

**Minutes of a meeting of the Actuarial Council held on Tuesday 12 November 2013 in the Boardroom at Aldwych House, 71-91 Aldwych, London, WC2B 4HN**

**Present:**

Olivia Dickson	Chair of Council
Keith Barton	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	
Martin Miles	

**Observers:**

Rosemary Beaver	Lloyd's of London
Seamus Creedon	Group Consultatif
Jane Curtis	Institute and Faculty of Actuaries (IFoA)
William Hewitson	Prudential Regulatory Authority (PRA) (in place of Paolo Cadoni)
Alan Middleditch	Financial Conduct Authority (FCA) (in place of Stuart Hicks)
Chinu Patel	The Pensions Regulator (tPR) (in place of Nigel Peuple)
Gillian Watson	Department of Work and Pensions (DWP) (in place of Jon-Paul Brett)

**In Attendance:**

Siân Barr	Project Manager, Actuarial Oversight
Francesca Chittenden	Council Secretary
Faye Dyce	Project Manager, Actuarial Policy Team
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Project Director, Actuarial Policy Team
Paul Kennedy	Director, Actuarial Policy
Melanie McLaren	Executive Director, Codes & Standards
Natasha Regan	Project Director, Actuarial Policy Team
Marian Williams	Codes & Standards Director (agenda Item 11 / minute 12 only)

**1. Welcome and apologies for absence**

- 1.1 The Chair welcomed William Hewitson, Alan Middleditch, Chinu Patel and Gillian Watson to the meeting.
- 1.2 Apologies were noted from Angela Darlington (Council Member), Martin Bradley (Council Member) and Lee O'Rourke (HMT Observer).

**2. Input to the FRC plan 2014-15**

- 2.1 Melanie McLaren (MM) introduced a paper which set out the principles that the FRC Board had agreed to follow in developing the FRC plan. The Council noted that the FRC intends to publish the plan for consultation by January and that final approval by the FRC Board is expected in March 2014.

- 2.2 The Council was asked to consider whether the proposals for implementing the actuarial agenda accurately reflect the outcomes of the FRC's earlier review and whether the Council could identify any other projects which would assist its delivery and should therefore be included in the plan.
- 2.3 The Chair suggested that the project entitled 'a substantive review of AS TM1' should be positioned within the key priority paragraph rather than as a supporting project due to the Council's concerns around SMPs and the need for a broader review of disclosure requirements, and a recognition of the impact the FRC may be able to achieve through the JFAR in driving a review. Some members felt that the existing positioning is suitable as AS TM1 is only a small part of the FRC's remit. However, recognising the potential impact of AS TM1 and its link with other aspects of the FRC's work including SORPs for Funds and Pension Schemes, the Chair suggested that the wording could be strengthened to set out that the FRC, in partnership with the JFAR, should encourage a more fundamental review of pensions disclosure legislation. MM agreed to reconsider the wording subject to input from the JFAR.
- 2.4 MM confirmed that that the project 'considering guidance on the development of models to support stress and scenario-testing' was included under the actuarial heading as the Actuarial Council had initially identified it as an area that may require a specific actuarial standard. However, following further consideration it had been recognised that stress and scenario-testing has broader applicability and that the actuarial project was intended to provide a base from which to build a larger FRC project. MM confirmed that the Actuarial Council would be involved and sighted on any larger FRC project in the area.
- 2.5 The Council agreed the extract of the draft FRC plan for 2014/15 relevant to the actuarial work stream.

### **3. Shared actuarial risk map**

- 3.1 Natasha Regan (NR) introduced a paper summarising the FRC's proposed approach to the development of the shared actuarial risk map and the proposed objectives and terms of reference (ToR) for the shared actuarial risk map sub-group.
- 3.2 The Council noted that the sub-group, which includes representation from the IFoA and the FRC's Conduct Committee, had met on 29 October to develop the initial approach and to begin looking at how risks will be mapped. NR informed the Council that she had also met and had useful feedback from the PRA, FCA, and the IFoA including its General Insurance and Risk Management Boards with follow-up brainstorm sessions planned with the other Boards. Jane Curtis (JC) informed the Council that the IFoA's Regulation Board has been discussing the proposals and that both it and the IFoA's General Counsel are keen to ensure the IFoA's full engagement with the project.
- 3.3 Ashok Gupta (AG, Chair of the sub-group) invited the Council to provide input on four areas of detail set out in the paper:

## **The approach**

3.3.1 The Council expressed its support for the approach and noted that the initial stages of the project would be top down, with the JFAR members and IFoA Boards initially populating the risk outlook, before input is collected from the wider actuarial profession and other stakeholders via a “bottom up” approach.

## **Engagement with the profession**

3.3.2 The Council noted the importance of engaging with the profession for two purposes, to inform the development of standards and monitoring arrangements but also to avoid a situation where the profession feels a perspective on risk (with associated implications for standards and monitoring) has been imposed upon it and that it does not have any sense of ownership of the risk outlook. However, the Council cautioned that the engagement with the profession has to be handled in such a way that the independence of the FRC as a standard-setter and oversight body is not undermined.

## **Sub-group Terms of Reference (ToR)**

3.3.3 The Council noted the ToR and made the following suggestions:

- the wording should be revised to clarify that the role of the sub-group is both to constructively challenge and through that to validate the work of the FRC staff bearing in mind the Council’s advisory role;
- the outputs should be clarified.

## **Approach / consultation**

3.3.4 Concern was expressed that as the JFAR is a group of regulators, for some of whom the review of actuarial work is not central, there may be risks of actuarial work that it does not identify. It was suggested that input from a broad range of users, in addition to the users in the Actuarial Stakeholder Group, is necessary to develop the wider, ‘bigger picture’ perspective. The Council discussed how the input from such users may be achieved and whether or not there were also any senior actuarial groups in existence which could be called upon. AG acknowledged the importance of gaining these perspectives and undertook to consider how this input could be gained with the Actuarial Risk Sub-group and executive colleagues at the FRC. Referring to the initial concern that was raised, MM highlighted that the various regulators on the JFAR have their own public interest agendas and will each bring different perspectives and challenges to the discussions held at JFAR meetings and that this should not be undervalued. Paul Kennedy (PK) added that the Executive intended to work with the IFoA to obtain much broader input once the FRC has input and agreement from JFAR members.

3.3 Subject to those discussions and suggested amendments the Council welcomed the proposals set out.

## **4. Consultation on actuarial standard-setting framework**

4.1 Robert Inglis (RI) introduced a paper which set out progress and next steps in relation to the actuarial standards framework review and a straw man ‘Technical Code’ for the Council to consider.

- 4.2 Through discussion of the proposals, the Council noted the following points and made the following observations:
- The definition of 'Actuarial Work' was yet to be agreed;
  - The content of the proposed Technical Code is drawn substantially from the existing TASs and parts of ISAP1, but the text/guidance that currently supports the principles within the current TASs is not included in order to keep the document short and focused;
  - A document has been developed which maps the content of the existing TASs to the proposed Technical Code;
  - In addition to the Technical Code, there will be targeted standards which will focus on specific areas of work, which may include work that has been identified through the development of the actuarial risk outlook as of risk to the public interest;
  - Consideration should be given to rationalising and reducing the number of communication provisions;
  - The Technical Code should be checked against the Actuaries' Code for duplication.
- 4.3 Jane Curtis (JC) informed the Council that some of the matters listed on the schedule for prior agreement were significant and would require consideration by IFoA working groups and its Management Board before they could be agreed. JC warned that this agreement would take some time and could delay the start date of the FRC's consultation. The Council acknowledged this potential delay and advised that a delay would not necessarily cause any issues as it might enable the FRC and IFoA to consult in parallel and allow the findings of the risk outlook to be considered at the development stages of the consultations. It was suggested, and the Council agreed, that it would be useful for a representative from the IFoA to join the FRC's sub-group and for a FRC representative to attend meetings of the IFoA working group; JC undertook to follow this up with the IFoA.
- 4.4 The Council noted the importance to the UK investment market of ensuring that the UK actuarial standards take into account the requirements of international standards and that ideally adherence to UK standards should automatically result in compliance with international standards. The Council highlighted the need to keep this desired outcome in mind when developing the new framework.
- 4.5 The Council noted that the sub-group would consider the Framework proposals and that a draft consultation paper would be brought to the Council at its January 2014 meeting.

## **5. TAS post implementation review - insurance**

- 5.1 John Instance (JI) introduced a draft paper entitled 'TAS post-implementation review - insurance' for the Council to consider and comment upon. It was noted that the approach followed that adopted for the Pensions TAS post-implementation review completed in the summer.

- 5.2 JI summarised the key findings of the review and highlighted the identification of a need for additional training on implementation of the Insurance TAS; he confirmed that the FRC would liaise with the IFoA on how this training need could best be addressed.
- 5.3 The Council suggested that further detail or consideration should be given in relation to the suggestion that the TASs require a disproportionate amount of work for smaller exercises. The Chair suggested that there should be reference under the 'next steps' heading to the actuarial standards framework review consultation.
- 5.4 The Council noted that a final audit of all of the responses received would be completed before the paper was finalised and that the text attributable to the PRA had yet to be approved and so there may be further amendments to the report before publication. The Council noted that Martin Bradley had agreed to assist the FRC staff in finalising the report following the check of responses and review of the relevant text by PRA; on this basis the Council approved the paper for publication.

## **6. AS TM1**

- 6.1 Faye Dyce (FD) introduced two papers which set out (i) the findings of a survey to inform the FRC on what accumulation rates providers are using in Statutory Money Purchase Illustrations (SMPIs), and (ii) plans for further review of AS TM1 in 2014. The Council noted that collectively the set of 26 respondents to the survey issue over 17 million SMPI statements annually.

### **Review of Accumulation results**

- 6.2 The Council considered whether or not the survey findings should be published and noted that it would be possible to anonymise the results so that respondents could not be identified. The Council noted that respondents would be consulted before publication of the information as this had not been discussed when the research was conducted.
- 6.3 The Council discussed what the objective of publishing the information would be and whether the objective would outweigh the risks of publishing, which might include reputational risks to the FRC and the risk of inappropriately influencing the behaviour of providers. Through detailed discussion, the following conclusions were reached:
- publication would demonstrate the FRC's commitment to undertake research to inform its work;
  - publication would reinforce the FRC's commitment to transparency;
  - publication of the survey without any comment or bias, and with a clear statement to explain that data was collected as evidence to inform a review of AS TM1, would mitigate against the risk of inappropriately (and unintentionally) influencing behaviours of providers;
  - publication would provide evidence of the impact of the decisions made by the FRC in relation to accumulation rates used in SMPIs and, if the survey were repeated to inform the 2014 AS TM1 review, it would provide a useful comparison point, bearing in mind that changes to FCA point-of-sale rules were not yet fully in force;

- an acknowledgement of how the survey methodology could be improved in subsequent years would help negate any criticism over the methodology used.
- 6.4 The Council suggested that the usefulness of the graph would be improved if it were split to distinguish between the rates used by providers respectively following AS TM1 versions v2.0 and v3.0. This would more clearly assist the identification of how rates have changed in the transition from v2.0 to v3.0. The Council also suggested the inclusion of statements to clarify that the equities rate refers to 'total' equities (and therefore includes both UK and global equities) and whether the asset class of Government bonds refers solely to gilts or includes other sovereign debt. The Council suggested consideration should also be given to whether or not it would be meaningful to include details of the weighted average rates applied across asset classes.
- 6.5 In conclusion, and subject to confirming that the FRC had necessary consents from individual respondents, the Council agreed to support an Executive recommendation to the Codes & Standards Committee that the survey findings should be published on the basis set out above.

#### **2014 review of AS TM1**

- 6.6 Following a brief discussion the Council agreed that there is no evidence to suggest an immediate need to change AS TM1 and noted that a further review will be undertaken when the transitional provisions under AS TM1 v3.0 expire in April 2014. The Council noted the timescales for the 2014 review and that the research exercise to inform the review would begin in Q2 of 2014. It was suggested that the FRC consider consulting with a broad range of stakeholders to inform the review.
- 6.7 The Council discussed the need for a fundamental review of AS TM1. MM highlighted that a result of the current fragmented regulatory structure is a situation whereby responsibility for setting various aspects of SMPs is spread across different bodies that have different objectives. It was noted that the complexity of the regulatory structure may contribute to a risk that pension scheme members might not be getting the information they need to inform their investment decisions. Gillian Watson (GW) confirmed that whilst the DWP had not yet taken forward the FRC's recommendation that a fundamental review be undertaken, the DWP would be willing to participate in discussion of the issue with the FRC/JFAR.
- 6.8 The Council noted that the points raised would be brought to the attention of the JFAR.

#### **7. PRA Supervisory Statement on Solvency II**

- 7.1 JI introduced a paper and provided the Council with background to the PRA's consultation document. The Council supported the proposed response which would recommend the PRA promote compliance of the work of the actuarial function in preparing for Solvency II with TASs and that the PRA should expect actuarial work in support of the forward-looking assessment to comply with the TASs.

- 7.2 The Council agreed that the response should encourage the IFoA to extend its practising certificate regime, but in recognising the broad range of work covered within the actuarial function at insurers suggested that consideration should be given to whether or not there should be certificates covering subsets of actuarial work rather than all actuarial work. The Council noted that the IFoA was considering whether to broaden the practising certificate regime and was supportive. The PRA recognises the need for insurers' boards to be able to ensure the fitness of those taking on these designated roles.
- 7.3 There was some discussion on whether or not non-actuaries undertaking the risk management role would be permitted to hold a practising certificate and whether the requirement would dissuade actuaries from undertaking the role. However, it was concluded that any board would have to satisfy itself that the person appointed for a risk management role was suitable. It was suggested that guidance around this matter to assist boards and organisations making such appointments would be useful.
- 7.4 In summary the Council agreed with the substance of the proposed response.

## **8. Director's Report**

- 8.1 The Council noted the report which provided an update on FRC activities relevant to actuarial work since the last full meeting of the Council which took place on 3 September 2013.
- 8.2 The Council noted that since the report had been circulated the dates of the first two JFAR meetings had been set for 28 November and 9 December. The Council noted that the proposed JFAR agenda may have to be revised in light of the short period of time between the two meetings. However, the Council agreed that it would not be appropriate to make any further suggestions before the JFAR had had the opportunity to discuss its agenda and timetable itself.

### **Developing a response to draft ISAP 3 (IAA model standard on actuarial work in support of IAS 19 on pensions accounting)**

- 8.3 The Council noted that the IAA had published an exposure draft of an international statement of actuarial practice (ISAP 3) for actuarial work in supporting IAS 19 and that the closing date for the consultation was 14 March 2014. The Council noted that a working group would be established, which would include colleagues from the accounting team, to develop the response and that views would also be sought from stakeholders prior to finalising the report in February 2014.

### **Developing a response to draft GCASP 1 (Groupe Consultatif (GC) consultation on a generic model standard)**

- 8.4 The Council noted that the GC had published an exposure draft of GCASP 1, a standard identical to the IAA's corresponding generic standard ISAP 1 in order to give a European context. The Council discussed whether or not the Groupe Consultatif should be encouraged to separate out ethical and technical components of the standard, and although no particularly strong views were held, the Council

agreed that the UK approach of separating the ethical and technical standards should be encouraged.

- 8.5 The Council noted that a draft response would be brought back to the Council at its meeting in January 2014 for approval.

### **DC pensions charges proposals and the FRC response to the OFT market study**

8.6 The Council noted that RI had attended a meeting with the DWP to discuss its DC pensions charges proposals. RI informed the Council that there had been discussion of the Irish model for pension arrangements and a discussion of what charges should be shown on statements, RI confirmed that he had reiterated the FRC's views that there should be a broader review of disclosure requirements particularly with the advent of auto-enrolment.

8.7 The Council noted that the FRC had submitted a response to the OFT market study highlighting the need for coordination and a broader review of disclosure requirements including SMPs.

### **Other points**

8.8 The Council noted that:

- The FRC would not be responding to the IFoA consultation on *The Actuary as an Expert Witness* but that the FRC had provided input as the consultation had been developed.
- The FRC Board had approved the AS TM1 consultation for issue subject to the inclusion of a broader question to invite comments on the regime ahead of the 2014 review.

## **9. Report on the AUG meeting held on 3 October 2013**

9.1 The Chair summarised the issues discussed by the AUG at its meeting on 3 October 2013. The Chair highlighted that the AUG had welcomed the AS TM1 survey and had encouraged its publication.

9.2 The Chair informed the Council that revised ToR for the AUG were to be considered by the Codes & Standards Committee later that month which would include a recommendation that the AUG be renamed the 'Actuarial Stakeholder Group'.

9.2 The Chair asked the Council what method of feedback they would find most useful moving forward, the Council requested a short written report summarising the key discussions.

## **10. Stakeholder engagement – Observer reports**

10.1 Jane Curtis (JC) introduced an observer report from the IFoA and drew particular attention to the following points:

- Work is progressing in relation to the development of a number of cross-practice standards which will apply across practice areas to all members;

- The consultation on APS X3 *The Actuary as an Expert* has been issued and the consultations on APS X1 *Applying Standards* and APS X2 *Actuarial Quality and Peer Review* will be issued shortly;
- The online CPD case study-based video content has been launched for the 2013-14 CPD year and has been well received; however, some amendments are required to reference the new online approach within the CPD guidance booklet and this will be actioned as soon as possible;
- Development of the 'Quality Assurance Scheme' is continuing and the working group has an away day scheduled to progress the project further.

10.2 The remaining observer reports were taken as read and noted.

## **11. Minutes of the Actuarial Council meetings held on 3 September 2013 and 8 October 2013 and rolling actions**

11.1 The minutes of the Council meeting held on 3 September 2013 was approved as an accurate record of the meeting.

11.2 The minutes of the special Council meeting held on 8 October were approved as an accurate record of the meeting.

11.3 The Council noted the status of the actions listed on the rolling action log.

## **12. Council Effectiveness Review**

12.1 Marian Williams (MW) joined the meeting for this item. MW informed the Council that the interviews had concluded and that she was in the final drafting stages of a report setting out the findings of the review for consideration by the Codes & Standards Committee at its meeting on 22 November. MW summarised the key findings of the review as follows:

- There is a need to clarify the roles and responsibilities of the Codes & Standards Committee and the FRC Board as Council members are unclear of their differing responsibilities and how they fit in to the broader FRC governance structure;
- There is a need to clarify the roles of observers and to agree principles around the roles and the number of observers on FRC Councils;
- there is a need to develop the induction process for newly appointed Members;
- There is a lack of consistency around the nature of Council sub-groups which needs to be addressed and that in future sub-groups will be referred to as either 'standing groups' or 'working groups', the main criteria for differentiating between the two groups would be the groups' expected life span;
- There is a need to continue the improvement in the quality and structure of papers presented to the Councils.

## **13. Sub-group Review**

13.1 The Council noted:

- a) the membership of the sub-group for the development of the shared actuarial risk map which includes representation from the FRC's Conduct Committee and the IFoA;
- b) the establishment of a sub-group for the tPR Consultation on defined benefit funding;
- c) that the AS TM1 sub-group membership had been refreshed for the purpose of the 2014 review of AS TM1;
- d) that Martin Miles would assist with the finalisation of the ISAP 3 (IAS 19) report;
- e) that Martin Bradley would assist with the finalisation of the TAS post implementation review (Insurance) report;
- f) that the International sub-group and the Funeral Plans sub-group had been stood down.

13.2 The Chair referred the Council to the update provided by MW and clarified that in future the sub-groups would be referred to as 'working groups', the Chair highlighted that a benefit of this reclassification would be that it would facilitate involvement of external members.

#### **14. Forward Agenda**

14.1 The Council noted that the forward agenda would be revised following agreement of the dates for the JFAR meetings.

14.2 The Chair informed the Council that the date for an additional Council meeting in February 2014 may be necessary in order to discuss the Standards Setting Framework, accordingly, members were asked to hold the date.