

Minutes of a meeting of the Actuarial Council held on Tuesday, 2 April 2019 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

John Coomber	Chairman
Rosemary Beaver	Member
Martin Burke	Member (From Minute 4)
Naomi L'Estrange	Member
Dominic Lindley	Member
Joanne Livingstone	Member
Bob Scott	Member

Observer:

Alice Habisreutinger	HM Treasury (From Minute 4)
Des Hudson	IFoA

In attendance:

Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Council Secretary
Paul George	Executive Director, Corporate Governance & Reporting
Stephen Hadrill	Chief Executive (From Minute 1 to 7)
Ann Muldoon	Director of Actuarial Policy
Erica Nicholson	Deputy Director of Professional Oversight
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

- 1.1 The Chairman welcomed everyone to the meeting.
- 1.2 Apologies were noted from Dominic Veney, Council Member.

2. Declaration of conflicts of interests

There were none reported.

3. Minutes of the Actuarial Council meetings and rolling action log

- 3.1 The minutes of the meeting held on 30 January 2019 were approved for publication subject to minor typographical errors.
- 3.2 The rolling action log was noted.

4. Update from the Chairman

- 4.1 The Chairman reported that the Codes and Standards Committee had not met since the last meeting of the Council. He informed that the Board Strategy Day had taken place on 20 March 2019 and Board meeting on 21 March 2019 and amongst other matters, the discussions on these two days had included:

Strategy Day

- The operation and early messages from the FRC's Citizen's Jury noting that further feedback will be provided when the report is issued
- Implications for the FRC of the political and economic environment and future outlook

- Next steps on Kingman themes including promoting audit and reporting quality, transparency, identifying risks, internal controls and viability
- Taking forward FRC's longer term thinking in respect of Audit reform and Future of Corporate Reporting
- How FRC is going to work together with BEIS and stakeholders

Board meeting

- 2019/20 Plan, Budget and Levies
- FRC's responsibilities on EU Exit
- Standards for Investment Reporting
- Audit Firms Contingency Planning Review

5 Update from the Executive Director, Corporate Governance & Reporting

5.1 The Chief Executive and the Executive Director of Corporate Governance and Reporting provided a joint update on the work relating to Kingman recommendations and noted that:

- FRC has set up a change programme to support the implementation of all the Kingman recommendations and appointed a Programme Director.
- There is a tight timetable for the progression of the implementation considering the need for legislation and noting the significant effort required.
- A number of workstreams have been established to address some of the immediate issues arising from the recommendations. Some recommendations cannot be progressed without legislation. BEIS published an initial consultation on the recommendations of the Kingman review on 11 March 2019.
- There will be a need for a significant increase in headcount to support the additional work arising from the recommendations and also the implications of Brexit which has been included in the budget currently out for consultation.
- FRC is also working with BEIS in establishing the UK (International Accounting Standards) Endorsement Board. The UK Corporate Governance Code has been reviewed and the consultation on the revisions to the Stewardship Code closed on 29 March 2019. Progress is being made in respect of the FRC's project on the Future of Corporate Reporting.
- The Council noted that the FRC has also started work in relation to establishing robust internal controls concerning risks and viability statement which would underpin the principles of the UK Corporate Governance Code. This would address Kingman's recommendation of introducing a regime similar to Sarbanes-Oxley. The Council noted that these changes would have consequences and implications for the role of actuaries.

6. Report from the Director of Actuarial Policy

6.1 The Director of Actuarial Policy provided an update on the report and noted that:

- The Actuarial Policy Team is working on reviewing the IAA's Exposure Draft of ISAP 4. The draft response to the consultation would be circulated to the Council for any comments.
- The Joint Expert Panel for USS pension schemes has recently started its second phase of work on the Universities Superannuation Scheme work.
- Bob Scott presented on the challenges surrounding GMP Equalisation (Guaranteed Minimum Pension) at the JFAR meeting on 8 March 2019.
- A working party, led by Ruston Smith, Chair of Tesco Pension Trustees has been set up to produce standardised assumptions for SMPI projections under the sponsorship of DWP. FRC is setting up bi-lateral meetings with DWP and FCA to get a better understanding of the nature and governance of the group.

7. HM Treasury's Report

- 7.1 The Council received an update from the HM Treasury's Observer and noted that:
- There have been positive responses to the consultation on pensions dashboard;
 - The HM Treasury is currently seeking evidence and views of a wide range of stakeholders in respect of Kingman's recommendations on actuarial matters. It was confirmed that the Treasury had met John Coomber and Rosemary Beaver who had provided the views of the Council. The Treasury had also met representatives of the FRC and the IFoA in this regard. It was requested and agreed that the presentation given by the FRC to the Treasury in respect of Kingman recommendations would be circulated to the Council for information.

8. Update from the Director of Professional Oversight

- 8.1 The Deputy Director of Professional Oversight provided an update on the ongoing activities of the Team, which included:
- Work is progressing in relation to a review of the governance of the IFoA as part of a broader review of governance of some of the professional bodies that FRC oversees.
 - The Professional Oversight team engaged with IFoA in respect of the Guidance for the Actuaries' Code on conflicts of interest, speaking up and the new interactive format, and in respect of the implementation of the IFoA's Actuarial Monitoring Scheme.

9. IFoA's Report

- 9.1 The Council received an update from the IFoA's Observer and noted that the IFoA website will be hosting the Actuaries' Code Guidance which will provide a platform for easy navigation of Guidance for members.
- 9.2 In response to a query, it was clarified that the IFoA Regulation Board is reviewing the risk alert in respect of mortality assumption risk. The Council noted that the IFoA would liaise with the FRC executive in finalising the document.
- 9.3 The Council discussed the complexity of the fields that actuaries operate in and the challenges they may face in respect of their communication with boards following a recent presentation on managing uncertainty. It discussed how the TAS framework and the Actuaries' Code help in managing related risks and challenges and the potential limitations in those standards. It was reported that the IFoA's Regulation Board had considered this topic at a recent meeting and considered that that this work on professionalism in managing uncertainty is complementary to the Actuaries' Code and it is important to have these discussions. It was suggested that the matter could be presented at a JFAR meeting for further discussion. The Chairman agreed to give further consideration to this topic to consider whether such case studies would help Council to understand challenges facing actuaries better when setting standards.

10. Review of AS TM1 assumptions

- 10.1 The Project Director introduced the paper which sets out the recommendations of the annual review of AS TM1. He thanked the members of the Council who had provided valuable input into the paper.
- 10.2 The Council considered the recommendations proposed in the paper and the background information that informs the recommendations. Through discussion, the Council made a number of points, observations and suggestions, including:
- The importance and challenges on including a projected fund in the illustration, noting the complexities on tax and the increased use of drawdown, rather than taking an annuity.

- How individuals receive the illustrations used and particularly how those over 50 are using the information, noting that the research paper attempted to test the realism of the annuity at retirement for those close to retirement, recognizing the limitations of that comparison.
- In practice, people do regard SMPs as important because this is the only information they have when they seek advice on pensions. It is regarded that the key purpose of the SMP projection is to show pension, therefore annuitisation is important.
- The potential engagement of different age groups and whether there should be a more tailored approach to reflect different stages of saving from the young person who is a long way from retirement to those close to retirement. The pensions dashboard will be a significant development for SMPs and it was suggested that the concept of segmentation should be proposed to the pensions dashboard along with research as to what the recipients do with the information.
- In practice, the assumption that has most impact on the projected fund is the accumulation rate. It is likely that it will be more prescriptive in a dashboard environment.
- It was suggested that ideally the discount rate used in AS TM1 should harmonise with the Bank of England price inflation target rate and consider changing this next review
- The FRC's research paper suggests that we have a simplistic approach to expenses at retirement in AS TM1 assumptions. It was suggested that a higher level of expenses could be considered for small pots in future reviews. It was also suggested that the accumulation rate should be also re-considered.
- The Council discussed that one of the changes to CMI 2018 is to allow schemes more flexibility in their assumptions for short-term mortality improvements. This would only appear in the Advanced and Extended models. The Council suggested that the FRC should keep the market practice under observation and check how much the extra flexibilities are used in practice.

10.4 The Council advised the Executive that it was supportive of the recommendation to keep the assumptions for SMPs for the year from April 2020 onwards unchanged as set out in AS TM1 version 4.2. In advising this, the Council was mindful of the imminent development of pensions dashboard and the work of the working party in developing standardised projections and asked that the points raised be passed to the working party.

11. ASORP 1 – Feedback and implementation

11.1 The Project Director provided an update on the responses to the consultation paper *Actuarial Statement of Recommended Practice 1*.

Scope of ASORP 1

11.2 In response to a concern relating to the narrowing the scope of Social Security Programme (SSP), the Council gave consideration to the proposal to revert to the original ISAP 2 attribute and to clarify explicitly that the exclusion of 'financial guarantees' is intended to exclude PPF, FSCS and other compensation schemes from the scope of ASORP 1.

11.3 It was suggested that the FRC Executive should review the changes to the scope to ensure that they do not have any unintended consequences and that they should be well presented in the document so that the changes are noticed. Subject to that, the Council was supportive of the proposed change.

The level of the standard

11.4 The Council considered the FRC's rationale behind adopting ISAP 2 as a Standard of Recommended Practice which is different from the IFoA's perspective and supported the decision to issue it as a SORP and call this standard ASORP 1.

Valuation date

11.5 The Council considered and supported the proposed amendments to the words in paragraph 3.1.3b in order to clarify the definition of the valuation date.

Further comments

11.6 The Council considered the other concerns raised in the responses and supported the proposal that:

- the requirement to complete a compliance statement is not burdensome;
- paragraph 2.5, 2.6 and 3.2 of ISAP 2 (2017) be removed;
- the level of detail in communication is appropriate;
- no amendment should be made to ASORP 1 in respect of geographic scope.

11.7 The Council considered the Feedback Statement and the final draft of the ASORP 1 and agreed to advise the FRC Executive to recommend to the Board for publication.

12. Actuarial Council - Forward Agenda

12.1 The Council noted the Forward Agenda.

13. Any other business

13.1 The Council noted that this was the last meeting for Des Hudson. The Chairman on behalf of the Council, thanked Des for his contribution to the work of the Council and wished him well.

13.2 There was no other business.

14. Date of next meeting

The Council noted that the next meeting would take place on 11 July 2019.