

Minutes of a meeting of the Actuarial Council held on Tuesday 21 October 2014 in the Boardroom at 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Olivia Dickson	Chair of Council
Keith Barton	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	
Martin Miles	

Observers:

Ben Kemp (by telephone)	Institute and Faculty of Actuaries (IFoA) (minute 3 only)
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In Attendance:

Siân Barr	Project Manager, Actuarial Oversight, FRC (minutes 1-3 only)
Dawn Bardwell	Director, Oversight, FRC (minute 3 only)
Francesca Chittenden	Council Secretary, FRC
Faye Dyce	Project Manager, Actuarial Policy Team, FRC
Robert Inglis	Project Director, Actuarial Policy Team, FRC
John Instance	Acting Director, Actuarial Policy Team, FRC
Melanie McLaren	Executive Director, Codes & Standards, FRC
Natasha Regan	Project Director, Actuarial Policy Team, FRC

Introductions and apologies for absence

Apologies were noted from Rosemary Beaver, Martin Bradley and Angela Darlington (Council Members) and Lee O'Rourke (HMT Observer).

1. FRC Consultation: A new framework for Technical Actuarial Standards

- 1.1 The Chair introduced the consultation paper *A new framework for Technical Actuarial Standards* and an accompanying cover paper. The Council were invited to provide any final comments on the documents and if appropriate to recommend to the FRC Board that the consultation paper be issued. The Council noted that the consultation paper had been considered and approved by the Codes & Standards Committee on 16 October subject to minor drafting amendments and Council's subsequent approval.
- 1.2 The Council discussed the consultation paper. Through discussion a number of minor drafting amendments and the following more substantial amendments were suggested:

- The language used at 1.2 which sets out the purpose of the consultation should reflect the language used in the FRC and IFoA statement on actuarial standards and press notice.
 - At 4.35 *actuarial software development*, the distinction between programming and actuarial involvement with the design of models used by programmers should be made clear.
 - At 5.30 *compliance statement*, reference should be made to the potential use of the compliance statement as a tool that can be used to inform judgements on whether work would fall within the scope of TAS 100.
- 1.3 The Council discussed and approved the draft Board paper subject to the inclusion of:
- Reference to the key risks being in the executive summary;
 - Reference to the legal advice that has been received in relation to the users' ability to enforce TAS100, and;
 - Greater emphasis on the Council's deliberations in relation to the definition of 'actuarial work' and why a definition is necessary.
- 1.4 RI undertook to amend the consultation paper to reflect the suggestions made by the Council before submission to the Board.

2. Funeral Plans

- 2.1 John instance (JI) introduced the draft IFoA publication *Trust-Based Pre-Paid Funeral Plans: a brief guide for actuaries* and a document setting out an analysis of the sources of the technical guidance. The Council noted that the guide includes technical and ethical guidance as well as educational material and that IFoA intends to consult on the guide as part of a suite of documents relating to Funeral Plans. It was clarified that the issuance of the suite of documents is in response to requests from members of the profession and to mitigate risks the IFoA has identified with regard to the role of the actuary working on trust-based pre-paid funeral plans.
- 2.2 The Council noted that the revised MOU between the FRC and IFoA permits the IFoA to issue non-mandatory technical guidance with the FRC's agreement, and that the FRC may require the IFoA to demonstrate that the guidance supports compliance with the TASs. The Council discussed its role in relation to the requirement and queried whether the FRC intends to issue an endorsement statement. It was concluded that reference in the guide to the FRC and IFoA statement and the MOU is sufficient to clarify the FRC's responsibility and that the issuance of an endorsement statement could result in the FRC undertaking some responsibility for the quality of the document. It was agreed that the Council's role was to ensure that guidance produced by the IFoA supports compliance with the TASs only in the narrow sense that it does not undermine compliance with the relevant TASs. The Council did not want to confirm that the guidance 'sufficiently' supported compliance with the relevant TASs, on the basis that the latter implies an assessment of quality. It was suggested that this understanding was reflected in any statement made in the guidance regarding the FRC's review of the document. The Executive would report back on the precise words used at the Council's next meeting.

- 2.3 The Council discussed the guidance and concluded that it is not as clear as it might be; in particular, there is no text on the need explicitly to describe the scope of the assignment in question. Additionally, some aspects of reporting required under the TASs i.e., those relating to the purpose of the work are not included in the draft text. Accordingly, the Council did not confirm that the guide supports compliance with the TASs and suggested that the IFoA review the document in response to the concerns raised.
- 2.4 The Council noted that, subject to the results of its consultation, the IFoA intends to issue the final suite of documents during Spring 2015 and that an update of the suite of documents would be required during the Summer of 2016 to reflect the revised TAS. The Council requested that the IFoA include a statement in all technical guidance produced to clarify that the TASs should always take precedence; JI undertook to address this.

3. Peer Review of Actuarial Work

- 3.1 Dawn Bardwell (DB) introduced a paper summarising the IFoA's proposal to publish a new cross-practice standard APS X2 *Review of Actuarial Work* and associated guidance. DB reported that, on publication of APS X2, the IFoA intends to withdraw APS P2 *Compliance Review: Pensions*. The Council noted that the Conduct Committee had raised concerns in relation to the withdrawal of APS P2 on the basis that the mandatory review of certain pensions related actuarial work set out would no longer be required, thus removing a mandatory quality control from an area where there is a potential risk to the public interest.
- 3.2 The Council was invited to consider the IFoA's proposal and to respond to the Conduct Committee on whether there are areas of actuarial work where peer review, in addition to being possible, is also necessary in order to safeguard the public interest. The Council considered the following questions referred to it by the Conduct Committee:
- a) Does the improvement in the quality of actuarial work as a result of compliance review under the current APS P2 benefit the public interest?
 - b) How could the current requirements of APS P2 be improved to better serve the public interest whilst remaining practical to achieve?
 - c) In which other areas of actuarial work would mandating an independent review benefit the public interest by improving the quality of the work?
 - d) In which of these other areas would an independent review be practical to obtain?
- 3.3 The Council discussed the proposal and noted that the withdrawal of APS P2 had not been addressed in the APS X2 consultation documents and that the rationale underpinning the IFoA's proposal to withdraw APS P2 was not clear.
- 3.4 In response to the concerns raised by the Council and Conduct Committee, Ben Kemp (BK) reported that:
- APS X2 is principles based and places an increased reliance on professional judgement, which is consistent with both the IFoA's and the FRC's current approaches to standards, in contrast to APS P2 which is rules-based.

- APS X2 is a cross practice standard which can be applied to many areas of actuarial work, in contrast to APS P2 which is specific to one area of actuarial work.
- APS X2 is aligned with ISAP 1, in contrast to APS P2 which has a UK focus;
- The IFoA intend to issue an addendum to APS X2 which will be targeted at UK Scheme Actuaries and will provide support in relation to the transition from APS P2 to APS X2. It will include text to clarify that APS X2 does not promote a reduction in the level of independent review undertaken by UK Scheme Actuaries when applying APS P2.
- The addendum does not mandate a requirement for Scheme Actuaries to undertake independent review but does allow for independent review and, given the principles basis of APS X2, will encourage actuaries to apply professional judgement in determining whether or not independent review is necessary.

3.5 Through discussion the following observations and points were raised:

- One Member reported that Scheme Actuaries are currently obliged to certify that they have obtained peer review of their work where it is within the scope of APS P2. It was noted that this review is an important safeguard against 'group think' and that, in regard to the Conduct Committee's first question (3.2a), the requirement to certify that the review under APS P2 had been obtained was beneficial to the public interest in practice, in terms of enforcing the rigour of peer review within firms.
- It was noted that APS X2 would allow, but did not require, independent review.
- It was noted that there is a requirement, under Solvency II, for models to be validated.
- It was reported that in General Insurance, Lloyd's reviews the syndicate actuaries' methodologies and assumptions.

3.6 On reflection of the points raised by BK, and an acknowledgement that many firms where Scheme Actuary work takes place have practices in place to deal with peer review which may continue after the withdrawal of APS P2, the Council considered that the addendum described by BK might be sufficient to mitigate the risk to the public interest resulting from the withdrawal of APS P2. However, the Council felt unable to respond to Conduct Committee's request for advice on the second question (3.2b) without sight of the addendum.

3.7 BK undertook to circulate the addendum to the Executive for consideration within 24 hours and it was agreed that a sub-group of Council Members review the addendum, alongside the Executive, and prepare a response to the Conduct Committee on question 3.2b.

3.8 In relation to questions 3.2c and 3.2d the Council considered that it would be useful for the addendum to set out a list of areas of actuarial work that actuaries should consider as potentially requiring independent review and suggested that the Executive and the sub-group attempt to compile such a list for discussion with the IFoA bearing in mind the potential public interest risks identified by the risk perspective. The Council would consider questions 3.2c and 3.2d at its next meeting in the light of that work.

4. Actuarial Risk Perspective

- 4.1 John Instance (JI) introduced a final draft of the discussion paper Joint Forum on Actuarial Regulation: A risk perspective. The Council noted that the draft had been considered and, subject to a small number of drafting amendments, had been approved by the Codes & Standards Committee and Conduct Committee, subject only to the Council's subsequent agreement to the positioning, substance and process, and that the FRC intend to publish the discussion paper during the week commencing 28 October 2014.
- 4.2 The Council were invited to comment and agree with the positioning and substance of the document. Through discussion the Council concluded that the document as currently drafted is not appropriate and suggested that the document be redrafted so that it is positioned as a 'call for evidence', rather than a consultation document. Through discussion the following suggestions to support the repositioning were made:
- The introduction should include a context-setting piece and acknowledge that actuaries are involved in a wide range of activities and that the range of actuarial involvement in those activities can range from being central (typically inherent risks), supportive (typically market risks) to peripheral (environmental).
 - The introduction should also set out an acknowledgement that the discussion paper is an innovative piece of work that attempts to group a list of concerns that the relevant regulators (members of JFAR) have identified. There should be reference to the fact that a top-down approach has been taken to identifying risks and now input from the 'bottom-up' is sought. To reflect this, the six questions should be replaced with one single open-ended question asking respondents to provide their perspective and input.
 - It should be made clear that no attempt has been made to prioritise the concerns that have been identified and it is not a 'priority list' that will be used to inform a regulatory agenda.
 - The tone of the document should be revised so that readers would not assume that actuaries are the cause of the concerns that have been identified.
 - The Council suggested that it would be useful to arrange stakeholder events and round table discussions / seminars to facilitate debate on the document.
 - The Council agreed that further work to define the high levels risks, and to provide clarity as to what constitutes a 'hot-spot', including where possible the actuarial work component, is necessary.
- 4.3 The Council agreed to delegate authority to the Executive, the Council Chair and the Chair of the Council's Actuarial Risk Working Group to finalise the discussion paper taking in to consideration the suggestions that had been made by the Council and by the Codes and Standards and Conduct Committee. The Chair requested that a summary of the suggestions made by the Council be circulated by email to the Council for review and comment prior to finalisation of the Risk Perspective.

5. 2014 review of AS TM1 and survey of accumulation rate assumptions

- 5.1 Faye Dyce (FD) introduced a paper summarising the findings of, and recommendations arising from, the 2014 review of AS TM1. The Council noted that in determining the recommendations for the review input had been sought from the Actuarial Council's AS TM1 Working Group ('the working group'), an analysis of current annuity rates had been

undertaken and evidence had been gathered through a review of accumulation rate assumptions and other areas of practice.

5.2 The Council discussed the recommendations set out and agreed the recommendation that no significant changes to the approach or basis of AS TM1 are required on the basis that:

- a) All elements of the basis set out in AS TM1 have been reviewed and the Executive and the members of the working group consider that the basis remains fit for purpose;
- b) The flexibilities introduced by the budget with regard to DC pensions mean the annuity market and the wider retirement income market are likely to change and develop in the near future, accordingly the approach to setting assumptions using AS TM1 should not be altered in the short term; and
- c) Some providers consider that consistency between the FCA rules and AS TM1 is very important and the FCA has indicated it is unlikely to make any changes to its rules in the short term.

5.3 The Council noted that a small number of minor, uncontroversial amendments to AS TM1 are necessary to keep the standard up to date and in line with current legislation. Accordingly, the Council agreed to recommend to the CSC and the FRC Board the issue of a fast-track consultation on the following changes to AS TM1:

- a) To allow flexibility where AS TM1 is not explicit on what approach should be taken;
- b) To remove the provision in AS TM1 that prohibits guaranteed annuity rates from being taken into account; and
- c) To amend the text on the age difference assumptions to allow for same sex marriages.

5.4 The Council noted that some insurer respondents, who are subject to the FCA's rules for point-of-sale projections and existing business projections, cap the equity assumption they use in line with the FCA Cap of 5% per annum which is in breach of version 4.0 of AS TM1. The Council agreed the recommendation to respond to the breach as follows:

- a) The Executive should contact those who state they are capping the rate to explain that under AS TM1 no cap should apply;
- b) The Executive should discuss the findings of the results with the FCA; and
- c) Through publication of the review of accumulation rates used by providers the FRC should highlight publicly its concerns about the use of capped rates.

5.5 The Council delegated authority for finalisation of the consultation paper and the report on the 2014 review of accumulation rate assumptions to the Executive and members of the working group. It was noted that a fundamental review of AS TM1 would be undertaken following implementation of the forthcoming changes to DC pension schemes and that the fundamental review would include consideration of the issues facing the annuities market and the likely future widespread use of drawdown products.

6. Institute and Faculty of Actuaries

6.1 The Council noted a report from the IFoA Observer that provided an update on the activities of the IFoA since the last formal meeting on 9 September.

7. Executive report

- 7.1 The Council noted a report that provided an update on activities relevant to the Actuarial Council's remit, not covered elsewhere on the agenda, since the last formal meeting on 9 September 2014.
- 7.2 MM reported that a recruitment agency had been appointed to assist with the recruitment of a Director of Actuarial Policy. Members were invited to share the advert amongst their networks.

8. Minutes of the previous meeting and rolling actions

- 8.1 The minutes of the Council meeting held on 9 September were approved as an accurate record of the meeting.
- 8.2 The rolling action log was noted.

9. Forward Agenda

- 9.1 The forward agenda was noted.

10. AOB

- 10.1 The Council noted that consideration is being given to the establishment of an insurance working group and a pension working group.