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Framework for FRC technical actuarial standards

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1 Historical context

- 1.1 Following the Morris Review of the Actuarial Profession, published in March 2005, HM Treasury asked the FRC to take on responsibility for setting technical actuarial standards in the UK, and overseeing the regulation of the actuarial profession in the UK, including the setting of ethical standards for its members, by the Institute and Faculty of Actuaries (IFoA).
- 1.2 In July 2014, following a review of their respective standard-setting responsibilities in the UK, the FRC and the IFoA issued a statement confirming that the FRC's and IFoA's respective standard-setting responsibilities should continue as before but that there should be scope, by agreement, for more flexibility in the way in which those responsibilities are discharged¹.
- 1.3 The FRC and the IFoA have agreed these arrangements for setting technical actuarial standards in a Memorandum of Understanding (MoU)². The MoU also commits the IFoA to require its members to comply with those standards where applicable.

2 Introduction

- 2.1 This framework document explains the authority, scope and application of the FRC's technical actuarial standards and guidance. It also describes the other documents the FRC may issue.
- 2.2 The FRC's technical actuarial standards and guidance are developed in line with *FRC Codes and Standards: Procedures*³. These procedures are intended to ensure transparency and consistency in the development and review of FRC codes, standards and guidance.
- 2.3 In considering whether to issue a technical actuarial standard or guidance, the FRC follows principles set out in *Principles for the development of codes, standards and guidance*⁴. In particular the FRC will only consider issuing or amending a code, standard or guidance if it is satisfied that:
 1. there is a clearly defined issue relevant to the FRC's mission and responsibilities;
 2. the change is the most appropriate way to address the issue;
 3. one or more of the following conditions is met:
 - a change is necessary to comply or align with a legal requirement; or
 - a change is required in the light of developments in international standards or in UK or European regulation; or

¹ <https://www.frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/Actuarial-Standards-A-Statement-by-The-Financial-R.pdf>

² <https://www.frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/Memorandum-of-Understanding.pdf>

³ <https://www.frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx>

⁴ <https://www.frc.org.uk/FRC-Documents/FRC/About-the-FRC/Principles-for-the-development-of-Codes.pdf>

- the risks to the public interest of not acting are significant, for example, a risk of systemic and/or market failure; or
 - it is possible to eliminate or significantly simplify a current requirement; or
 - it is necessary to clarify a current requirement; or
 - it is possible to create significant additional benefits in the public interest; or
 - a change is necessary to underpin the effectiveness of the FRC's enforcement and disciplinary activities;
4. the anticipated benefits of the change outweigh the costs.

3 The Reliability Objective

- 3.1 In support of its mission to promote high quality corporate governance and reporting to foster investment, the FRC has adopted a strategy to encourage:
- (a) trustworthy behaviour by directors and professionals, and engagement with them by investors; and
 - (b) trustworthy information that contributes to informed decisions.
- 3.2 The FRC's work to implement its strategy through technical actuarial standards is informed by the Reliability Objective:

Users for whom actuarial information is created should be able to place a high degree of reliance on that information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

4 The authority of the FRC's Technical Actuarial Standards

- 4.1 The authority of the FRC's technical actuarial standards derives from the FRC's powers and mandate, from the recognition which is given to the FRC's standards in legislation, and by other bodies which require compliance with them or choose to adopt them.
- 4.2 The Companies (Audit, Investigations and Community Enterprises) Act 2004 recognises the FRC's functions in the UK of:
- (a) issuing standards to be applied in actuarial work; and
 - (b) issuing standards in respect of matters to be contained in reports and communications required to be produced or made by actuaries or in accordance with standards to be applied in actuarial work.
- 4.3 In addition:
- (a) the disciplinary schemes of the IFoA and the FRC recognise the authority of FRC standards by providing that any departure from an FRC technical actuarial standard may amount to misconduct, rendering a member of the IFoA liable to disciplinary action;

- (b) the regulatory regimes for pensions and for insurance have recognised certain FRC standards for the purposes of requirements imposed on the entities and individuals they regulate; and
- (c) compliance with the FRC's technical actuarial standards is likely to be taken into account when the adequacy of actuarial work is considered in a court of law or in other regulatory or legal processes.

5 Scope and application of the Technical Actuarial Standards

Technical actuarial work

- 5.1 The FRC's Technical Actuarial Standards (TASs) are intended to be applicable to work which involves the use of actuarial principles and/or techniques and the exercise of judgement or is presented as such, including for example financial **models** used in insurance and pensions and projections of contingent events. Compliance with the TASs for work in their scope, is required for members of the IFoA and encouraged when such work is undertaken by non-actuaries, consulting firms or financial institutions.
- 5.2 For the purpose of specifying the mandatory application of the TASs, **technical actuarial work**⁵ is defined as work performed for a **user**:
- (a) where the use of principles and/or techniques of actuarial science is central to the work and which involves the exercise of judgement; or
 - (b) which the **user** may reasonably regard as **technical actuarial work** by virtue of the manner of its presentation.
- 5.3 This definition supports regulators, including the IFoA, who mandate the use of the TASs either for actuarial work generally or for certain areas of actuarial work.
- 5.4 The work to which a particular TAS applies will be identified within the TAS.

Geographic scope

- 5.5 The intended geographic scope of the TASs is limited to technical actuarial work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation. This definition of scope applies regardless of the location or domicile of the person carrying out the work.

Application

- 5.6 Each of the principles and provisions in the TASs should be followed where they are relevant to the work.
- 5.7 In applying judgement to the application of the TASs, it is important to be guided by the Reliability Objective and the spirit and reasoning behind the TASs.
- 5.8 Departures from provisions concerning **communications** to **users** are permitted if they are unlikely to have a **material** effect on the decisions of the **users** and they need not be considered as departures and they need not be disclosed. Assessing whether a

⁵ In this section terms in **bold** are defined in the *Glossary of defined terms used in FRC technical actuarial standards*.

matter is **material** is a matter for judgement which requires consideration of the **users** and the context in which the work is performed and reported.

- 5.9 Matters are **material** if they could, individually or collectively, influence the decisions to be taken by **users** of the related **actuarial information**.
- 5.10 For avoidance of doubt the requirement for a statement of compliance in a TAS is not a provision and therefore a statement cannot be omitted on the grounds that it does not have a **material** effect on the decisions of the **user**.
- 5.11 The TASs are written so that nothing in them should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that **users** would be expected to obtain from the work. The existence of standards is not a substitute for professional judgement, or consideration for the needs of the **user(s)**, when delivering an individual piece of work.

Legal, regulatory and professional obligations

- 5.12 There may be exceptional circumstances in which compliance with a TAS would result in a failure to meet another legal, regulatory or professional obligation that governs the work. In such cases, to the extent necessary to comply, a departure from the TAS is permitted provided that reasonable steps have been taken to comply with the TAS and to ensure the reliability of the resulting **actuarial information**, and that the departure is identified and the reasons for the departure are given. Members of the IFoA are reminded that under the Compliance Principle of the *Actuaries' Code* they will take reasonable steps to ensure they are not placed in a position where they are unable to comply with all relevant legal, regulatory and professional requirements.

Responsibility for compliance

- 5.13 The degree to which an individual or **entity** is responsible for compliance with TASs will depend on the circumstances of the assignment, including the relevant legal, regulatory and professional framework. For this purpose, an IFoA member will be treated as "responsible" for (part of) the work, if he or she has the authority to determine, or to veto, the content of (the relevant part of) the final work product, whether or not any other individual also has an equivalent authority, or power of veto, over the work. This is a matter which, in the event of an allegation of misconduct or negligence, may have to be determined by the appropriate tribunal.
- 5.14 For the purpose of the FRC's definition of "responsible", being a signatory or a joint signatory of the work would normally be strong prima facie evidence that the individual had authority to make, prevent, or disclose, departures from the TASs. If an IFoA member delegates the role of signatory to another IFoA member, this act by itself would not absolve the delegating member of the responsibility to make sure that the TASs were followed.
- 5.15 The TASs may be relevant to IFoA members' obligations under the *Actuaries' Code* and other standards issued by the IFoA, even if they are not "responsible" for the work. Such obligations may arise if IFoA members are associated or concerned with services or **communications** which are presented as involving **technical actuarial work**, generally accepted actuarial practice or any similar expression which implies compliance or compatibility with actuarial standards as they are applied in the UK. Relevant obligations under the *Actuaries' Code* would include:

- (a) obligations to challenge non-compliance by others, to speak up to clients or employers, or both, if they believe, or have reasonable cause to believe, that a course of action is unlawful, unethical or improper; and to report behaviour that they have reasonable cause to believe is improper (Compliance Principle); and
- (b) an obligation to take such steps as are sufficient and available to them to ensure that any communication with which they are associated is accurate and not misleading, and contains sufficient information to enable its subject-matter to be put in proper context (Communication Principle).

6 Early adoption of Technical Actuarial Standards

- 6.1 Some individuals or entities may wish to comply with a TAS in advance of the published effective date. In some circumstances this is acceptable and is to be encouraged if the individual or entity concerned does not need the full amount of time allowed to prepare for implementation.
- 6.2 There may be occasions when early adoption is not appropriate. This would typically be the case when, for example:
 - (a) compliance with the new TAS would put the entity in breach of an existing TAS; and
 - (b) a TAS is to come into force in parallel with other events such as a change in legislation without which the adoption of the TAS would be premature.
- 6.3 When issuing a new TAS, the FRC will normally indicate whether early adoption is appropriate or not.

7 Style and content of the Technical Actuarial Standards

- 7.1 The TASs are principles-based and outcome-focused. However, this approach does not exclude specific detail, where appropriate, as a means to convey the requirements of the standard.
- 7.2 The TASs should have sufficient detail to enable those carrying out work to have a clear understanding of what is required in order to comply with the TAS. The TASs should not be so rigid that they prevent the continuing development of actuarial methodology.
- 7.3 The TASs are primarily technical but they may also, with the agreement of the IFoA, contain material which relates to ethical matters. Such circumstances may include, but are not limited to:
 - (a) when the FRC is producing a TAS for a category of actuarial work for which the IFoA does not propose to issue a standard;
 - (b) when the FRC is producing a TAS in response to an international standard which contains ethical matters; and
 - (c) when the FRC is producing a TAS in respect of actuarial work which may or may not be undertaken by IFoA members, and it is important to have a standard with broader applicability.
- 7.4 The FRC may, in certain circumstances, exercise a reserve ability to issue ethical standards without the IFoA's agreement. It has been agreed that the FRC would only

use this ability when it reasonably considers that action is necessary in the public interest and after it has consulted with the IFoA and has given the IFoA reasonable opportunity to address the matter.

- 7.5 The MoU between the FRC and IFoA describes the circumstances in which the FRC may include ethical requirements in its TASs or set its own ethical standards.

8 Technical Actuarial Standard 100: Principles for Technical Actuarial Work

- 8.1 The FRC's overarching TAS is Technical Actuarial Standard 100: *Principles for Technical Actuarial Work* (TAS 100). TAS 100 establishes high-level principles and outcomes, in support of the Reliability Objective, which users and the public can expect to be followed and achieved for all technical actuarial work in the UK.

- 8.2 In the FRC's view, the combined requirements of TAS 100, together with the IFoA's *Actuaries' Code* and Actuarial Practice Standard X2: *Review of Actuarial Work* as they are applied in the UK, are substantially consistent with the requirements of International Standard of Actuarial Practice 1: *General Actuarial Practice* (ISAP 1) issued by the International Actuarial Association. This view is shared by the IFoA.

9 Technical Actuarial Standards for specified work (Specific TASs)

- 9.1 TASs for specified work (called TAS 200 onwards) include additional provisions for work in specified areas. These provisions support the high-level principles in TAS 100. In deciding whether or not a particular area of technical actuarial work should be the subject of TASs, the FRC considers the risk of the work in question to the public interest and whether the principles described in paragraph 2.3 are met. This will depend on a range of factors including factors relating to the scale of the work and its impact and other factors suggesting there is a matter (actual or potential) which might need to be addressed in standards.

10 Glossary of defined terms used in FRC technical actuarial standards

- 10.1 The *Glossary of defined terms used in FRC technical actuarial standards* sets out the intended definitions of terms used in FRC technical actuarial standards. This ensures that these terms are used consistently throughout the framework.

11 Technical guidance

- 11.1 The FRC may issue non-mandatory guidance on technical actuarial matters if it considers that there is a clearly defined issue and that guidance is the most appropriate way to address it. The FRC and the IFoA have agreed that the IFoA may also issue non-mandatory guidance on technical actuarial matters subject to the consent of the FRC provided that the FRC is satisfied that the guidance will support compliance with the TASs.

11.2 The IFoA may issue a Statement of Recommended Practice (SORP)⁶ to support the application of a TAS. Where actuarial work in the scope of a SORP departs from requirements in that SORP, communications shall include a brief description of the departures.

12 Other FRC publications

AS TM1: Statutory Money Purchase Illustrations

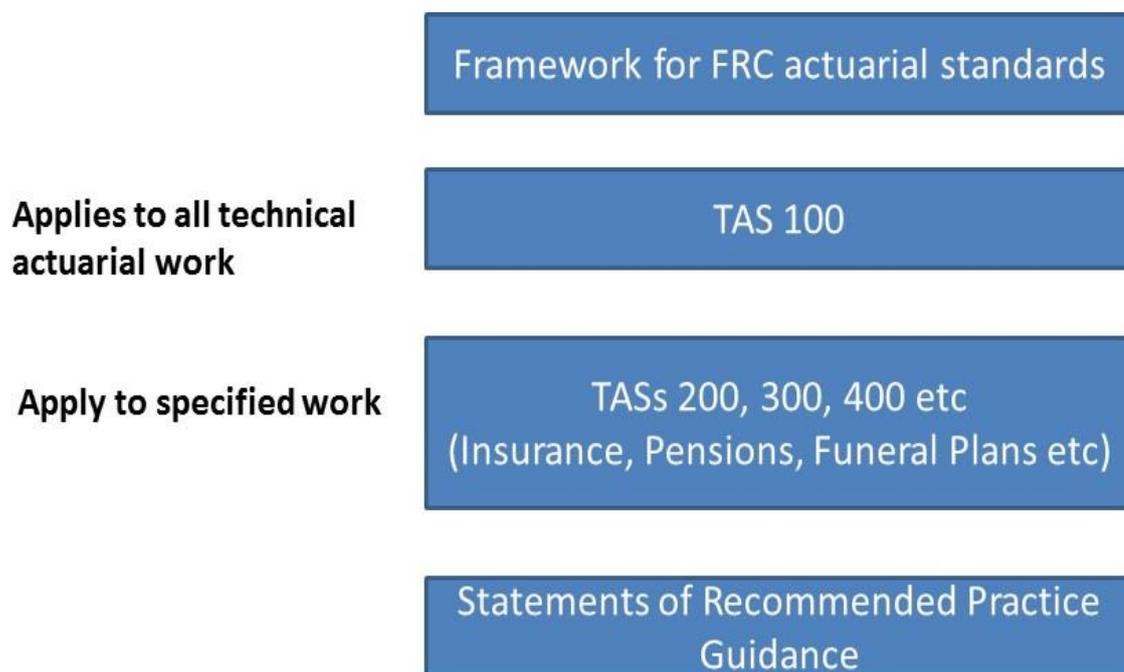
12.1 Pensions legislation provides that statutory pension illustrations must be produced in accordance with “relevant guidance” prepared by a prescribed body. The FRC is the prescribed body for that purpose and the Actuarial Standard Technical Memorandum AS TM1: *Statutory Money Purchase Illustrations*⁷ is that “relevant guidance”.

Other

12.2 The FRC may issue pronouncements other than the TASs, technical guidance and AS TM1. The FRC will indicate the authority, scope and application of such pronouncements as they are issued.

13 Review of Technical Actuarial Standards and technical guidance

13.1 In accordance with FRC principles⁸, TASs and technical guidance will be kept under regular review and reconsidered at least once every five years.



⁶ [https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Accounting-and-Reporting-Policy/Statements-of-recommended-practice-\(SORPs\).aspx](https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Accounting-and-Reporting-Policy/Statements-of-recommended-practice-(SORPs).aspx)

⁷ <https://www.frc.org.uk/Our-Work/Codes-Standards/Actuarial-Policy/Actuarial-Standard-Technical-Memorandum.aspx>

⁸ <https://www.frc.org.uk/FRC-Documents/FRC/About-the-FRC/Principles-for-the-development-of-Codes.pdf>

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