

**Minutes of a special meeting of the Actuarial Council held on Tuesday 11 February 2014
in the Boardroom at Aldwych House, 71-91 Aldwych, London, WC2B 4HN**

Present:

Olivia Dickson Chair of Council
Keith Barton
Angela Darlington
David Hindley
Joanne Livingstone
Martin Miles

Observers:

Jane Curtis Institute and Faculty of Actuaries (IFoA)
Ben Kemp Institute and Faculty of Actuaries (IFoA) (by telephone to minute 3.15)

In Attendance:

Francesca Chittenden Council Secretary
Faye Dyce Project Manager, Actuarial Policy Team
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

1. Welcome and apologies for absence

- 1.1 Apologies were noted from Martin Bradley, Ashok Gupta, Howard Jacobs and Paul Johnson (Council Members).

Final amendments to Actuarial Standard TM1

2. AS TM1 Further Advice to the Board

- 2.1 Paul Kennedy (PK) informed the Council that the Board at its meeting on 29 January 2014 had deferred its approval of the final version of 4.0 of AS TM1 and had asked for clarification of the existing term 'recognised practice' as set out at paragraph B.5.8. The Council's further advice was now being sought on this issue.
- 2.2 PK acknowledged the potential ambiguity of the term but following exploration of the issue with providers of statutory illustrations had concluded that there is no evidence to suggest that the use of the term 'recognised practice' is causing a problem or that it is being misinterpreted. The Council noted that the term 'recognised practice' as set out in paragraph B.5.8 was an existing provision introduced in 2011, which had been derived from an earlier provision inherited when the BAS had taken on responsibility for the standard, and that no specific comments on the rewording, which had been described in the destinations analysis of the original consultation, had been received. The Council also noted that providers of statutory illustrations are familiar with the current wording

and that to make any amendments without further consultation might have unintended consequences.

- 2.3 Accordingly, the Council supported the proposal that the FRC issue the final version of 4.0 of AS TM1, as presented to the Board on 29 January, on the basis that the wording of paragraph B.5.8 would be reviewed as part of the full review of AS TM1 in 2014.

Actuarial standard-setting framework consultation

3. Actuarial standards framework review

- 3.1 The Chair introduced a set of papers that provided the Council with working drafts of proposed consultation documents relating to the development of a new framework for actuarial standards. The Council noted that the objective of the discussion was to agree a preliminary position on a joint FRC/IFoA consultation paper on a coherent statement of their respective standard-setting roles and a FRC consultation proposing amendments to its technical actuarial standards (TASs).

3(i) Updates since Council meeting on 14 January 2014

- 3.2 Ben Kemp (BK) provided an oral update on a meeting of the IFoA Regulation Board on 29 January. The Council noted that the IFoA Regulation Board was supportive of the proposal for a joint FRC/IFoA consultation. BK informed the Council that, whilst the IFoA was in agreement with the FRC in relation to the proposed objectives and content of the joint consultation, further discussion was required in relation to the tone and positioning of the consultation document. BK informed the Council that the IFoA would continue to work with the FRC to reach agreement on the tone and positioning and to develop a draft consultation paper for the IFoA Regulation Board to consider at its meeting on 26 March.
- 3.2 The Council noted that the Actuarial Stakeholder Group had queried whether it would be possible to condense the existing TASs into a three page document and still provide actuaries with the support and guidance they require, particularly on modelling. The Council noted that a document mapping the existing TAS principles to the proposed Technical Actuarial Code (TAC) had subsequently been developed. Council asked that this be developed further giving more rationale.
- 3.3 PK informed the Council that the FRC's Codes & Standards Committee (CSC) had considered the proposals at its meeting on 15 January, and whilst the CSC was supportive of the joint consultation, the Committee had highlighted the need to ensure that the areas included in the joint consultation are manifestly issues of joint responsibility and not issues falling into a single remit and therefore best positioned in the individual consultations.
- 3.4 David Hindley (DH), Chair of the FRC's sub-group, reminded the Council that the documents presented were still 'working documents' and that the Council would have an opportunity at its meeting in March to consider its advice to the Board on revised drafts incorporating comments made at the meeting and further input from the sub-group and from the IFoA. DH highlighted that the proposals reflect a fundamental change from the current TAS framework and asked the Council to bear this in mind when considering the detail. The Council noted that the Actuarial Stakeholder Group, the CSC, the Conduct

Committee and the IFoA Regulation Board would consider revised drafts in March and that, if they were content, the FRC Board would be invited to approve both consultations at its meeting in April.

3(ii) Reliability Objective

3.5 The Chair invited the Council to consider whether the existing Reliability Objective (RO) is still relevant and fit for purpose, particularly, the definition of users as set out in the existing RO which some suggest to be too limited. Through discussion the following observations were made:

- There is some pressure to consult on the definition of users as:
 - the ASG had identified a need for clarity on who the ‘users’ referred to in the Technical Actuarial Code are;
 - the FCA has challenged firms to ensure that the interests of their customers are at the heart of their decision-making, and this has implications for actuaries who are asked to advise firms; and
 - the principles that the FRC will be consulting on do not specifically set out that the interests of pension scheme members and insurance policyholders will be considered.
- The RO had been consulted on as part of the conceptual framework consultation and modifications had been made by the BAS in response to concerns raised by practitioners that a broader objective would place an excessive burden on practitioners.
- Widening the definition of users in the RO would result in significant implications for actuaries which would not be welcomed by many practitioners.
- Requirements for actuaries to consider users other than direct clients, and to identify risk, can be requirements in specific TASs (and the proposed TAC); the need for this consideration is also addressed through compliance with the IFoA’s ethical standards and other regulatory requirements.

3.6 The Council advised that the existing Reliability Objective should be included in the FRC consultation document and in light of the range of observations made suggested that consideration be given to ways through which respondents would have the opportunity to comment on the RO.

3(iii) Exposure Draft APS X1 - applying standards to actuarial work

3.7 BK introduced the latest Exposure Draft of APS X1: applying standards to actuarial work (the ‘ED X1’). BK informed the Council that the document was intended to assist the IFoA in regulating members who are outside the UK Geographic scope of FRC standards and therefore are not required to comply with the TASs, and to establish an equivalent regulatory outcome. The Council noted that it was expected that the ED APS X1 would be issued at the same time as, or shortly after, the joint FRC/IFoA high-level consultation and the FRC detailed consultation are issued.

3.8 The Council noted the provision that IFoA members undertaking work outside the UK Geographical Scope should carry out work in a way that complies with ISAP 1 and the provision that IFoA members should have regard to any recognised standards. BK informed the Council that early feedback indicated that some felt this second provision

was disproportionate but that the IFoA felt it to be appropriate and that it should be consulted on. The Council highlighted that the wording under provision two, referring to the TASs, would need to be amended following the introduction of the new TAC.

- 3.9 The Council highlighted the requirement for IFoA members outside the FRC's UK geographical scope to have regard to the importance of safeguarding the interests of the public, which went beyond the limited definition of 'users' as set out in the Reliability Objective for the existing TASs and proposed TAC. Through discussion it was clarified that the IFoA considers it appropriate to use APS X1 as a vehicle to provide IFoA members working outside the UK with principles relating to the exercise of judgement and the needs of the public, bearing in mind the range of different, potentially unstructured, environments those IFoA members are working in. It was also clarified that the IFoA has little control over the standards which are in place outside of the UK and therefore, APS X1 provides an opportunity for the IFoA to encourage its overseas members to exercise reasonable judgement in determining the standards they should apply. It was suggested that there is no need for such a reference to be included in the proposed TAC as actuaries working in the UK do not have to exercise the same level of judgement in determining which standards to apply. This is because the structured regulatory environment they are working in and the requirements of the TASs (and incoming TAC) already meet the public interest test. The Council acknowledged the rationale but suggested that the IFoA (and the FRC) should consider whether the language could be made more consistent with the language set out in the TAC.

3(iv) Joint FRC / IFoA consultation

- 3.10 The Council considered a working draft of the joint FRC/IFoA consultation paper. Robert Inglis (RI) informed the Council that since the time of writing the paper, the FRC and IFoA had met and the IFoA Regulation team had suggested that the order of the consultation be amended to bring the international section forward and that instead of a joint framework for actuarial standards there should be a joint statement which would be supported by separate FRC and IFoA standards frameworks.
- 3.11 The Council was supportive of the proposal that the IFoA should be able to develop technical guidance subject to the FRC being satisfied that this would support better compliance with the TASs, but highlighted the importance of:
- Clarifying the process for the development of such guidance;
 - Ensuring that the FRC is able to review any technical guidance;
 - Ensuring that the terminology used in guidance produced by the IFoA is consistent with the terminology used in FRC codes and standards;
 - Ensuring that it is clear to users what the status of technical guidance produced by the IFoA is; and
 - Having a clear definition on what technical guidance is.

Council also suggested that technical guidance need not be limited to methodologies.

The Council queried whether the FRC would negatively endorse any technical guidance produced by the IFoA as is the approach taken when endorsing Statements of Recommended Practice (SORPs) for financial statements, or whether the technical guidance would be approved through a different route. In response, Melanie McLaren

(MM) informed the Council that the Codes & Standards Committee would be giving consideration to what is the 'right' approach to the endorsement of guidance at its March meeting and that an update would be provided following the CSC meeting.

- 3.12 The Council discussed the purpose of 'significant considerations' documentation and noted that the development of such documents in the future would be subject to assessment against the principles established by the FRC for developing codes, standards and guidance. The Council noted that the development of the specific standards to accompany the TAC, and the possible development of a modelling code or guide, would also be assessed against those principles. The Council highlighted the importance of ensuring the status of any guidance produced to sit within the framework is clear; the IFoA observers present also considered this to be important.
- 3.13 The Council discussed the statement setting out the common framework for UK actuarial codes and standards. The Chair suggested that the text describing the specific TASs could be strengthened, and made more meaningful, if more detail was provided in relation to the process used to determine what specific TASs were needed.
- 3.14 The Council also suggested including a statement setting out the transitional arrangements within the draft consultation paper.

3(v) FRC Consultation

- 3.15 RI introduced a draft FRC consultation paper on proposed changes to the FRC's actuarial codes and standards and invited the Council to comment on the consultation paper, and more specifically, the proposed technical actuarial code (TAC). The Council noted that the TAC is intended to cover all actuarial work, which would include most of the work that is commonly carried out by actuaries. The Council noted the analysis document which mapped the existing TASs to the proposed TAC and suggested that it would be helpful if the document was developed further to include the rationale for excluding any existing TAS principles from the TAC and more detail on the rationale for the development of specific TASs; the Council also suggested that a table showing the destination of principles in the Generic TASs should be included in the consultation paper.
- 3.16 The Council noted that the draft consultation paper does not set out a requirement for a statement of compliance with the TAC by actuaries when providing formal advice to intended users and discussed whether this was appropriate. Through discussion it was identified that consideration should be given to the broad scope of actuarial work, and that many may consider it to be disproportionate to require an actuary to include a statement of compliance for very small pieces of work. However, the Council did consider that in instances where a material piece of work had been undertaken, and the risk to the public interest is greater, it would be appropriate to require a statement of compliance. In conclusion the Council suggested that the current provision set out in the TAC, that there is a presumption that the work will comply unless otherwise specified, is appropriate given that the TAC is a high level/principle-based document. However, the consultation draft might be amended to require a statement of compliance when an actuary has undertaken work in accordance with one, or a number of, the specific technical actuarial standards. The Council suggested that it would be sufficient for the

compliance statement simply to state that all relevant standards have been complied with; the actuary should not be required to list each of the individual standards in the statement. It was also suggested that the wording under the heading 'proportionality and materiality' be reconsidered to better reflect the suggested amendments.

- 3.19 In regard to the scope of the TAC as set out in the draft consultation paper the Council suggested that consideration should be given to the use of the term 'expected to be'. The Council noted that the TAC had adopted the term 'actuarial work', rather than 'actuarial services' in order to be consistent with the terminology currently used by the FRC and also used by the IFoA. The Council noted the scope of the work for which the FRC has responsibility for setting (or deciding not to set) technical actuarial standards as set out in the annex to the cover paper and suggested that it would be useful to clearly state the extent of the FRC's responsibility in the consultation documentation.
- 3.20 The Council identified that the references to types of risk throughout the consultation document are inconsistent and that there is a need to be clear on what type of risk is being referred to. The Council suggested that there is no need to refer to 'residual risk' as it would be very difficult to justify the issue of a standard in an area where the residual risk is very low. The Council also suggested that the consultation document should explain what is meant by a 'rebuttable presumption' if that term is used.
- 3.21 The Council noted that the FRC's General Counsel and Executive Counsel would review the consultation document before it is issued.

3(vi) Sub-group next steps: development of Actuarial Council advice

- 3.22 The Council was reminded that the draft consultation documents would be developed further including the sub-group following the Council's discussion and input from the IFoA. The Draft would then be brought to the Council for its formal advice at its March meeting before review by the Codes & Standards Committee, Conduct Committee and IFoA Regulation Board (joint consultation only) and that the consultation would then be presented to the FRC Board with the current forward agenda suggesting possible approval in April.
- 3.23 The Council highlighted the importance of ensuring there is meaningful engagement with the consultation from the intended audience.

4. Minutes of the previous Actuarial Council meeting and rolling actions

- 4.1 The minutes of the Actuarial Council meeting held on 14 January 2014 were approved as an accurate record of the meeting.
- 4.2 The Council noted that all actions on the rolling actions sheet had been addressed or were in hand.

5. Any other business

- 5.1 There was no other business.