

Minutes of a meeting of the Actuarial Council held on Wednesday, 30 January 2019 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

John Coomber	Chairman
Rosemary Beaver	Member
Martin Burke	Member
Naomi L'Estrange	Member
Dominic Lindley	Member
Joanne Livingstone	Member
Bob Scott	Member
Dominic Veney	Member (via teleconference)

Observer:

Des Hudson	IFoA Observer
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In attendance:

Anu Bhartiya	Council Secretary
Paul George	Executive Director, Corporate Governance & Reporting
Ann Muldoon	Director of Actuarial Profession
Erica Nicholson	Deputy Director, Professional Oversight Team
David Rawlings	Senior Lawyer, Enforcement Team (For Minute 7 only)
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

- 1.1 The Chairman welcomed everyone to the meeting and in particular, Bob Scott to his first Council meeting as Member.
- 1.2 Apologies were noted from Alice Habisreutinger, HM Treasury Observer.

2. Declaration of conflicts of interests

There were none reported.

3. Minutes of the Actuarial Council meetings and rolling action log

- 3.1 The minutes of the meeting held on 15 October 2018 were approved for publication.
- 3.2 The rolling action log was noted.

4. Update from the Chairman

- 4.1 The Chairman provided a brief update on the DWP public consultations on pension matters and discussed the related implications on the industry and regulations. The Council noted that the FRC Executives will assess how these consultations would have implications on the TASs and will present a paper to the Council at a future meeting. Another paper on how actuarial standards are set internationally and standards set by other professions in the UK would also be presented to the Council. The paper would also include an overview and analysis of rules based and principles-based standards. The difference between both rules based and principles-based standards was noted.

5 Update from the Executive Director, Corporate Governance & Reporting

- 5.1 The Executive Director, Corporate Governance & Reporting provided an update on some of the matters that were considered at the Board meeting on 23 January 2019 including:

FRC's Draft Plan, Budget and Funding for 2019/20

- 5.2 The Draft consultation document is likely to include the actions and resources needed to discharge current responsibilities, the work that flowed from EU exit, and the phased implementation of the Kingman recommendations. The final draft is dependent on further comments from the Board, Audit Committee and BEIS.

Competitions and Market Authority – update paper on the audit market

- 5.3 The FRC had welcomed, at its separate meeting on 15 January 2019, the CMA's update paper on the audit market. A response letter had been sent to the CMA.

Audit reform

- 5.4 Sir Donald Brydon has agreed to undertake the planned review of the purpose and scope of audit and the FRC is providing secretarial support.

EU exit

- 5.5 The planning for the creation of the IFRS Endorsement Board was ongoing and the BEIS were preparing the draft Statutory Instrument and undertaking the recruitment of the Chair. Reference was also made to the registration of third country auditors for work in the UK and the recognition of UK auditors to work in the EU and in other countries where their current recognition is via an EU agreement.

Sir John Kingman Review

- 5.6 The Council noted that the Board has welcomed the Kingman recommendations. The FRC staff reaction to the Kingman report had been positive with considerable enthusiasm to get involved in implementing change. The FRC is considering which recommendations could be considered for early implementation but will need to wait for BEIS consultation to understand government priorities which is due shortly.
- 5.7 With regards to Kingman's recommendations in relation to the actuarial regime, the Council expressed concerns as to which body would drive the recommendations and establish the most effective regime for actuaries, with most appropriate powers. The Council noted that the FRC is in communication with the PRA and The Pensions Regulator in respect of this matter. In the meantime, the FRC will continue to deliver business as usual in the most professional and effective way as possible in the public interest and participate in taking forward the recommendations to the extent possible.
- 5.8 The Council viewed that the JFAR had established sound traction in actuarial matters and suggested if this could be the forum to hold constructive debate on Kingman's recommendation on actuarial regime and seek views from the participating bodies.

6. IFoA's Report

- 6.1 The IFoA Observer provided an update on the report and noted that:
- The final report from the Mortality Assumptions in Pensions Working Party had been considered at the Regulation Board on 29 January 2019. The actions arising from the discussion would be undertaken in the forthcoming weeks.
 - With regards to monitoring on actuarial work, the Regulation Board had discussed the appropriate way forward with respect to enhanced monitoring.

6.2 In response to a query in relation to the modification of the APS X1, it was clarified that the actuaries are bound by Technical Actuarial Standards as defined in the Disciplinary Scheme as agreed under the FRC-IFoA Memorandum of Understanding.

6.3 With regards to the Actuaries' Code review and the consideration on an amendment to the paragraph in the guidance that explains the meaning of 'user', it was noted that the IFoA would be consulting with the FRC Executives in this regard.

7. Update on FRC Enforcement cases

7.1 At the outset, Rosemary Beaver declared that she had recently been appointed as a member of Lloyd's Tribunal Panel and asked if the presentation included any matter that would have conflict of interest. It was confirmed that the presentation did not include any matter that was not in the public domain.

7.2 The Senior Lawyer of Enforcement Team provided a presentation on enforcement proceedings relating to a recent case. The presentation covered the following points:

- The features of the three enforcement schemes – Accountancy Scheme, Actuarial Scheme and Audit Enforcement Procedure;
- Some factual background of the case;
- Some key questions as to what reliance could be placed on actuaries by accountants and auditors and vice versa;
- Key issues of the actuaries involved in the actuarial case and how this could be tied back to standards;
- How to respond to deficient data and reliance on management.

7.3 The discussion following the presentation noted that principles-based standards such as TASs are stronger and more flexible when professional judgements are taken. Consideration was given to the definition of public interest and the management of the assessment of which cases proceed to discipline or not. It was noted that the Enforcement Team liaises with the Actuarial Policy Team on an ongoing basis.

8. Report from the Director of Actuarial Policy

8.1 The Director of Actuarial Policy provided an update on the report and noted that:

- The FRC had received two responses to the consultation on ASORP 1 at the time of the meeting. The final draft of the ASORP will be presented to the Council at its meeting in April for discussion, with a view to publishing the final standard subject to the FRC Board's approval on 15 May 2019.
- There was a positive response to the presentation on 'JFAR and the Hotspots' at both the general insurance conference and the Life conference.
- The FRC has submitted a response to the DWP consultation on its proposals for Collective Defined Contribution pension schemes.
- The FRC has also submitted a response to the DWP consultation on the Pensions Dashboard with a focus on AS TM1.
- The FRC is working on the response to the DWP consultation on its proposals for the consolidation of Defined Benefits pensions schemes.
- The FRC continues to wait for approval to recruit a replacement for Erica Nicholson.

8.2 With regards to the super complaint to the CMA on general insurance pricing, the Director of Actuarial Policy reminded that Council that in revising TAS 200, the Council had considered a provision that would have required pricing actuaries to consider the extent of cross-subsidy. The Council had concluded that the level of cross-subsidy is a key assumption in pricing work and was therefore adequately covered by the assumptions provisions alongside the FCA requirements for treating customers fairly. The FRC Executive would continue to monitor the output from the next steps of the

FCA and the CMA in this area and then consider whether TAS 200 should be amended. This would form part of the wider post implementation review of the TASs.

- 8.3 In respect of the High Court's ruling on Guaranteed Minimum Pension, a Council Member highlighted how the work of the actuaries assessing the cost of GMP equalisation is affected due to inadequate data or method and the legal advice to the pension scheme trustees to continue as 'business as usual'. The Council noted that the FRC Executive had discussed this issue in 2018 as there were wider implications on the work of actuaries. It was suggested and agreed that this issue could be included in the agenda for the next JFAR meeting. The FRC Executive agreed to invite the Council Members who may be interested in joining the JFAR meeting.

9. Update from the Chairman on Codes and Standards Committee meetings

The Chairman provided an update on the matters considered at the past Codes & Standards Committee meetings and noted that the Committee had mainly focused on developing the new Stewardship Code. He reported that the new Code has been substantially expanded and set out the main features of the new Code as follows:

- Distinguishes stewardship responsibilities for different entities in the investment chain. It sets clear expectations for asset owners, asset managers and service providers, so allowing for flexibility to suit the different business models of various signatories.
- Includes requirements for signatories to integrate stewardship into their investment approach.
- Recognises the importance of signatories acting as 'stewards of the marketplace' as well as of individual investments.
- Extends beyond stewardship of listed equities, recognising the importance of stewardship of other asset classes, e.g. fixed income, private equity and infrastructure.
- Requires signatories to consider material environmental, social and governance issues in investment decision-making, monitoring and engagement.
- Requires signatories to develop their purpose, values and culture to support effective stewardship.
- Is more clearly linked to the UK Corporate Governance Code and used a similar structure.
- Focuses on public reporting on objectives, activities, outcomes and effectiveness, in addition to policies.

10. Update from the Director of Professional Oversight

The Deputy Director of Professional Oversight Team provided an update on the ongoing activities of the Team, which included:

- The engagement with the IFoA on its Regulation Board's decision in relation to the way forward in respect of the monitoring work, and the work relating to the revised Actuaries' Code.
- As part of the oversight activities and ongoing monitoring of key bodies, as agreed by Conduct Committee, the Team is reviewing the governance of the IFoA as part of its broader review of governance of the bodies it oversees. The key findings of these activities would be published in the FRC's annual report in the Summer.

11. HM Treasury's Report

There was no update under this section.

12. Actuarial Council 2019 Workplan

12.1 The Director of Actuarial Policy introduced the paper that highlights the Council's activities for 2019 and how they relate to the activities set out in the Terms of Reference.

12.2 The Council noted that the main challenge to the plan was the timing of the post - implementation review of the TASs. The Council considered the proposal of deferring the commencement of this review until at least the July 2019 Council meeting. The primary reason for this was the recommendation of the Kingman Review that the actuarial responsibilities of the FRC be transferred to another regulator and that the PRA is the most appropriate regulator. Postponement of the commencement of the post-implementation review would allow FRC to consider who the new regulator may be and to consider how they may need to be involved in the review as it develops. A secondary reason is the resource capacity arising from recruitment challenges. The Council was supportive of the proposal to defer the commencement of the post-implementation review by six months.

13. Update on the Kingman Review

The matter was covered under Minute 5.

14. Council Effectiveness Review – Action log

The Council noted that all actions arising from the effectiveness review had been met and the log is now closed. The Council noted that a new induction programme was in place and the new members of the Council who joined in October 2018 had a thorough induction. A Council Member suggested if further training on IFRS 17 could be included for a future meeting, when the IASB progresses further in the matter. This was noted.

15. Forward Agenda

The Council Forward Agenda was noted. It was highlighted that Council effectiveness review was not included in the Forward Agenda. This would be discussed with the Secretariat and a plan would be reported to the Council.

16. Any other business

There was none.

17. Date of next meeting

The Council noted that the next meeting would take place on 2 April 2019.