

**Minutes of a meeting of the Actuarial Council held on Tuesday, 13 June 2017 at the
FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS**

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	Member
Martin Burke	Member
Angela Darlington	Member
Ashok Gupta	Member
David Hindley	Member
Howard Jacobs	Member
Joanne Livingstone	Member
Martin Miles	Member

Observer:

Oliver Pearson	HM Treasury Observer (via telephone)
Suzie Lyons	IFoA Observer in place of Des Hudson (via telephone)

In attendance:

Siân Barr	Project Director, Actuarial Oversight
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Secretary
Stephen Haddrill	Chief Executive (from Minute 1 to 10.2)
Melanie McLaren	Executive Director, Audit & Actuarial Regulation
Ann Muldoon	Director of Actuarial Policy
Erica Nicholson	Project Director, Actuarial Policy Team
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting and in particular Simon Wasserman to his first meeting. Apologies were noted from Dominic Veney. It was noted that Oliver Pearson was attending the meeting temporarily in place of Umair Choudhry (HM Treasury). It was reported that going forward, Peter Symons will join the meetings as the HM Treasury Observer. The Chair requested Oliver to convey thanks to Umair for his contribution to the work of the Council.

2. Declaration of conflicts of interests

There were none to be reported.

3. Executive Director, Audit and Actuarial Regulation

3.1 Melanie McLaren (MM) informed that the Conduct Committee had met on 23 May and amongst other matters had :

- Discussed the independent review of the sanctions regime of the FRC
- Received a presentation from the Chair of the Enforcement Tribunal Panel

3.2 The Board had met on 24 May and amongst other matters had discussed the following:

- Reform of international audit standard setting
- Corporate Governance reform

- Post-Brexit IFRS endorsement process
 - Accountancy Scheme FRC mission statement
- 3.3 Following a query on the mission statement, Stephen Haddrill (SH) informed that the Board had considered the case for change and the need to broaden the mission statement better to reflect the FRC's wide range of stakeholder and public interest responsibilities including actuarial work.
- 4. Report of the Director of Actuarial Policy and the Director of Professional Oversight**
- 4.1 Ann Muldoon (AM) introduced her report which provided an update on the FRC's outreach on the revised TAS's which are effective from 1 July 2017, the development of case studies relating to the TASs by the IFoA's working party and the response to the DWP Green Paper on Pensions. Through discussion, the following points, observations and suggestions were made:
- 30 presentations were delivered on the revised TAS since the start of 2017 with further sessions booked.
 - IFoA's working group continue to work on practice specific case studies.
 - It was suggested that specific reference to TAS within the IFoA's CPD programme could help increase awareness of the revised TASs.
 - The FRC has provided a response to the DWP Green Paper on Pensions and awaits feedback from the DWP on what changes it may propose.
 - It was noted that the low interest rate environment and the related changes to the Ogden rate could increase the risk for PI insurance.
- 4.2 In response to the queries raised by actuaries working in investments, the Council was informed that the FRC continues to have discussions to explain the definition of technical actuarial work and why the FRC considers the scope of TAS 100 is appropriate. The FRC was working with the IFoA to target outreach and messages for investment actuaries. Through discussion, a query was raised relating to the FCA's remit in regulating the investment consultants; AM agreed to provide an update on the FCA proposals at the next meeting
- 4.3 The Council discussed the post-Brexit uncertainty as to the extent of the adoption of the new IFRS standards in the UK and the role of the FRC in the adoption process. MM explained the current adoption process of IFRS and that the post Brexit process is a matter of ongoing discussion with government. The Council noted some of the questions to be addressed and some of the implementation challenges. It was noted that IFRS17 training is included in the forward agenda for the September meeting.
- 4.4 Siân Barr (SB) provided a brief update on the IFoA's updated proposal on the actuarial monitoring regime which will be considered by the Conduct Committee on 20 June 2017. The key features of the proposal were noted in the context of the Council's advice to Conduct Committee.
- 5. IFoA Observer's Report**
- 5.1 The Council considered the proposed "model manipulation" risk alert and raised various queries including the lack of context for the topic, the relevance of the timing of the risk alert and clarification on which practice area it was targeted at. The Council also queried whether there was a risk that the Risk Alerts would not stay true to their branding if they were used for such a broad topic. Suzie Lyons (SL) responded to the comments and agreed to feed them back to the IFoA. AM reported that she planned to discuss the status of the risk alert with the IFoA given the overlap of the content with the TASs and agreed to include the Council Members' feedback.

5.2 The Council considered the climate-related risk alert and noted that the IFoA was still collecting feedback on the alert although so far the response was supportive. The alert was discussed at the last JFAR meeting and had received a positive response.

6. HM Treasury Observer's Report

Oliver Pearson (OP) reported that the Treasury was aware of the ongoing debate relating to IFRS 17 *Insurance Contracts*. The Council noted that the consultation in relation to the Lord Chancellor's announcement on the change in Ogden rate had closed. The responses were now being considered in line with due process.

7. Actuarial Council's Responsibilities regarding actuarial risks

7.1 Hazel Beveridge (HB) presented a paper outlining the Council's responsibilities relating to actuarial risk. She highlighted the three roles of Council:

- Formal Advice to the Board on changes to the Standards Framework to respond to changes in the underlying assessment of the degree of risk to the public interest attaching to different types of actuarial work.
- Providing advice to the Board on the risks to the FRC's objectives arising from its actuarial responsibilities.
- Providing input to the FRC Executive as a member of JFAR in contributing to the annual update of the JFAR Risk Perspective.

7.2 In order to adopt a consistent approach to actuarial risk identification for each of the three areas of Council responsibilities, a risk identification 'architecture' was presented to the Council which would help to ensure a comprehensive and dynamic assessment of risks and how they interact. The Council considered the following features of the FRC Actuarial Risk Identification Architecture (FRC ARIA) which comprised of four 'wheels' covering macro environmental drivers, characteristics of actuarial work, characteristics of the market and characteristics of the work of the FRC actuarial teams.

7.3 The Council considered the use of the FRC ARIA as a tool to facilitate discharge of its responsibilities and the appropriateness of the FRC ARIA, modified for JFAR, for the identification of the risks and hotspots for the 2017 JFAR risk perspective update. The following comments and observations were made:

- Based on the previous risk hotspots and implications, some areas of risk emerge only when it is focused at a practice area or a sector of market. The Council suggested that consideration be given to the wording of questions and format of information gathering to optimise input.
- There was a need for clarity of time horizon to identify emerging future risks as well as those manifesting in the current time.
- In comparison to the proposed 2017 risk categorisation, the 2016 was narrow and closer to practical issues.
- The Council noted that the FRC ARIA was helpful for initial consideration of risks and would ensure a comprehensive approach to a broad consideration.
- There were some changes proposed to the ARIA:
 - The risks emerging from the market structure could be included by extending the description of the 'Business Models' cog to 'Market / Structures and Business Models'.
 - It was suggested that the link between 'Culture and Group Think' in Market Characteristics and 'Methods and Modelling' and 'Data and Assumptions' could be made clearer by having dotted lines or by rotating the central wheel.

- Low interest rates and liquidity change did not emerge in the architecture and therefore it was suggested to include a 'liquidity' cog within the blue wheel (areas of actuarial work).
 - The JFAR had considered the FRC ARIA at its June meeting. The feedback from this Council would be included in the FRC ARIA and would be shared with JFAR over the coming months. JFAR would produce a draft report which would include proposed generic risks and hotspots, along with proposals for thematic reviews. This draft would be shared with Council at the September meeting.
 - Whilst it was essential to undertake a comprehensive review of all aspects of the FRC ARIA as each wheel was interconnected with the cogs of the other wheels it was difficult to have insight into all possible manageable areas. The Council felt that both top down and bottom up approach on a given scenario would provide an insight into the identification of an emerging risk over a time horizon. More thoughts should be given on how the bottom up approach including bilateral engagement could be achieved, including potential use of social media.
- 7.4 HB agreed to take the above discussion into consideration while modifying the FRC ARIA.
- 8. Letter to the Pensions minister**
- 8.1 Simon Wasserman (SW) outlined the matters that it was proposed be included in a letter to the new Pensions Minister on disclosure.
- 8.2 The Council considered the recommendations made in the paper and the proposed letter to the Minister and made various comments and suggestions including:
- A reference to use of digital tools for the Pensions Dashboard should be included.
 - It was noted that actuaries could be involved in the projections used in the Pensions Dashboard. Reference should be made to the risks arising from the fragmentation of regulation across the Defined Benefit (DB) and the Defined Contribution (DC) pension disclosures including the challenges for individuals to understand information presented differently and the risk that they fail to save.
 - It was suggested that it may be useful to obtain views on the letter by the FRC Stakeholder Advisory Panel, if appropriate.
 - It was also suggested that some of the content from the FRC response to the Green Paper should be included in the letter.
- 8.3 SW agreed to take the above comments and suggestions into consideration in redrafting the letter to the Pensions Minister. A revised letter would be circulated to Council for further comment.
- 9. ASTM1 survey questions**
- 9.1 SW outlined the FRC's statutory responsibility of setting the assumptions annually for SMPs which is done through AS TM1, and the purpose of conducting an annual survey which was to monitor actual accumulation rates used. He informed that the survey would be issued shortly and the results would be presented to the Council in September.
- 9.2 A Member raised a query relating to question 16 and 19. A Member suggested including a question relating to the level of feedback from recipients of SMPs as to how useful they find the annual statement. SW agreed to review the questions.

10 Actuarial Stakeholder Group

- 10.1 AM provided an update on the role of the Actuarial Stakeholder Group (ASG) which was established in 2006 well before the current regulatory arrangements came into force in 2012. In the current environment where the new regulatory framework is now well established, and a suite of revised TASs recently published, the ongoing need for an actuarial specific stakeholder group that meets regularly has significantly reduced. The FRC has recently established a Stakeholder Advisory Panel with the intention that this will provide input on all of the FRC activities, with the possibility of focussed sub-groups as appropriate.
- 10.2 The Council discussed the role of the ASG and recognised the importance of stakeholder input to the work of the actuarial policy and oversight teams. However, it was noted that, as a consequence of the more limited remit of the Actuarial Council, compared to the Board for Actuarial Standards, and the recent revision of the TASs, the scope of the ASG's agenda had narrowed and engagement from ASG members reduced. Therefore, the Council agreed that it was now timely to stand down the ASG in its current form. The Council discussed the alternative approach of seeking stakeholder input through the FRC Stakeholder Advisory Panel and made various comments including:
- It was important that the Stakeholder Panel include individuals with actuarial interests.
 - It would be useful to envision the matters in the forward agenda that would require stakeholder input.
 - It would be useful to have stakeholder meetings as and when required rather than setting quarterly meetings.
- 10.3 The Council agreed in principle to recommend to the Codes & Standards Committee to disband the ASG. The Council also agreed that depending upon what upcoming agenda matters would benefit from wider stakeholder input, it would consider how that input could be sought, possibly through the FRC Stakeholder Advisory Panel.
- 10.4 It was reported that the composition of the current FRC Stakeholder Advisory Panel was focused around the Corporate Governance agenda. However, the intention is to broaden the scope of the Panel to set up working groups with different agendas including actuarial matters.

11 Council Effectiveness Review – Action Log

The Council noted the Council Effectiveness Review action log.

12 Minutes and rolling actions

- 12.1 The minutes of the meeting held on 2 May 2017 were approved for publication.
- 12.2 The rolling action log was noted.

13 Forward agenda

The Council noted the Forward agenda.

14 Any other business

This was the last meeting for Howard Jacobs and Martin Miles. They complete their term on the Council on 31 August 2017. The Chair thanked them for their valuable contribution to the work of the Council and wished them well for the future.

15 Date of next meeting

11 September 2017