

Confirming compliance with the Technical Actuarial Standards

A review of practice

Introduction

TAS R, the FRC's technical standard on Reporting Actuarial Information, has been effective since 1 April 2010 and includes a requirement to provide a statement of compliance with our standards.

We have reviewed how practitioners are implementing this requirement. We have also considered how useful users find the statements.

We are broadly content with the compliance statements being produced by practitioners. In general, users place a degree of reliance on these statements. However, many statements only confirm the compliance of the report and not the underlying work.

Key messages

Our view is that compliance statements should :

- generally be short and written with the user in mind;
- confirm that the work complies with the relevant TASs; and
- not be omitted on the grounds of materiality.

The requirements in TAS R and their rationale

The requirement for a compliance statement is set out in paragraph C.3.11 of TAS R:

An aggregate report shall:

- state which TASs apply to the work that has been carried out;*
- state any other TASs with which it is intended that the report shall comply;*
- state whether it complies with those TASs; and*
- give particulars of any material departures from the TASs referred to in a) and b) above.*

Compliance statements support our Reliability Objective¹. We consider that they help users to judge how much reliance to place on actuarial information. It follows that it is important that compliance statements are clear.

¹ Users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

Aim of the review

An initial analysis of publicly available compliance statements, in the middle of 2011, indicated that some practitioners were producing long statements that did not appear to have been written with the user in mind. This analysis showed that some statements confirmed that the report, rather than the work, complied with the TASs.

We decided to undertake a review of practice. Our aims were to:

- gain insight into how practitioners confirm compliance;
- understand any difficulties practitioners have with the requirement; and
- discover how useful users find the compliance statements that are produced and whether alternative compliance requirements would be more useful to users.

We were also interested in whether there had been occasions when practitioners did not provide a compliance statement on the grounds of materiality, for example, where they believe that the provision of a compliance statement does not affect the user's decision.

Strands of the review

The review took place in the second half of 2011 and consisted of:

- a review of publicly available statements;
- a survey of life insurance practitioners;
- discussions with Lloyd's about the reports produced by syndicate actuaries; and
- meetings with pensions practitioners.

We also received feedback from other stakeholders including the FRC's Actuarial User Committee.

Review of publicly available reports

Our review of publicly available compliance statements included Scheme Funding reports, Annual Scheme Funding reports, Actuarial Function Holder's reports and Part VII transfer reports.

We also reviewed a sample of 21 publicly available with-profits actuary's reports to with-profits policyholders for the year ended 31 December 2010. We would have expected these reports to confirm that the work complied with TAS R and TAS D; and, depending on when they were issued, TAS M may have also applied.

This review showed that many of the statements produced were as expected. These statements were of an appropriate length and written so that a user could understand the nature of the compliance. However, the majority of the statements

confirmed that the report, rather than the work, complied with the TASs.

Five of the with-profits reports did not confirm compliance with the TASs, but instead referred to relevant rules and guidance issued by the Board for Actuarial Standards. Five made no mention of our standards.

Survey of actuaries holding life practising certificates

In December 2011, we surveyed actuaries who hold life actuary practising certificates. 54 responses were received. The key findings were as follows.

Just over half of participants said that they had experienced issues with the TAS R requirement to confirm compliance. Most of these issues appear to relate to determining whether a piece of work was in scope.

The majority of participants produce compliance statements that confirm compliance of the report rather than the work (Fig. 1).

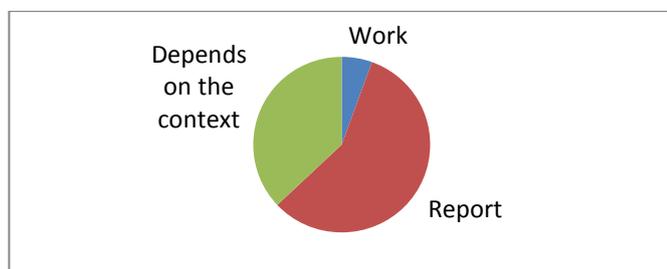


Figure 1 – Subject of compliance statement issued by actuaries with life practising certificates

The majority of compliance statements produced are between 5 and 10 lines long or less than 5 lines long (Fig. 2).

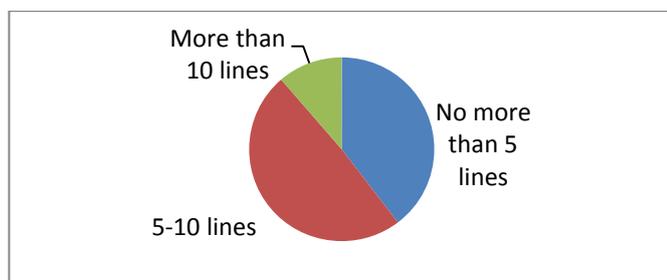


Figure 2 – Length of compliance statement issued by actuaries with life practising certificates

59% of participants who responded felt that the compliance statements were “moderately useful”. 41% described the statements as “not useful” (Fig. 3).

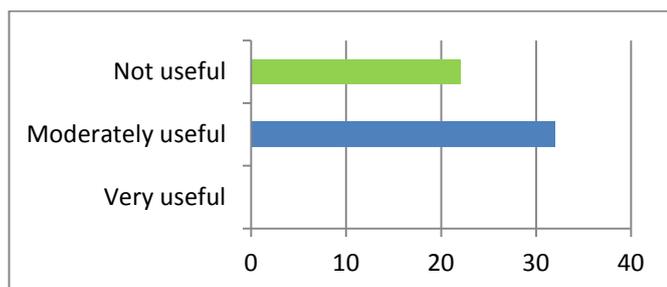


Figure 3 – How useful actuaries with life practising certificates consider users find compliance statements

The survey asked for views on what might make the statements more useful to users. Several respondents

suggested reporting on an exceptions basis. Others felt that the existing requirement was proportionate and reasonable.

Less than 15% of respondents reported not providing a statement on the grounds of materiality.

Discussions with Lloyd’s

Our discussions with Lloyd’s indicated that managing agents look for compliance statements from syndicate actuaries. 95% of SAO reports for the year ending 1 December 2010 confirmed compliance with our standards.

Meetings with Pension Practitioners

We met actuaries from five firms of pension practitioners to discuss their approach to compliance statements. We asked whether they had experienced any problems in implementing the requirement and sought their views on how useful the compliance statements are to users. We also discussed compliance statements at other, more general meetings with practitioners.

Most practitioners have developed a firm-wide approach to the requirements in TAS R and reported no problems implementing the compliance requirement.

Most practitioners did not consider that users find compliance statements useful. It was suggested that very few users understand the requirements of the TASs and therefore compliance statements are of limited use to them. Many practitioners noted that users paying for actuarial advice expect the advice to comply with relevant professional standards.

Some practitioners suggested that compliance statements should be permitted to refer to “all relevant technical actuarial standards” rather than listing each relevant TAS.

Discussions with users

We met six professional trustees and asked for their views on the usefulness of compliance statements. We also asked the FRC’s Actuarial User Committee for their views.

We found that users do place reliance on the statements of compliance, but there is an expectation that actuaries comply with all relevant actuarial standards anyway. It was considered that compliance statements are useful but should be short – longer statements are less likely to be read.

Some users considered that a statement confirming compliance with “all relevant standards” would be sufficient; others considered it was helpful to list each standard provided their relevance is explained or at least confirmed.

Findings

Our findings from this review are:

- Almost all reports contain a compliance statement.
- Users expressed a preference for short statements and most statements were short.
- Some practitioners’ statements confirm that the report is compliant with the TASs but do not refer to the underlying work
- A few practitioners say they have sometimes not provided a statement on the grounds of materiality.

- Both users and practitioners acknowledge that users expect the work carried out by an actuary to comply with relevant professional standards.
- Some practitioners consider that compliance statements are not useful to the users.
- Users generally consider compliance statements are useful and some rely on them.
- Views differ as to whether it is more useful to confirm compliance with “all relevant standards” or list the TASs.

Next steps

We welcome the suggestions from users and practitioners on how TAS R could be amended to make the compliance statements more useful to users. We will consider this issue as part of our first full review of the TASs.

We have expressed our view that compliance statements should generally be short and confirm that the work, as well as the report, complies with the relevant TASs; and should not be omitted on grounds of materiality.

However, we do not consider that it is proportionate to consult on a change to TAS R to clarify these points alone. We will consult on how best to remedy this as part of our first full review of the TASs. In the meantime, we would encourage practitioners to confirm that the work, as well as the report, complies with the relevant TASs.

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