



Minutes of a meeting of the Actuarial Council held on Wednesday, 22 March 2017 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

Olivia Dickson	Chair of Council
Martin Burke	Member
Ashok Gupta	Member (from Minute 7.1)
David Hindley	Member
Howard Jacobs	Member
Joanne Livingstone	Member
Martin Miles	Member

Observer:

Des Hudson	IFoA Observer (from Minute 1 to 9.4)
Umair Choudhry	HM Treasury (from Minute 1 to 9.4)

In attendance:

David Andrews	Head of Delivery Unit (from Minute 6 to 8.6)
Siân Barr	Project Director, Actuarial Oversight
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Secretary
Stephen Haddrill	Chief Executive (from Minute 5.1)
Melanie McLaren	Executive Director, Audit & Actuarial Regulation (from Minute 1 to 9)
Lara McSweeney	Governance Associate & Data Coordinator (from Minute 1 to 8.6)
Ann Muldoon	Director, Actuarial Policy Team
Erica Nicholson	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting and in particular Lara McSweeney who was attending as an observer. Apologies were noted from Council Members Rosemary Beaver, Angela Darlington and Dominic Veney and Dawn Dickson, the Director of Professional Oversight.

2. Minutes and rolling actions

- 2.1 The minutes of the Private Session meeting held on 7 February 2017 were approved.
- 2.2 The minutes of the Public Session meeting held on 7 February 2017 were approved for publication.
- 2.3 The rolling action log was noted. Ann Muldoon (AM) informed the meeting that she had sought the feedback of the Council Members in respect of the induction process and the briefings on actuarial matters. It was reported that most Members had not faced any challenges when they had joined the Council and that attending the first couple of meetings helped them to understand how the Council worked.

3. Forward agenda

AM advised that the forward agenda would be revised to incorporate the outcomes of the discussion on the Actuarial Council's role and areas of focus for 2017, which was

on the meeting agenda. The format of the document would also be revised to give a high level view of the plan.

4. Executive Director, Audit and Actuarial Regulation

4.1 Melanie McLaren (MM) provided an update on Audit and Actuarial matters which were discussed at the FRC Board meeting held on 9 March 2017, including:

- In light of the FRC's role as Competent Authority for Audit, it has been observed that whilst there have been positive effects of rising standards through the monitoring regime, it is also important to recognise the impact of firms culture and leadership in promoting quality.
- The stakeholder engagement feedback in 2016 had highlighted the need for speedy and authoritative enforcement activities for both actuarial and accountancy schemes and the audit enforcement procedure. There was also feedback on the level and nature of sanctions imposed on misconduct with a planned review led by an independent panel.
- Horizon scanning of the principal risks the FRC faces including the quality of actuarial work and related mitigations.

4.2 In response to a query relating to the criteria for audit monitoring of Lloyd's Syndicates, MM informed that every statutory audit in the UK which was covered by the EU Audit Regulation & Directive was subject to monitoring either by professional bodies or the FRC. The monitoring of non-public interest entities is delegated to professional bodies and that of PIEs (Public Interest Entity) is retained by the FRC. Though Lloyd's Syndicates do not fall under the definition of PIEs, the FRC has retained the monitoring of them as they have similar public interest risks as insurance companies.

5. Report of the Director of Actuarial Policy and the Director of Professional Oversight

5.1 Ann Muldoon (AM) briefly introduced her report highlighting certain matters that had progressed after the report had been circulated including:

- The broad outreach programme on the revised TASs. The FRC was working closely with the TAS 100 working group which had made good progress with case studies. The working group had approached each of the different practice boards to derive case studies. One of those practice areas - 'Investment', had raised some challenges in respect of the applicability of the standards. AM and Robert Inglis (RI) had met with the Finance and Investment Practice Board to talk through their queries.
- In response to a query as to how to raise awareness of the revised standards with the investment actuaries group, Joanne Livingstone suggested reconvening the investment actuaries' network that was previously involved.
- It was confirmed that the only critical feedback that the IFoA had received was in relation to the extension of the new framework to include investment actuaries in the scope of the TAS. The IFoA is close to publishing its generic case studies and the specific case studies will follow later.
- AM confirmed that a number of outreach events had already been scheduled, including sessions for volunteer members of the IFoA Professional Support Service, an article in The Actuary magazine and that the IFoA is arranging sessions at the main conferences.
- AM noted the transition arrangements for the introduction of the revised AS TM1 Statutory Money Purchase illustrations. It was reported that the publication of the transition statement for AS TM 1 version 4.2 had not been well publicised; AM agreed to review the publication process.
- Simon Wasserman, Project Director with pension's experience, previously at PwC and the Pensions Regulator, would be joining FRC at the end of March. RI would

continue to work on a transitional basis until the end of June to support the hand over to Simon.

- It was confirmed that the FRC had responded to the AAE Code of Professional Conduct consultation.

5.2 In the absence of Dawn Dickson, Siân Barr reported that there was nothing more to report from what was stated in the paper in respect of the monitoring, oversight and risk. There were no comments made.

6. IFoA Observer's Report

6.1 Des Hudson (DH) informed the meeting that the IFoA had plans for an informal consultation on the proposed changes to the Actuaries' Code before the formal consultation which was planned to take place later in the summer.

6.2 In respect of monitoring, the Council discussed the focus on audit quality in retendering and how this compared in the actuarial space, noting the following points:

- FRC ratings of audit quality are used in competitive tenders for audit and without monitoring of actuarial work there is no comparative basis for competitive tendering.
- Over time, and with the introduction of audit re-tendering in particular, audit quality has become a commercial consideration. The existence of a commercial objective places a focus on audit quality supporting actuarial monitoring.
- There is no similar requirement for re-tendering of actuarial work and examples of some pension schemes using the same firm of actuaries to provide scheme actuary services for decades were considered. Where there is a re-tender of actuarial work, price can be the main consideration.

6.3 Noting the IFoA guidance on TAS 100, the Chair requested that DH and AM prepare a report which sets out the IFoA's process for the development of TAS guidance including liaison with the FRC and how the Actuarial Council provides input to the process.

7. HM Treasury Observer's Oral Report

7.1 Following the Lord Chancellor's announcement on the change in Ogden rate, it was reported that a consultation to seek responses on wide ranging matters including by whom and how such rates should be set, what could be the best possible mechanism for changes to work in practice, etc. would be launched. The Council discussed the impact of the change in the rates and a number of queries, points and observations were made and the following was noted:

- The changes had implications on outstanding claims of insurance companies, with the consultation posing additional uncertainty for the level of claims.
- The IFoA had published a risk alert on the change in rates. It was agreed that going forward, the IFoA's reports to Council would include all proposed and published risk alerts.

7.2 It was agreed that AM would present to the Council a paper on the implications for actuarial work and the FRC of the recent and future changes in the Ogden rate. It will be interesting to see if there are any lessons for the FRC, IFoA or JFAR to learn from how the matter was handled by the actuarial profession and those who regulate it.

8. Actuarial Council – Role and areas of focus for 2017

8.1 The Chair reminded the Council Members of the discussion that had taken place at the previous Council meeting in respect of the focus of the overarching FRC plan and priorities for 2017/18. The purpose of this paper was to discuss the Actuarial Council's role and focus for this year in order to support the FRC in achieving its objectives.

- 8.2 Stephen Haddrill (SH) informed the Council that the FRC Board had discussed the FRC's Mission and the Priorities at its last meeting. Following the Board's discussion the FRC Priorities for 2017/18 were revised and a revised paper was tabled at the meeting. He provided an update initially on the FRC's Mission which included the following points and reports:
- The FRC's Mission is to promote high quality corporate governance and reporting to foster investment. It was noted that the Board had discussed the requirement to take into account a wider stakeholder group as a public interest regulator. The FRC has established a new Stakeholder Advisory Group.
 - The FRC's Mission statement would be reviewed pending the outcome of the ongoing BEIS consultation on Corporate Governance.
- 8.3 SH gave an update on each of the FRC's Priorities for 2017/18 as set out in the tabled paper and the following reports and points were made:
- The review and update of the UK Corporate Governance Code and promoting the work on corporate culture was linked to the response to the Government's Green Paper and recognizing and linking the powers more effectively to corporate reporting including governance and remuneration.
 - In order to address the challenges of Brexit, matters including the adoption of accounting standards and how to remain influential internationally will be considered. A major project to speed up the enforcement process was under way and an independent review of enforcement sanctions will start soon.
 - Promoting clear and concise corporate reporting was an ongoing priority and supports effective stewardship.
 - As the UK Competent Authority for audit, driving improvements in the quality of audit was clear and pursued.
 - The priority relating to establishing effective monitoring of actuarial work by the actuarial profession and the implementation of new Technical Actuarial Standards will be informed by the Council's discussion on this topic.
 - The Board is considering changes in both the Executive and the governance structure to bring about wider engagement with stakeholders, professional firmness with parties that the FRC regulates and speedier and decisive decision making processes.
- 8.4 The Chair opened the discussion on the overview of the role of the Council as articulated in its Terms of Reference and the proposed areas of focus. Particular attention was given to the following matters:
- The distinction between the different types of advice that the Actuarial Council provides to Codes and Standards Committee, Conduct Committee and the FRC Board respectively.
 - Risks to the quality of actuarial work in the UK and considering and commenting on the current, emerging and potential risks.
 - Consideration of topics that would enable the Actuarial Council to provide strategic input and thought leadership to the FRC.
 - The frequency of meetings. The Council agreed that a minimum of 4 meetings per year, reduced from six, was acceptable with an expectation of six meetings. More meetings could be arranged if required, particularly if there was substantial work.
- 8.5 A Member raised a query relating to how far back in an investment chain should the FRC focus. MM observed that it was an important but difficult question as the FRC's responsibilities are defined by its Articles of Association and therefore the right focus is determined by the context of different statutory and non-statutory objectives.

- 8.6 The Council discussed its areas of focus for 2017 and the discussion included the following reports, points and observations:
- Oversight & Enforcement: This includes providing advice to Conduct Committee on actuarial matters when requested to do so, and understanding enforcement activities of the FRC to inform standard setting. The Members agreed to also include having an overarching strategy on promoting continuous improvement in actuarial quality. .
 - Risk Management: To focus on supporting the FRC in understanding the risks to the public interest arising from actuarial work and the risks to the FRC's own objectives. The Council will also provide insight to support the development of the principal risks described in the FRC's annual report and the framework for managing risks associated with failing to deliver the strategy and plan relating to actuarial matters.
 - Standards UK: To focus on supporting the FRC's DB Pensions Project, considering whether changes to TAS would be required, as a result of regulatory or legislative changes to responsibilities of actuaries in the UK, responding to Brexit and the potential areas for other FRC experts to provide insight to Council e.g. Corporate Governance, IFRS 17. It was suggested that it would be worth exploring if Council Members could liaise more closely with the IFoA's Practice Boards (PBs) on their joint interest in guidance and standards noting that the PBs do not have a regulatory focus.
 - Other matters: In response to a question, it was confirmed that Actuarial Council's advice will continue to be sought on AS TM1 for Statutory Money Purchase Illustrations. It was noted that a refocused view of impacted stakeholders might result in the FRC increasing its focus on ASTM1.

8.7 The Council requested that the points raised in discussion be taken into account in finalising the Actuarial Council's areas of focus for 2017.

9. Actuarial Monitoring

9.1 In the context of the Council providing advice to the Conduct Committee on the IFoA's proposals for a monitoring regime, AM introduced the item and summarized the key points from the circulated paper.

9.2 DH further added that the focus of the IFoA was to establish a monitoring system that would be practical. It was important for the IFoA to recognize that the arrangement with their members is contractual and so careful considerations have to be given on practicalities and speedy implementation of the monitoring regime. While the IFoA is aware that the Practising Certificate (PC) regime may not provide sufficient breadth for monitoring it is a sensible and practical starting point.

9.3 The Chair opened the discussion of the hallmarks the Council advised should be used in assessing the IFoA proposals. There was broad consensus on the following hallmarks with a number of refinements suggested:

- Purposeful: It was noted that the Reliability Objective would be a measure to assess the sufficiency of compliance with technical and behavioural standards and that the assessment of compliance would also include consideration of *how* the actuary had complied.
- Proportionate: the bullet point will be expanded to clarify what 'proportionality' in the public interest means. Another aspect of proportionality was the impact of the regime on the profession.
- Positioned: The focus should be on monitoring for collective benefit/improvement of quality.

- Practical: It was agreed that the Council should advise that a practical regime should take into account and leverage existing quality control arrangements in the market and assess what value could be obtained from them. The Council recognised that the IFoA would need to establish a monitoring panel comprising experts with appropriate insight and skills to judge the application of professional judgement.

9.4 Having established a consensus on its advice on the hallmarks, the Council members discussed some implementation challenges and responded to the questions as set out in 3.2 of the paper. The detailed discussion included the following reports, points and observations:

- It was considered that a monitoring approach requires the buy-in at firm level and engagement with other regulators.
- The proportionality of the monitoring regime on firms should depend upon the likelihood and impact of risk. Thematic reviews might be helpful. .
- The feedback received by AM from the bilateral meetings with Council members was that the PC regime focused on certification of individuals for specific work and not on overall work and the focus of monitoring regime should be on the work. The PC regime could be used to leverage access to the work. It was felt that the scope of monitoring only by way of the PC regime would be insufficient. The Council would not however advise that the PC regime be extended solely to implement actuarial monitoring.

9.5 The Council requested that the points raised in discussion be taken into account in drafting the advice to the Conduct Committee. A revised version of the advice to Conduct Committee would be circulated to Council members for comment and then signed off by the Chair.

Private session

9.6 The Council met in private session (without the Observers) to gather Council members' further views on the objective and scope of the monitoring of actuarial work.

10. Any other business

There was none.

11. Date of next meeting

The next meeting of the Actuarial Council will be held on 2 May 2017.