

Minutes of a meeting of the Actuarial Council of the FRC held on 18 June 2013 at Aldwych House, London WC2B 4NH

PRESENT

Olivia Dickson Chair
Angela Darlington
Ashok Gupta
David Hindley
Howard Jacobs
Paul Johnson (to minute 10)
Joanne Livingstone
Oonagh McDonald

Apologies

Martin Bradley
Martin Miles

Observers

Rosemary Beaver Lloyd's of London
Anthony Brown Prudential Regulation Authority (in place of Paolo Cadoni)
Fiona Frobisher Pensions Regulator (tPR) (in place of Nigel Peaple)
Seamus Creedon Groupe Consultatif
Sir Philip Mawer Institute and Faculty of Actuaries

In Attendance

Francesca Chittenden Council Secretary
Faye Dyce Project Manager, Actuarial Policy Team
Richard Fleck Chair of the Conduct Committee
Stephen Hadrill Chief Executive (to minute 5)
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

1. Welcome and Apologies for absence

- 1.1 The Chair welcomed Richard Fleck, Chair of the FRC Conduct Committee, to the meeting; and Rosemary Beaver, Lloyd's, as a new Council observer.
- 1.2 The Chair also welcomed Francesca Chittenden, the new Council Secretary.

- 1.3 Apologies were received from Martin Bradley, Martin Miles (Council Members), Jon-Paul Brett (DWP observer) and Amit Kamal (HMT observer).

Key Issues

2. TPR's Annual Funding Statement

- 2.1 The Council received a presentation from Fiona Frobisher (FF), tPR Head of DB Policy, in relation to tPR's Spring Statement and future plans to review its strategy and code.
- 2.2 FF informed the Council of the strategic approach tPR had adopted which would focus on two areas:
- 1) encouraging trustees to take an integrated approach to addressing covenant, investment, and funding risks.
 - 2) the regulatory processes, what tPR is doing and ensuring its approach is proactive, targeted and segmented.
- To achieve this objective tPR will publish a revised code of practice for funding defined benefits and a revised regulatory statement which will set out what tPR is doing. FF confirmed that the revised regulatory statement will be supplemented by documentation setting out granular detail such as risk based approaches and enforcement policy. There will be a consultation document and an analysis document.
- 2.3 In response to a question. FF confirmed that the Code of Practice would apply predominantly to Trustees and that setting out behaviours for actuaries would not fall within the remit of tPR.
- 2.4 FF informed the Council that a third statutory objective for tPR was to be included in the Pensions Bill which was currently being considered by Parliament. She set out that the objective was currently "to minimise the adverse impact on sustainable growth" but that this might be subject to change. The Council expressed mixed views on the introduction of the new objective and noted that it was unclear quite what was expected from the objective.
- 2.5 The Council welcomed the emphasis on flexibility in the funding statement. The Council also welcomed the acknowledgement that there will always be some element of risk and that the schemes should demonstrate a sound risk management approach to reflect this.
- 2.6 FF confirmed that tPR would be consulting with practitioners, scheme trustees and employers before finalising the Code of Practice and Regulatory Statement and it was identified that input from the Joint Forum on Actuarial Regulation (once established) would be beneficial, particularly in relation to identifying risks.
- 2.7 In response to a query, FF explained that tPR would not be educating Trustees directly but that tPR would update the trustee toolkit. FF acknowledged that the absence of training could limit the effective adoption of the Code of Practice and Regulatory Statement.
- 2.8 The Chair thanked FF for her presentation.

3. Review of Actuarial Regulation – Feedback from 21 May Board meeting

- 3.1 Stephen Haddrill (SH) introduced the report which set out the FRC Board's feedback on the Capri recommendations. SH thanked the Council for the input they had given to the development of the project and to producing the report.
- 3.5 SH confirmed that the Board had agreed the eight recommendations that had been proposed, some with particular emphasis. SH summarised the Board discussion as follows:
- the current approach to actuarial regulation is not fully integrated which creates a risk of issues falling through the cracks. There is also a residual perception risk, that the public may not perceive the existing framework to be effective or appropriate.
 - there is no co-ordinated monitoring process in place, with each of the regulatory bodies following different monitoring processes. The Board confirmed that there is a need for a review of the various monitoring processes, particularly peer review.
 - there is little regular sharing or access to data on the work being undertaken by actuaries, which limits the FRC's understanding of whether the standards are fit for purpose and of the risks facing the profession;
 - in some instances actuarial work is undertaken by non-actuaries, which may not be fully captured by the regulatory regime and limits our ability to ensure the work is of suitable quality;
 - there is a risk that actuarial standards could become out of date, accordingly, the 2014 review of standards should go ahead as planned and issues arising out of the recommendations should be addressed as part of that review;
- 3.3 The Board identified that solutions and mitigations to the risks and concerns highlighted could not be progressed by the FRC alone and that support and engagement from the government and other regulators would be necessary. Accordingly, SH confirmed that the Board had endorsed the recommendation to write to the Chancellor setting out the FRC position and that the letter had already been circulated to the Chief Executives or equivalents at the Bank of England, tPR, the FCA and the PRA. SH informed the Council that, on advice from the Board, the letter had highlighted that the FRC's preferred option would be to establish a formal mechanism for bringing together regulators; but recognising that the Government would be reluctant to ask other regulators to take on additional formal responsibilities, a more limited proposition to establish an informal joint forum was being put forward.
- 3.4 SH advised that the Joint Forum would include both the professional body and regulatory bodies and the forum would be responsible for the co-ordination of actuarial regulation and joint working on particular projects and that a key aim would be to establish a joint understanding of actuarial work and the risks arising from actuarial work.
- 3.5 Melanie McLaren (MM) informed the Council that the Board had expressed a wish for there to be no delay in beginning work on implementing the recommendations and that the Board would like a report on an annual basis on progress in addressing the concerns identified above.
- 3.6 SH confirmed that the letter did not set out how the Chancellor would be expected to respond but that it invited the Chancellor to support the proposals put forward. Sir

Philip Mawer (SPM) confirmed that the IFoA had reviewed the letter and welcomed its focus on questions which need to be answered. SPM also confirmed that the IFoA would support the FRC in its endeavours to implement the recommendations of the review as far as possible and would consider writing to the Chancellor in support of the letter.

3.7 SH undertook to circulate a copy of the letter to the Council.

4 Implications for the work programme arising from Project Capri

4.1 Paul Kennedy (PK) introduced the report which had been prepared to provide the Council with a high level summary of the main objectives which the FRC Actuarial team would be seeking to achieve in the next year as a result of the review findings. The paper set out the recommendation on standards as follows and provided detail as to how the Actuarial team intended to achieve the objective:

‘to develop a new framework for technical actuarial standards (TASs) focused on areas where the risk to the public interest is greatest, particularly in insurance and pensions, including high-level generic principles to a wider range of actuarial work (to be defined)), focusing specific TASs in accordance with agreed principles, and seeking, in agreement with the IFoA, to include ethical material in the TASs and for the IFoA to develop technical guidance’ agenda developed through Project Capri’.

4.2 PK highlighted that an early piece of work would be the establishment of the Joint Forum. Early items on the agenda of the Joint Forum (as referred to in minute 3) would include the development of a shared actuarial risk map and the development of a shared understanding of the monitoring arrangements in place, particularly peer review. Alongside the development of the Joint Forum there would be a wider public consultation process reviewing the standards framework and TASs (separate paper on the agenda).

4.3 The Council noted the three broad families within which the objectives would be grouped:

- 1) objectives relating to the establishment of the Joint Forum and its meetings and outputs including coordination of monitoring activities
- 2) objectives in relation to the review of the actuarial standards and the reworking of the TASs as well as changes to the overall standard-setting framework, including ethical standards as issued by the IFoA.
- 3) work in relation to influencing international standards.

4.4 Sir Phillip Mawer (SPM) acknowledged that the IFoA was in a unique position to identify risks to actuarial work and that whilst the IFoA would be a key contributor to the development of a shared actuarial risk map the other regulators would bring a valuable perspective in being able to counter and/or support the findings of the FRC and the IFoA and to assist in identifying which risks should be prioritised.

4.5 PK highlighted that the IFoA would contribute to almost all aspects of the work plan. In particular, the IFoA would be expected to report on risks as part of its annual report to the Conduct Committee. The Chair reiterated the importance of agreeing the roles and responsibilities of the various regulators who would sit on the Joint Forum at the outset.

- 4.6 The Council noted the various methods through which outcomes of the review could be communicated including the Annual Report, the publication of TAS post-implementation reviews, open meetings, newsletters and the FRC website.
- 4.7 The Council was content with the proposed two-stage approach to the standards framework consultation, which would include a review of the TASs. The Council noted that the first consultation would make proposals for the standards framework and scope of the technical standards. It was suggested that in addition to general issues, such as proportionality and materiality, the consultation could address any key themes which come to light from the pensions and insurance post-implementation reviews. PK confirmed that the shared risk map should also be developed by the end of the year and that there would be an opportunity to feed into proposals on standards and the framework.
- 4.8 The Council noted that the impact the review of the TASs would have on the work of actuaries was not clear at this stage, but that potentially the impact could be significant. The Chair referred the Council to draft illustrative guidelines which set out a possible public interest test which could be applied by the regulators collaboratively to identify areas of actuarial work that require specific TASs. She highlighted that this process may identify areas of actuarial work which are not currently covered by any standard and may identify areas of overlap between standards. The Council also noted that the outcome of the consultation could result in an extension of the scope of the TASs to cover all actuarial work.
- 4.9 The Council agreed that the FRC should develop proposals and consult on what material should be maintained to support the standards and who should be responsible for the production of the guidance. The proposals to be consulted on should set out the view that the IFoA should be able to produce guidance on recommended methodologies subject to satisfying the FRC that these were compatible with the TASs.
- 4.10 The Chair highlighted the importance of including the other regulators in the development of the proposals and the consultation process roles they could play in communicating the outcomes, SPM confirmed that the IFoA would assist.
- 4.11 The Council debated whether there was scope for broader information-gathering than the formal consultation process set out, for example through Ipsos Mori. However, it was concluded that the formal consultation process, supplemented by small group discussions, was an efficient and well-tested FRC process which demonstrates successful outcomes.
- 4.12 The Council supported the creation of a sub-group on actuarial standards framework and TAS review, which would operate on a formal basis of no more than 5 members. The Chair advised that David Hindley would chair the sub-group, that the Chair of the Council would sit on the sub-group and that further details of its membership would follow.

5 TAS post-implementation reviews

Pensions

- 5.1 The Chair introduced the report which summarised the results of the post-implementation review of the TASs on actuarial work in pensions and the next steps. The key points highlighted in the report were that the TASs had helped improve focus on the purpose of the work and decisions of users of work, the TASs had encouraged a review of processes and reports and led to better documentation of work, including models and that after a demanding transition, practitioners are generally comfortable with the scope and content of the TASs but that some improvements could be made.
- 5.2 The Council noted that positive attempts had been made to engage a greater number of pensions related users and that responses were still being received. However, substantive contributions were limited because users' awareness of the TASs was low.
- 5.3 Practitioners had participated to a greater extent in the review and the points highlighted were that:
- the TASs have helped improve focus on the purpose of work, and the needs and decisions of users of work;
 - the TASs have encouraged a review of processes and reports and led to better documentation of work including models; and
 - after a demanding transition, practitioners are generally comfortable with the scope and content of the TASs although there are a number of areas where improvements might be made.
- 5.4 The Council agreed that as there were no major issues in relation to the report a sub-group was not required to finalise the report. Joanne Livingstone agreed to assist the Actuarial Policy team in its finalisation.

Insurance

- 5.5 John Instance (JI) introduced the paper which provided an update on progress in relation to the development of the post implementation review on the TAS for insurance. The Council noted the preliminary findings of the review which suggested that the impact of the TASs had been overshadowed by the requirements of Solvency II implementation.
- 5.6 JI informed the Council that a series of regional meetings would be held in July to October with practitioners with the intention to conclude the survey work at the end of October and publish in December.
- 5.7 JI confirmed that the FRC had struggled to engage non-executive directors in previous consultations, accordingly the Council discussed various methods of doing so, potentially through breakfast briefings and regulatory training sessions.
- 5.8 The Council noted the progress of the review document.

5 AS TM1

- 6.1 Faye Dyce (FD) introduced the report which provided an update on implications for the proposed AS TM1 consultation and the proposed approach to obtaining information on the accumulation rates used by providers of SMPs. The paper also provided a summary of the key points the FRC raised in its response to the DWP

consultation on changes to the Disclosure Regulations as follows: the effective date of SMPI changes should be deferred to April 2014, the DWP should clarify its policy intent for SMPIs, the FRC has concerns about the fragmented regulatory landscape for DC projections and the DWP should consider whether there should be a fundamental review of SMPIs.

- 6.2 It was noted that the DWP had responded positively to the Council's advice to defer the date of implementation to 2014 and that the DWP had yet to respond on the request for further clarification of the policy intent for SMPIs. It was also noted that the DWP had not yet issued its feedback statement on the consultation and so there was no indication as to whether or not the DWP will accept the recommendation put forward by the FRC (on advice from the Council) to undertake a more fundamental review of SMPIs.
- 6.3 Through discussion the Council identified that there are two areas of concern in relation to SMPIs; issue 1) relates to the underlying principles of accumulation rates used in SMPIs and issue 2) relates to the broader communication of SMPIs. The Council identified that whilst the first issue falls within the remit of the FRC, the regulation of SMPI communications does not. However, the Council recognised the link between the two issues and that the proposals to gather information on SMPI statements would assist in developing an understanding of how the principles are applied.
- 6.4 Discussion centred on the fragmented responsibilities for SMPI communications, in particular, where responsibility for regulating SMPI communications should rest. The Council considered methods of highlighting the need to clarify the various responsibilities to Government, suggesting routes through NEST and other regulatory bodies. The Chair informed the Council that concerns in relation to the communication of SMPIs had also been identified by the AUG when it met on 8 June and suggested that the various issues in relation to SMPIs should be on the agenda of the Joint Forum once established.
- 6.5 Referring to the SMPI information-gathering proposals set out, FD clarified that the objective of the first phase would be to identify the number of SMPI providers and the number of SMPIs each provider issues as this information was not presently available. FD confirmed that once this information was known, the team would be able to provide more detailed proposals for the Council and the FRC Board to consider.
- 6.6 The Council agreed the draft questions set out but requested the addition of a question to ask the SMPI provider whether requests were received from users for an explanation of how the accumulation assumption had been arrived at. The Council also asked that the information request ask the respondent to provide an example SMPI. It was noted that a letter from the regulator to SMPI providers encouraging responses would be beneficial.
- 6.7 The Council remained uncomfortable that the FRC focus was on too narrow a range of issues; all felt that the FRC should be working with other regulators and interested parties to review a broader pensions communications landscape. PK offered to produce a note on roles and responsibilities to explain the constraints on the FRC's remit. SPM suggested that the IFoA might be less restricted in its contribution to the

broader debate. The Chair asked the executive to consider (i) where this issue might fit – if at all – on the agenda of the Joint Forum and (ii) what role the FRC ought to play notwithstanding its limited responsibilities and resource.

- 6.8 The continuation of the AS TM1 working group was agreed. It was also agreed that FD and PK should seek Paul Johnson's input to the development of the research methodology in support of the FRC's work on AS TM1.

Influencing

7 EIOPA consultation on interim SII implementation (Preparing for Solvency II)

- 7.1 JI introduced the paper which set out a draft consultation response for approval. The Council noted the recommendation that the FRC should respond since the guidelines relate to actuarial work; and that the response should be positive and focus on the guidelines concerning Systems of Governance.
- 7.2 JI highlighted that the closing date was 11am the following morning and that the response had been discussed with the PRA which was broadly supportive and that international groups were also content with the responses. JI confirmed that there was no direct reference to audit work.
- 7.3 The Council discussed the proposed response and identified a number of amendments. A key concern identified by the Council related to the reference to stability, and that the FRC's response should highlight that the current wording was ambiguous and requires clarification. JI undertook to expand the response to propose additional guidance in relation to the robustness of models, along the lines of TAS M, and to highlight the significance of stability.
- 7.4 The Council identified that whilst the consultation was in relation to interim guidance the end result of this document could feed in to the development of the substantive requirements, and accordingly it was important that concerns are included within the response.
- 7.5 Rosemary Beaver confirmed that Lloyd's had submitted a response to the consultation which was broadly similar to the proposed FRC response. However, she highlighted that Lloyd's had been stronger in suggesting that guidelines at paragraph 48 go beyond what is intended, and that the language used in paragraphs 45 and 46 is too prescriptive and does not reflect the consensus of the profession, and therefore should be withdrawn.
- 7.6 The Council suggested that the team refer to the existing TASs to identify whether any conflicts exist as a result of the guidance and if so, clarify this within the relevant TAS. Subject to the amendments discussed, the Council agreed with the proposed FRC consultation response.

Reports

8 Director's report

- 8.1 PK introduced his report. He referred the Council to a summary of the actuarial aspects of the FRC's Memorandums of Understanding appended to the report and confirmed that FCA approval had been received but that approval from the PRA was

still awaited. He stated that regardless of whether there was a formal MoU, the FRC would aim to work with statutory regulators on a similar basis to that set out in the summary.

8.2 SPM reminded the Council that a response on the scrutiny of actuarial work on funeral plans was expected from the Funeral Planning Authority by the end of the month, and that a recent article published by the consumer magazine *Which?* in relation to the risks around funeral plans may bring the issue to the minds of the press shortly.

8.3 MM confirmed that FRS 103 was on track and that the ED was on the Board agenda for approval in July. She informed the Council that whilst there were no significant changes in the requirements, being based on IFRS 4, the language used throughout the standard was slightly different to the existing UK standards and therefore the FRC will face a communication challenge.

9 Report on AUG meeting of 5 June

9.1 The Chair confirmed that the actions arising from the meeting were being considered as set out in the report.

10 Stakeholder engagement

Institute and Faculty of Actuaries

10.1 SPM informed the Council that the IFoA would shortly be voting on whether to establish a new professional 'Certified Actuarial Analyst' qualification. He clarified that this would increase the number of professionals within the regulatory framework and that individuals would, to the extent relevant, be required to comply with the TASs. He highlighted that the establishment of the role had been welcomed by many outside of the UK and that it would allow the IFoA to bring individuals in to the framework who are likely to be students for a long time and unlikely to reach the full qualification. The Council noted that this might involve an extension of the Conduct Committee's oversight remit.

10.2 The Chair informed the Council that this would be the last meeting SPM would be attending before his retirement. She thanked SPM for his valuable contributions to the work of the Council.

11 Other observer reports

Prudential Regulation Authority

11.1 Anthony Brown informed the Council that a report containing a number of recommendations in relation to long-term guarantees had been released by EIOPA and that it had been circulated to the European Commission for consideration. He confirmed that the process was expected to conclude in October 2013.

Minutes of the Actuarial Council and rolling actions

12 Minutes of the Actuarial Council meeting held on 26 March 2013

12.1 The minutes were approved as an accurate record of the meeting.

13 Minutes of the Actuarial Council meeting held on 2 May 2013

13.1 The minutes were approved as an accurate record of the meeting.

14 Rolling actions sheet

14.1 The rolling action sheet was noted. The Chair outlined plans to develop the rolling action log.

Council effectiveness

15 Sub-group review

15.1 The Council noted:

- a) the establishment of a sub-group for the standards framework and TAS scope consultation which would be Chaired by David Hindley;
- b) Joanne Livingstone acting as a 'key point' member for the finalisation of the Pension TAS post-implementation review;
- c) Paul Johnson assisting with the methodology for the research project in relation to accumulation rates.

16 Forward agenda

16.1 The forward agenda was noted.

Any other business

17. The Chair noted that this would be Oonagh McDonald's last meeting as a member of the Council and thanked her for her contributions to the work of the Council and the former Board for Actuarial Standards.

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