

Minutes of a meeting of the Actuarial Council held on Monday, 17 September 2018 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

John Coomber	Chair of Council
Rosemary Beaver	Member
Martin Burke	Member
Joanne Livingstone	Member

Observer:

Des Hudson	IFoA Observer (via teleconference)
Edward Crowther	HM Treasury Observer

In attendance:

Siân Barr	Project Director, Professional Oversight Team
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Council Secretary
Paul George	Executive Director, Corporate Governance & Reporting
Stephen Haddrill	Chief Executive Officer (From Minute 1 to 5.8)
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 and in particular, Ed Crowther to his first Council 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 5 June 2018 were approved for publication.
- 3.2 The rolling action log was noted. The Council received a brief update on the following actions:
 - Review of Scope of the Specific TASs – A paper will be presented at the October 2018 Council meeting.
 - Work & Pensions Select Committee Pension Freedoms inquiry – The enquiry is now closed and the report and Government response is published.
 - Consultation on Actuaries' Code – In relation to the Technical Actuarial Standards (TAS), the discussion on the term 'user' will be deferred to the post implementation review. A paper will be presented at the October 2018 Council meeting on proposed conformance changes to update the references to the Code in the *Framework for FRC TAS* reflecting the changes in the Actuaries Code that will apply from May 2019.
 - Council's liaison with the IFOA's Practice Board – To meet this action, Mr Hudson agreed to provide a proposal to the FRC to manage liaison through an IFoA central point of contact.

- Regular updates on the University Superannuation Scheme matter – An update on this matter will be included within the Report of the Director of Actuarial Policy.

3.3 The Council meeting dates for 2019 were noted.

4. Update from the Chairman / Executive Director / Directors / Observers

4.1 Mr Crowther reported that an update on the HM Treasury matters will be provided for the October 2018 meeting.

4.2 Ms Muldoon reported that Ms Beveridge earned a distinction in her MBA from Cass Business School and Ms Nicholson has been promoted to Deputy Director of Professional Oversight. The Council congratulated them on their successes.

4.3 The Chairman provided an update on the ongoing recruitment of members on the Council.

5 ASORP 1 – Financial Analyses of Social Security Programs (SSP)

5.1 Mr Wasserman provided a detailed update on this paper and reminded the Council that, when setting the scope of the Specific TASs, it had identified the technical actuarial work on the State Pension Scheme as high risk. The International Standard of Actuarial Practice 2 (ISAP 2), a model standard issued by the International Association of Actuaries, covers this area of technical actuarial work and therefore adoption of ISAP 2 was considered an appropriate approach to addressing this risk. Actuarial work on the SSP in the UK is covered generally by TAS 100. It was noted that the name of the new standard / recommended practice which is currently referred to as 'ASORP 1' in the discussion is subject to consultation with the FRC's inhouse legal team.

Proposed scope of ASORP 1

5.2 The Council noted that consideration is given to the characteristics of SSP as defined in ISAP 2 to conclude which programs in the UK would fall within the scope. The Council made a note of the following:

- The characteristics of the technical actuarial work in respect of state pensions mainly undertaken by Government Actuary Department (GAD) would fall within the scope of ASORP 1.
- Though the characteristics of SSP are met by the Pension Protection Fund (PPF), it is not normally considered within a definition of 'social security' schemes. Other compensation schemes like Financial Services Compensation Scheme could also be included. The Executive proposed its intention to specify in the characteristics of SSP that the eligibility for SSP benefits would be through payment of qualifying National Insurance Contributions to specifically exclude the PPF and other compensation schemes from the scope of the ASORP. The Executive also proposed to revisit the risk assessment of the work of the PPF during the TAS post implementation review and consider whether it should be included within the scope of TAS 300. The Executive agreed that the scope of the ASORP would be consulted on.
- It was clarified that the NHS medical malpractice fund does not meet the requirements of the 'social security' schemes definition as set out in ISAP 2 and therefore would not fall within the scope of ASORP 1. The Council considered the risks associated with the actuarial work in relation to the NHS medical malpractice fund and agreed that this area of work should be considered as part of the post implementation review.

5.3 The Council was in principle, supportive of the proposed scope of ASORP 1 as set out in the paper.

Changes between ISAP 2 and ASORP 1

- 5.4 Appendix 4 of the paper set out the changes proposed and the associated rationale for those changes. SW talked through the changes that have been made. Through discussion, a number of points were noted and in particular in relation to Section 2.5 where the references to the Independent Expert Review have been removed. The Council noted that the first two requirements are descriptions of the review and of what constitutes independence. The third point requires the actuary who prepared the financial analysis to cooperate with the independent expert reviewer. The Executive considers that cooperation with the reviewer is an ethical requirement covered by the IFoA's standards. Council challenged if omitting this reference would cause any issues in the UK. The Executive clarified that actuaries regularly co-operate with independent reviews such as S166 reports requested by the PRA but that is not a matter for technical actuarial standards. The Executive confirmed that this would be subject to public consultation.
- 5.5 The Council was supportive of the proposed changes as listed in the paper. Mr Hudson also confirmed that the IFoA's views on the changes are similar to those of the FRC.
- 5.6 The Council noted the items within ISAP 2 (2017) which have been left unchanged and was supportive of the Executive's proposals.
- 5.7 The Council had a brief discussion on the ISAP 2 principle of 'comply or explain'. The Council agreed that further discussion on this matter could be held at the next meeting when a draft consultation document is presented for advice.
- 5.8 Mr Wasserman described the next steps in the process. Following Council's advice, approval of the FRC Board to publish the consultation will be sought. It was noted that the Executive propose to issue the consultation for the standard 12-week period to provide enough opportunity for responses. Following the consultation period, it is anticipated that consultation feedback would be presented to the Council in April 2019 with a view to implementing the standard with effect from July 2019.
- 5.9 Mr Hudson shared the IFoA's proposed approach to implementing ISAP 2.
- 6. AS TM1: Accumulation rate survey findings 2018**
- 6.1 Mr Wasserman provided a high-level summary of the outcomes of the survey made on the accumulation rates used by providers to monitor whether assumptions are in line with the Pensions Disclosure requirements. A number of key points arising from the survey were noted including:
- The providers that were surveyed are following the intent of AS TM1 when setting their assumptions;
 - There was stability in the accumulation rates. The accumulation rates for corporate bonds, cash and equity remained mostly unchanged from last year.
 - There have been changes in different directions in the rates for government bonds. The FRC intends to follow up to understand the rationale for these movements.
- 6.2 The Council noted that a new respondent this year has quoted a high rate for the assumption on the return on equities and the FRC intends to request a justification for this assumption. The Executive agreed to include a comment in the report that this has been further queried. The Council expressed a concern in this respect and discussed if there was any merit in reintroducing a cap on the return on equities, particularly considering the potential development of a pensions dashboard. However, it was decided that as it was only one provider using high rates of growth, there was no need

to reintroduce the cap at this stage. It was suggested, and the Executive agreed that the results of the survey would be shared with JFAR.

6.3 The Council noted that nothing in the survey results necessitates Council reviewing the decision to leave unchanged the AS TM1 assumptions for SMPs produced from 6th April 2019.

6.4 It was also noted that the outcome of the survey will be published on the FRC website and shared with subscribers to the website.

7. Forward Agenda

The Council Forward Agenda was noted.

8. Any other business

There was none.

9 Date of next meeting

The Council noted that the next meeting would take place on 15 October 2018.