

**Minutes of a meeting of the Actuarial Council held on Tuesday 3 May 2016
at the FRC Office, 8th Floor, 125 London Wall, London EC2Y 5AS**

Present:

Olivia Dickson Chair of Council
Rosemary Beaver
Martin Burke
Ashok Gupta
Howard Jacobs
Joanne Livingstone
Martin Miles
Dominic Veney

Observer:

Ben Kemp IFoA (in place of Des Hudson) (from minute 3)

In attendance:

Dawn Bardwell Director, Oversight
Siân Barr Project Director
Francesca Carter Council Secretary
Ufuk Cengiz Economist (minute 6 only)
Paul George Executive Director, Corporate Governance & Reporting
Robert Inglis Project Director, Actuarial Policy Team
Ann Muldoon Director, Actuarial Policy Team

Introductions and apologies for absence

Apologies were noted from David Hindley, Angela Darlington (Council Members) and Melanie McLaren (Executive Director - Audit).

1. Chair's Introduction

- 1.1 The Chair welcomed Paul George (PG) to the meeting. PG reported that, under the new executive structure he is responsible for the FRC's work on Corporate Governance & Reporting, including the FRC's actuarial policy work. In this role he holds responsibility for developing and issuing the FRC's consultation on the future of actuarial regulation. The Council noted that Melanie McLaren would continue to hold executive responsibility for the new Technical Actuarial Standards until the final revised suite is published.
- 1.2 The Chair reported on the April FRC Board discussion of the Feedback Statement on the November 2014 consultation A Framework for Technical Actuarial Standards and review drafts of the Framework and TAS 100, and the consultation package on the revised Specific TASs.
- 1.3 The Council noted that whilst the FRC Board had welcomed the suite of documents and approved publication of the documents, one member had noted that the actuarial standards were far less detailed than the accounting standards. The Council noted that the documents

would be published before the end of the week and that the consultation period would close in early August.

2. Report of the Director of Actuarial Policy

2.1 Ann Muldoon (AM) introduced a report that provided an update on FRC activities relevant to the Actuarial Council's remit not covered elsewhere on the agenda and on resources within the Actuarial Policy Team. Particular attention was given to the following matters:

AS TM1

2.2 The Council noted that:

- The AS TM1 – accumulation rate review had been published on 23 March 2016.
- Amendments to AS TM1 will be necessary in 2016 to reflect two changes from the CMI.
- DWP is working with the FRC and the AS TM1 working group to explore how SMPs might be modified to help members understand the value of guaranteed annuity rates (GARs) and to gather information on GAR features that might explain the level of take up.

2.3 The Council discussed the appropriateness of specifying 15 February for determining the rate of interest to be used in calculating annuity rates. Whilst it was noted that comparative interests rates are provided for information and that providers have the option to provide additional information to explain any variances in the rate it was requested that the executive explore alternative approaches at the next detailed review of AS TM1.

March JFAR meeting

2.4 The Council noted the JFAR had:

- Approved publication of the FRC led review on DB to DC transfers; the results had been published on 21 March.
- Approved the response to the Pensions minister from the FRC on the standardisation of transfer value information, the letter had been sent on 29 March.
- Discussed a draft report on the IFoA led review on Group Think.
- Discussed a draft report on the FRC's findings of its review on GI provisions and noted the next steps. AM reported that, as a result of resource constraints, the work would be deferred to later in the year.

TAS review project plan

2.5 The Council noted the latest project plan. The Council agreed that it would be appropriate to cancel the June meeting and schedule an additional meeting in October to facilitate thorough review and consideration by the Council of responses to the consultation that is due to close in August.

3. International standards including consistency of UK actuarial standards with ISAP 1

3.1 Robert Inglis (RI) introduced a paper that provided a detailed analysis of a comparison of International Standard of Actuarial Practice – ISAP 1: General Actuarial Practice (ISAP 1) with UK requirements and set out a list of ISAPs and ESAPs currently in development. RI highlighted that at its meeting on 15 January 2013 the Council had concluded that the FRC's generic TASs, in conjunction with the IFoA's Actuaries Code and proposed changes in respect of work review, were substantially consistent with ISAP 1 and that in 2014, following the introduction of APS X2, the FRC and IFoA had issued a joint statement confirming the view.

3.2 RI invited the Council to consider an analysis of UK actuarial standards and ISAP 1. In respect of the 2013 review it was noted that:

- The requirement set out in ISAP 1 for work review has been addressed by the introduction of APS X2.

The differences in the scope of application of ISAP 1 and the UK standards would be addressed by the introduction of TAS 100.

3.3 In respect of the 2016 review, which is based on the review draft of the new Framework, TAS 100 and the draft Specific TASs, it was suggested that the executive consider:

- The requirement of ISAP 1 at paragraph 3.7.3 relating to adverse margins is sufficiently addressed by the provision of TAS 100 relating to the communication of risk.
- The requirement in ISAP 1 on the retention of documentation is sufficiently addressed by the documentation provisions of TAS 100 which imply that documentation should be retained for a reasonable period.
- The requirement in ISAP 1 for the actuary to present all information with sufficient detail to be disproportionate, specifically, whether the documentation principles of TAS 100 cover similar material that is not inconsistent.

3.4 The Council discussed the findings of the analysis and noted that in developing the revised TASs consideration had been given to the need to ensure consistency with international model standards to the extent possible. The Council confirmed that it considers that TAS 100 in conjunction with the Actuaries Code and APS X1 is substantially consistent with ISAP 1 and supported the proposal to insert a statement in the *Framework for FRC technical actuarial standards* to that effect.

3.5 The Council noted that a number of international model standards are currently under development and that the FRC will be working closely with the IFoA to develop and update the FRC's policy for international standards. Whilst it was noted that as ESAPs and ISAPs are model standards and there is no expectation or requirement for the standards to be adopted in full it was suggested that the FRC, with the IFoA, should be able to satisfy itself that UK standards are sufficiently consistent with the model standards. It was also suggested that, in developing the international policy, the FRC should:

- Consider the risks associated with the UK model for actuarial regulation and whether the split of responsibilities between the FRC and the IFoA has an impact on the credibility of UK standards.
- Consider the risks associated with not stating substantial consistency and how this could be perceived.
- Recognise that, whilst in the UK the principles-based approach is widely accepted in the UK as best practice, in many other jurisdictions standards tend to be rules-based and those who are used to rules-based standards may be sceptical of UK standards.

3.6 Ben Kemp (BK) reported that the IFoA is also developing an international Standards Policy and confirmed that, from the IFoA perspective, it considers that work undertaken in accordance with TAS 100, the Actuaries Code and APS X2 is of equivalent quality to work undertaken in accordance with ISAP 1.

4. Consultation on the future of actuarial regulation

4.1 Siân Barr (SB) introduced a paper that provided an update on the project to consult on the actuarial regulation. SB reported that the proposed consultation will encompass both FRC's actuarial roles: independent oversight of the actuarial profession and independent technical actuarial standard-setting and that responsibility for the consultation will rest with the FRC Board with a broad range of questions and possible outcomes being explored.

- 4.2 The Council discussed the proposed objectives of the consultation and highlighted the need to be clearer on what is driving the consultation and more specifically, what has changed since the current arrangements were established in 2006 and broadly re-affirmed in 2012. The Council suggested, for example, that drivers might include increased demands on resources as a result of the FRC's new role as Single Competent Authority for Audit, increasing levels of systemic risk notably in pensions and the changing international actuarial regulation environment.
- 4.3 The Council noted that a joint FRC / IFoA steering group, chaired by Paul George, has been established to formulate the consultation and to analyse the results received in response to the consultation. Through discussion the Council queried whether the name 'Steering group' accurately reflects the purpose / role of the Group and suggested that it might be more appropriate to refer to the group as working group.
- 4.4 The Council discussed the processes through which the consultation would be developed and noted that routine papers would be presented to the Joint Forum for Actuarial Regulation (JFAR) to ensure the regulatory bodies represented on the JFAR are kept up to date on thinking and have the opportunity to contribute to the development of the proposals. Whilst it was noted that ultimate responsibility for the consultation will rest with the FRC Board, and that the FRC / IFoA Working Group would report directly to the FRC Board, it was noted that the views of the Actuarial Council, the Codes & Standards Committee and the Conduct Committee would be sought during the project.
- 4.5 The Council discussed the proposed timetable and in highlighting the valuable role the Council could play, both in respect of formulating the consultation and developing proposals post consultation, suggested that its input should be sought at every opportunity. The executive undertook to review the timetable to incorporate meetings of the Council and undertook to share the outline project plan with the Council once it had been developed.
- 4.6 The Council discussed the proposed 'FRC vision for actuarial regulation' and suggested that the vision should be developed further in order to provide a test against which the appropriateness of the various models for actuarial oversight / standard setting should be tested. The Council did not consider that, as currently drafted, the vision addressed the issues of concern driving the review, or established a sufficiently relevant bar for models to be tested against.

5. IFoA Observer Report

- 5.1 The Council noted a report that provided an update on IFoA matters since the last meeting of the Council. BK highlighted the following matters:
- 22 IFoA Quality Assurance Accreditations had been awarded at an event on 22 April. A plan is being developed for the next phase of the promotion of QAS. It was noted that mechanisms are being put in place through which outputs of QA reviews will be shared with the FRC.
 - A working party has been established to support a substantive review of the Practising Certificates regime and a consultation on proposed changes is planned for later in the year.
 - In response to concerns raised by respondents to the TAS100 consultation, technical guidance to support the application of TAS 100 is being developed by the IFoA and it is expected this will be issued in draft in the Autumn.
- 5.2 BK reported that the IFoA Skills Sets framework has been finalised and published on the IFoA website and that two Professional Skills webinars will be held in early June. The Council noted that the IFoA reviews the quality of its education materials on an on-going and annual basis and

that the IFoA seek regular feedback through face-to-face sessions and online. BK reported that feedback is generally positive and undertook to share the feedback with the Council.

- 5.3 The Council noted that, stemming from its risk outlook work, the IFoA intends to publish a series of short, targeted communications known as 'risk alerts' to its members. The Council discussed draft text of the first risk alert on commutation factors. It was suggested that while the alert would be valuable from a user perspective, from a practitioner perspective the alert might not be helpful as actuaries have limited powers. It was suggested that the IFoA may want to consider redrafting the alert to highlight what the risk to the public interest is and to clarify what role the actuary can play in mitigating that risk. It was noted that an update on the IFoA's risk outlook would be discussed later on the agenda.
- 5.4 The Council discussed the paper produced by the IFoA for the JFAR review on Group Think. The Council welcomed the paper, specifically the analysis of rules-based versus principle-based approaches, but suggested that the IFoA may want to explore this further and reflect on whether the focus should be on Group Think amongst actuaries or the environment in which actuaries work, which is predominantly rules-based. It was also suggested the IFoA may wish to review the statement that group think is not specific to actuaries, the use of the term 'reasonable range' in relation to auditing and that the IFoA may wish to separate out the two points relating to software providers.

6. FRC Risk Assessment

- 6.1 AM introduced a suite of papers on risk / horizon scanning activities relevant to the FRC's actuarial work. AM provided an overview of the risk / horizon scanning activities relevant to the FRC and summarised the interactions between those various activities. The Council noted that the publication on the Specific TAS consultation includes a description of the FRC's risk assessment process for the purpose of setting the scope of the Specific TASs and that the three activities listed above will feed in to this process.
- 6.2 Whilst the Council welcomed the overview and supported the 'bottom-up' and inclusive approach that had been taken the Council suggested it might be useful to agree on a process that should be followed when the FRC, and / or the JFAR, identify a risk that is out of the scope of the risk perspective or cannot be addressed by the FRC or any of the bodies represented on the JFAR.
- 6.3 The Council considered and discussed papers on each activity.

The JFAR risk perspective

- 6.4 AM reported that the JFAR had agreed it would report annually on its activities and on the risk perspective. Accordingly, in 2016, the JFAR has agreed it will publish a report covering:
- An update on 2015/16 activities.
 - The JFAR's current risk perspective, highlighting any changes to high level risks, hotspots and areas of concern referring to the IFoA's analysis.
 - Topics for JFAR reviews in 2016/17.
- 6.5 AM invited the Council to provide input on whether the 12 high level risk areas, and the hotspots within those high level risk areas remain valid and whether there are any other areas of potential risk that should be included in the 2016 update. The Council identified a number of additional hotspots for consideration by the JFAR which AM undertook to include in the JFAR discussions.

IFoA's Risk Outlook work

- 6.6 The Council noted that the IFoA has undertaken a detailed risk analysis and that it is intended that this work will be mapped to the existing JFAR risk perspective and will replace the detailed work originally undertaken by the FRC. The Council noted that, as the work originally undertaken by the FRC was structured / categorised to inform the development of the TASs, the categories differ from the categories of the IFoA analysis differ, and that the mapping exercise will provide an opportunity to test the appropriateness and completeness of the JFAR perspective.
- 6.7 The Council noted that the JFAR will consider the IFoA risk outlook in June and that the Council would also be given the opportunity to comment on the document

Actuarial Council's input to the FRC's horizon scanning activities

- 6.8 Ufuk Cengiz (UC) introduced a paper that set out actions taken forward as a result of the 2015 horizon scanning exercise and sought input to inform the 2016 horizon scanning exercise. The Council were reminded that the FRC uses a horizon scanning framework to capture the insights from the various bodies within the FRC governance structure on issues which could ultimately affect the FRCs ability to pursue its mission. The Council noted that, as a result of the 2015 exercise, the FRC Board had agreed to carry out a research project on retirement income and that this was an area the Council had identified for consideration. Whilst the Council welcomed the exercise it highlighted the need for an improved feedback loop to communicate the outputs of the exercise to those who have contributed. The Council also suggested that, in order to be most effective, horizon scanning discussions should be routine agenda items.
- 6.9 The Council highlighted that, of the suggestions put forward at paragraph 6.4, the impact of low / negative interest rates, risks associated with intergenerational fairness and advice gaps should be fed in to the FRC horizon scanning framework. It was also suggested that the FRC should have regard to / keep up to date with academic research in respect of actuarial work and the risks that are identified therein.
- 6.10 Through discussion the Council suggested that some of the risks identified could be mitigated by strengthening the voice of the profession and increased advocacy for the profession. Whilst it was noted this may not be a matter for the FRC's risk horizon framework it was suggested this could be explored through the FRC's consultation on the oversight of the actuarial profession or through the IFoA. The executive undertook to explore this further.

7. Minutes of the previous meeting and rolling actions

- 7.1 The minutes of the meeting held on 7 March 2016 and the minutes of the call held on 7 April 2016 were approved for publication.
- 7.2 The rolling action log was noted.

8. Forward agenda

- 8.1 The forward agenda was noted.

9. Date of next meeting

- 9.1 The next meeting of the Actuarial Council will be held on Tuesday 12 July 2016 at 2pm.