

Minutes of a special meeting of the Actuarial Council held on Tuesday 15 July 2014 in the Boardroom at 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Olivia Dickson	Chair of Council
Keith Barton	
Rosemary Beaver	
Angela Darlington	(by conference call)
Ashok Gupta	
Howard Jacobs	
Joanne Livingstone	

Observers:

Jane Curtis	Institute and Faculty of Actuaries (IFoA)
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In Attendance:

Francesca Chittenden	Council Secretary, FRC
Robert Inglis	Project Director, Actuarial Policy Team, FRC
John Instance	Project Director, Actuarial Policy Team, FRC
Paul Kennedy	Director, Actuarial Policy, FRC
Melanie McLaren	Executive Director, Codes & Standards, FRC
Natasha Regan	Project Director, Actuarial Policy Team, FRC

Apologies for absence

Apologies were noted from Martin Bradley, David Hindley, Paul Johnson and Martin Miles (Council Members) and Lee O'Rourke (HMT Observer).

1. Risk perspective

- 1.1 Natasha Regan (NR) introduced the latest draft of the Actuarial Risk Perspective (the document). The Chair reported that each member of the Joint Forum on Actuarial Regulation (JFAR) would be seeking internal approval of the document prior to the September meeting of the JFAR when the JFAR will be asked to agree the final text and publication of the document. The Council noted that the FRC's Codes & Standards Committee (CSC) and Conduct Committee (CC) would be asked to approve publication of the document at their meetings in September and that the Board would be informed.
- 1.2 NR provided an oral update on the key points that had been raised at a meeting of the working group of the JFAR the previous day. The Council noted that the JFAR working group had:
- Suggested the document be reviewed by each of the JFAR members' communications teams to ensure the language used is suitable for the audience.
 - Considered the role of the actuary in the mitigation of risk and suggested the drafting of the 'stress testing' hotspot be revised to make the actuarial involvement clearer.

- Highlighted that the term ‘actuarial risk’ has a different meaning in the banking industry and had suggested that the title should be revised to avoid use of the term.
- 1.3 The Chair reported that the CSC had confirmed the Council’s role in relation to the development of the document at its meeting in June. The Chair clarified that the role of the Council will be to report to the CSC whether or not the Council agrees with the positioning and substance of the document and to provide assurance in relation to the process undertaken to develop the document – the Council would not be expected to approve the detail. The Council noted its role and agreed that this should be reflected in the minutes of the Council meeting.
- 1.4 NR invited the Council’s views on the document. NR requested that Council members submit detailed drafting comments outside of the meeting by 22nd July. Through discussion the following observations and suggestions were made:
- a) The title
- It was suggested that the title ‘Actuarial Risk Perspective’ did not clearly indicate the objective of publishing the document, and that consideration should be given to revising the title to reflect that this is a preliminary view and that input is sought in order to develop it.
- b) The purpose and positioning of the risk perspective
- It was suggested that the positioning and purpose of the document could be further clarified. One Member suggested that the scope of the document is very wide and without greater clarity on its purpose, unrealistic expectations might be set.
 - It was suggested that the JFAR should consider finding an alternative term to ‘consult’ as consultations are usually undertaken to inform the development of standards rather than to inform thinking on further work; similarly, the thought of a consultation could be considered offputting for some. Paul Kennedy (PK) confirmed that the intended positioning was of a discussion paper rather than a consultation.
 - The Council suggested that it might be useful to position the document as a ‘top down’ document to which ‘bottom up’ input is sought.
 - It was suggested that, to encourage responses, greater detail or clarity should be provided as to what the JFAR will do with the input received.
- c) The introductory structure
- The Council highlighted the importance of making clear that the document includes risks to the public interest that have been identified by all members of the JFAR.
 - The Council suggested that further consideration should be given to the branding of the document, and in particular whether the sole signature of Stephen Haddrill (FRC Chief Executive) albeit as JFAR Chair could suggest that the document is an FRC-led document, and the need for each of the organisations represented on the JFAR to endorse and publicise the document.
 - The Council suggested that the introduction could include further discussion of timescales.
 - The Council suggested that some form of explanatory diagram - in a similar way to those used in the FCA Risk Outlook - might be useful to enable users to navigate the document.
 - It was suggested that it would be useful to provide more information about the JFAR and its objectives in the introduction.

- The Council was content with the reasons for seeking input as set out in the introduction. The Council suggested that feedback should also be sought on whether any big risks are missing, which are the highest priority areas, whether any hotspots are missing, who the experts are and what work is currently happening to mitigate the risks.

d) The categorisation of the risks

- The Council discussed whether the 'buckets of risks' should be rearranged by area of actuarial work to assist respondents in identifying which risks are relevant to their work. Whilst it was noted that this could restrict thinking, and could be considered as 'spoon feeding' respondents, the Council suggested that consideration be given to setting out the risks, arranged by sector, as an appendix.
- It was also suggested that it might be valuable to prepare different communications for different groups of stakeholders to highlight in which areas of the document they are likely to be most interested.

e) The descriptions of the risks

- It was suggested that the introduction could be improved by clarifying the criteria for what a hotspot is and by highlighting that for each of the hotspots identified there is a clear line of sight in to actuarial work. Consideration of actuarial content is to be included in the Council review of the hotspots.

1.5 The Council noted that the IFoA would advise NR, following the Regulation Board meeting on 17th July, of its process for approving the document. The Council considered that it would be helpful if the process included some review by the IFoA's Practice Boards as well as the IFoA's Regulation Board.

1.6 The Council noted the publication timetable.

2. Actuarial standard-setting framework

FRC and IFoA Statement

2.1 The Chair reported that the FRC Board had approved the IFoA and FRC Statement at its meeting on 2 July, subject to two points:

- Clarifying that the Statement did not address the FRC's regulatory agenda with regards to its oversight role.
- Providing flexibility in relation to the timing of the consultation on the FRC's revised standards framework.

The Council noted that the two points raised had been addressed in the final Statement and that, subject to approval by the IFoA Regulation Board on 17 July, the FRC and IFoA statement is due to be published on 24 July.

Technical Actuarial Code

2.2 Robert Inglis (RI) introduced the latest version of the opening section of the Technical Actuarial Code (the TAC), a revised definition of 'actuarial work' and an analysis of whether areas of work and certain activities would fall within the scope of the TAC under the revised definition.

2.3 The Council was invited to comment on the documents set out; through discussion the following observations and suggestions were made:

The definition of actuarial work

- The Council noted that:
 - The order of the bullet points had been swapped in the revised definition to place emphasis on the use of principles and / or techniques of actuarial science.
 - There would be supplementary text in the accompanying framework document and the consultation materials to explain what is meant by the term 'principles and / or techniques of actuarial science' and examples of work where the use of principles and / or techniques of actuarial science would be considered 'central' to that work.
 - The term 'actuarial capacity' had been taken out of the definition in response to the Council's concern over the potential for ambiguity or avoidance in its application.
 - The revised definition is intended to be shorter and clearer than the definition discussed at the June meeting.
- The Council noted a table setting out an analysis of whether different areas of work would fall within the scope of the TAC under the proposed definition and whether those areas of work would fall within the scope of ISAP 1. The Council discussed whether complex calculations should be caught within the scope of the TAC, given that simple calculations normally would not. However, following a short debate it was concluded that complex calculations require significant judgement; therefore, the analysis including complex calculations within the scope is correct. The Council noted that, under the revised definition, the input of a non-executive director to a board, when that non-executive director happens also to be an actuary, would not fall within the scope of the TAC.
- The Council highlighted that principles and / or techniques of actuarial science are used regularly in the financial services sector and suggested that further work was needed to ensure the FRC has a full understanding of all the instances in which this may occur. The Chair highlighted the importance of having as full an understanding as possible of the potential impact of the TAC, and of what work would fall within scope of the TAC that is not caught by the current TASs. Accordingly, the Council was asked to email RI with examples of work in the financial services sector, outside of pensions and insurance, which in their view used the principles and / or techniques of actuarial science.

Materiality and proportionality

- 2.4 The Council discussed in detail the revised approach to materiality and proportionality, noting that the approach replicates that set out in the existing Technical Actuarial Standards (TASs). On the basis that practitioners had indicated a preference for the existing approach to be carried forward in to the TAC, given their familiarity and understanding of the approach, the Council agreed the proposed text, subject to the inclusion in the glossary of a definition of proportionality and/or an explanation in the supporting framework document.
- 2.5 The Council also suggested that the reference to 'principles' in the sentence on materiality should be supplemented to include the supporting provisions 'and that a definition or explanation of 'material effect' should be provided.

Other points

2.6 The Council suggested that:

- An appendix setting out areas of work that are within the scope of the TAC, and are not within the scope of the TASSs, should be published in the consultation document.
- Further consideration should be given to the analysis of whether the production of CMI mortality tables and whether a bank / asset liability modeller would fall within the scope of the TAC under the revised definition.
- The TAC, and in particular the revised definition of 'actuarial work', should be considered by the JFAR and the IFoA practice boards.
- In the application section the Executive should consider whether the benefit that users would expect to obtain from the work should be described as the 'net' benefit.

The Council requested that the Standards Working Group give further consideration to introducing a 'comply or explain' requirement to the TAC. RI undertook to consider the suggestions that had been made.

2.7 The Council noted that the TAC consultation documents would be brought to the Council for consideration at its September meeting for recommendation to the CSC and CC and that final approval of the TAC consultation documents would be sought by the Board on 29 October.

3. Minutes of the previous meeting and rolling actions

3.1 The minutes of the Council meeting held on 17 June 2014 were approved as an accurate record of the meeting.

3.2 The rolling action log was noted.

4. Forward Agenda

4.1 The forward agenda was noted.

5. AOB

5.1 The Chair reported that JI was planning to retire from the FRC later in the year and that there would be an opportunity to thank him at a later Council meeting.