) informed that the new information policies had been introduced as a result of the project to update the FRC information handling. It was noted that not all Council Members had access to the Library shelf of the Board Intelligence portal, where the Policies were uploaded. The Secretary agreed to investigate the issue and ensure that all Members had access. It was therefore agreed that this topic would be considered at a future meeting. KD requested Members to email their queries in advance of the meeting.
- 18. Date of next meeting**
6 March 2018 at 2pm (Secretary's post meeting note: The meeting on 6 March 2018 was deferred to a future date).