

Minutes of a meeting of the Actuarial Council held on Tuesday 9 September 2014 in the Boardroom at 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Olivia Dickson	Chair of Council
Keith Barton	
Rosemary Beaver (minute 1-4)	
Martin Bradley	
Angela Darlington	
David Hindley	
Howard Jacobs	
Paul Johnson (minute 1-3)	
Joanne Livingstone	
Martin Miles	

Observers:

Des Hudson	Institute and Faculty of Actuaries (IFoA)
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In Attendance:

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

Introductions and apologies for absence

The Chair welcomed Des Hudson, Chair of the IFoA Regulation Board to his first meeting as an observer of the Actuarial Council. Apologies were noted from Ashok Gupta (Council Member) and Lee O'Rourke (HMT Observer).

1. Shared actuarial risk map – JFAR Discussion Paper

- 1.1 Natasha Regan (NR) introduced the latest draft of the Discussion Paper (the 'DP') 'Joint Forum on Actuarial Regulation: A risk perspective' and highlighted the changes that had been made to the draft in response to the comments made by the Council at its meeting in July.
- 1.2 The Council noted that the paper had been considered by the Codes & Standards Committee (CSC) the previous day and that it was due be considered by the Conduct

Committee that afternoon. NR summarised the discussion of the CSC and it was noted that the CSC had recommended that:

- The DP should make clear, and articulate, the link between the buckets of high level risks that have been identified and the aspects of actuarial work that contribute to, or mitigate, each of the risks.
- Emphasis should be placed on the link to the regulators' public interest objectives.
- The DP should include detail of the root causes of the risks that have been identified and this should include reference to the pressures faced by actuaries and to communication.
- The tone of the DP should be softened. so as not to present well defined answers or to appear to attribute blame for risks

1.3 Paul Kennedy (PK) reported that the Executive had discussed the branding of the DP with members of the JFAR over the summer and that the FRC and JFAR members had decided that the DP should be published as an FRC document reflecting the risks selected by the JFAR rather than a JFAR-branded document as had been the original intention. The Council noted that this decision places increased responsibility on the FRC for ensuring that the risks selected by the JFAR are accurately described, and, to address this, the Executive had taken the decision to extend the approval process for the DP to allow a further iteration allowing amendments to be made following the Council meeting and the JFAR meeting on 29 September. The Council supported this decision and agreed that it is important to ensure the quality of the DP.

1.4 Melanie McLaren (MM) reported that the Executive was considering whether it would be beneficial to issue the DP to coincide with the actuarial standard-setting framework consultation and that the views of members on this would be appreciated.

1.5 NR invited the Council to consider, and agree with the proposed approach. Through discussion of those considerations the following points were raised and advice was given and observations were made:

The actuary as a mitigant

1.6 The Council was content with the proposed approach to explain both areas where actuarial work has been identified as contributing to risk and where actuarial work is a mitigant of risk. Through discussion it was noted that whilst actuaries generally contribute to mitigating the selected risks, there will be some risk areas where there is a concern that actuaries are not sufficiently mitigating risks. The Council suggested those areas of work be included in the DP. The Council also suggested that there is a risk, due to the complexity of the environment, of an over-dependence / over-reliance on the actuary and that this risk should also be acknowledged in the DP. PK responded that the DP needed to reflect the risks selected by the JFAR, but that this concern might be treated as a 'hotspot' relating to one of the risks, or a theme which is common to a number of risks.

1.7 The Council suggested that it might be helpful to make reference to the actuarial standard-setting consultation in the DP to highlight that the proposed TAC will be a further mitigant to risk by capturing aspects of actuarial work that would not previously have been subject to standards.

Structure

- 1.8 The Council was content with the proposed amendments to the structure of the DP, including the reallocation of risks specific to insurance and pensions to other high level risks covered elsewhere. However, the Council suggested that it would be helpful to include some preamble in the introduction of the DP to acknowledge the overlapping nature of the categories that had been identified.
- 1.9 The Council considered that it might be useful to include a sectoral appendix but acknowledged that this might discourage users from reading the DP in full and raising awareness of risks from outside their sector.

Hotspots

- 1.10 The Council discussed in detail the nature of a 'hotspot' and the process for identifying 'hotspots', whether to retain all of the 'hotspots' that had been identified and the level of detail to include in the DP with regard to each of the 'hotspots'. Through discussion the following observations and suggestions were made:
- It should be made clear in the DP that the 'hotspots' are areas within the broader 'buckets' of risk that members of JFAR had identified for potential focus by the JFAR and that the 'hotspots' are a particular aspect of actuarial work pertinent to the high level 'bucket' risk or sub-risks thereto.
 - The full list of 'hotspots' as identified by JFAR members should be retained for the purpose of the DP. However, it was agreed that the 'hotspots' relating to the 2014 Pensions Bill should be consolidated.
 - The DP should ask:
 - a) whether respondents agree with the risks (and hotspots) that had been selected;
 - b) whether any risks (or hotspots) are missing; and
 - c) whether the respondents consider the hotspots to be actionable.It should be highlighted in the DP that the JFAR members are aware that some risks cannot be addressed but it is important that those risks are acknowledged.
 - The DP should make clear that, in responding to the hotspots that have been identified and selected for a co-ordinated response, members of the JFAR will not necessarily impose more regulation but that other methods for mitigation will be considered, and that the collaborative approach of the JFAR will also ward against any potential duplication.
 - The Council supported the approach to keep the descriptions of 'hotspots' short and concise but suggested that the wording be reviewed to ensure the approach is consistent and that an objective balanced view is taken to avoid inadvertently attributing causes of risks to actuaries.
 - The Council acknowledged that the risk perspective document does not purport to capture all actuarial risks and that, given the public interest responsibilities of the organisations represented on the JFAR, the risks selected are limited to risks to the public interest relevant to the objectives of the JFAR members. It was suggested that this should be reflected in the introduction of the DP and that the Executive consider how 'other risks' may be identified.
- 1.11 NR undertook to consider the comments raised by the Council. The Chair thanked the Council for their input to the discussion and invited Members to submit any detailed drafting comments by email.

2. Actuarial standard-setting framework

2.1 Robert Inglis (RI) introduced Exposure Drafts of the *Framework for FRC Actuarial Standards* (the Framework) and the *Technical Actuarial Code* (TAC) for agreement and the draft consultation paper for comment. RI reported that the Framework and the TAC had been updated to take in to account feedback from the Council and its Standards Framework Review working group and that feedback from practitioners had also been considered in revising the TAC.

2.2 The Council discussed the proposed consultation paper (CP) and drafts of the Framework and TAC. Through discussion the following advice was given and observations were made:

- The Council was content with the Executive proposal supported by the working group not to include the phrase ‘to the extent possible’ in the data principle (‘Data used in actuarial work shall, to the extent possible, be sufficient and reliable’) on the basis that the inclusion of the underlined text would weaken the principle. However, the Council requested that the consultation paper set out the rationale for the wording.
- The Council was content that the examples of actuarial work set out in sections 4.20-4.33 demonstrate a clear vision as to the nature of the work that is captured by the definition and the work which is not. However, the Council suggested that consideration be given to including an example on ‘asset valuations’ and that the wording of the example relating to banks be reviewed.
- The Council suggested that a table identifying areas of actuarial work that have been brought in to scope should be included in the CP and that it be clearly marked which of the examples set out in section 4.20-4.33 have been brought in to scope.
- The Council expressed mixed views as to whether it should be a requirement to include a statement of compliance with the TAC for all work that would fall within its scope, particularly in relation to small pieces of work. Whilst some Members suggested that the statement was unnecessary and would be considered ‘boilerplate’ it was concluded that the simple act of requiring the persons or entity responsible to include the statement of compliance drives the right behaviour and encourages them to consider and acknowledge the TAC.
- The Council noted that during informal consultation some practitioners had expressed concern that compliance with the TAC might drive actuaries from areas of work where their skills have the potential to mitigate risk. The Council did not consider there to be sufficient evidence to support the concern and agreed the inclusion of text to emphasise the judgment that compliance with the TAC ought to provide user assurance and place the actuary in a better position.

2.3 RI invited the Council to submit detailed drafting points by email and undertook to address the drafting points that had been raised during the meeting.

2.4 The Council discussed in detail the definition of ‘actuarial work’; through discussion the following advice was given and observations were made:

- The Council agreed that the presentational limb of the definition should include the wording currently shown in square brackets - ‘any work which is presented as complying with TASs [whether expressly or by implication]’, on the basis that:

- a. it is consistent with the wording in the Schedule of the Scope & Authority which sets out the scope of the Generic TASs;
 - b. it adds clarity; and
 - c. it limits the opportunities to avoid compliance by choosing not to present work as actuarial.
- The Council supported the decision not to attempt to define 'actuarial science' noting that:
 - a) as a principles-based regulator, the FRC supports the exercise of judgement and it should be assumed that actuaries, as professionals, should be able to reach a proper judgement as to whether or not the work they are doing is actuarial;
 - b) sections 4.10-4.14 of the consultation document provide guidance on a range of matters to be considered in judging whether or not a piece of work could be classified as using principles and / or techniques of actuarial science;
 - c) there will inevitably always be some grey areas and the principles-based approach assists in ensuring a consistent approach to assessing whether or not work is required to comply with the TAC.

However, the Council suggested that it would be useful for the rationale for not defining 'actuarial science' to be drawn out clearly in the CP.
 - The Council suggested that paragraph 4.11 of the CP should clarify that the factors identified for consideration should not be considered as individual indicators but should be considered collectively.

Subject to the points above being addressed in the CP the Council supported the proposed definition of actuarial work.

- 2.5 The Council considered the Impact Assessment (IA) and considered that the IA should include reference to the impact the TAC will have on actuaries, non-actuaries and entities in terms of the number of individuals / firms that would be affected and the range of work that would be subject to the TAC. Through discussion the following observations and suggestions were made:
- The IA should reinforce the intention that the TAC is a proportionate standard and that in most cases the additional burden of complying with the TAC will be minimal. Furthermore, it should be highlighted that it is expected that work produced by actuaries under the current TASs would meet the requirements of the TAC.
 - The IA could clearly state that it has been undertaken in relation to the impact the TAC will have on Members of the IFoA, and that the IA does not reflect the cost of adoption by non-actuaries and entities, since the extent of wider adoption is unknown and not within the FRC's control.
- 2.6 The Council did not consider that it would be necessary to delay the implementation of the TAC until the implementation of the new TASs for specific work to avoid confusion over which standards are applicable. The Council advised that the TAC could be issued towards the end of 2015 as originally envisaged, with a standard six-month implementation period for actuarial work not covered by the existing TASs during which early adoption would be permitted; and that it would replace the Generic TASs for work covered by the existing TASs when the specific TASs were revised at a later date.
- 2.7 The Council noted that a 'Framework for Codes, Standards and Guidance' is being developed by the CSC to ensure a consistent approach to the publication of material

produced by the FRC. RI reported that, under the proposed framework for Codes, Standards and Guidance, the TAC would not meet the criteria to be classified as a Code and would in fact be a Standard. The Council noted that a consequence of issuing the TAC as a Standard is that the title 'Technical Actuarial Code' would not be suitable, given that term 'Code' could be interpreted as voluntary, when it is in fact mandatory for IFoA members. The Council was asked to submit suggestions as to a possible name for the 'TAC'. MM undertook to share the Framework for Codes, Standards and Guidance with the Council once it had been finalised and RI undertook to ensure the documentation is updated following finalisation of that framework.

- 2.8 Subject to the amendments set out the Council supported the text of the exposure drafts of the Framework for FRC Actuarial Standards and the TAC. The Council noted that the final draft of the CP would be tabled at the October Actuarial Council meeting for agreement of the Council's advice to the Board.

3. AS TM1

- 3.1 Due to time constraints it was agreed that the Council would submit comments on the substance of the FRC draft response to the FCA's consultation paper on Retirement Reforms and the Guidance Guarantee by email.
- 3.2 It was also agreed that the discussion on the FRC review of AS TM1 would be deferred to the October Council meeting.

4. International Consultations

- 4.1 The Council noted the FRC Executive's response to the EIOPA consultation on the level 3 guidelines supporting the implementation of the Solvency II Directive.
- 4.2 The Council agreed with the substance of the proposed response to the IAA in respect of its Consultation on a Draft Statement of Intent for ISAP [7] – "Current estimates" and other matters in relation to IAIS capital standards, subject to a review of the language used at point 2 of the response with regards to the actuaries role in responding to volatility and the inclusion of reference to smoothing judgements undertaken by actuaries.

5. FRC Board Strategy Away Day

- 5.1 The Council noted that a paper summarising the FRC Board's discussion on strategy would be presented to the Council in October and noted that it was not intended to change the strategy on actuarial policy.

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 11 June.
- 6.2 DH reported that the IFoA will shortly be recommencing its work on funeral plans and that it would be writing to the FRC shortly to update the FRC on the work it will be

undertaking in this area. The Council noted that a paper on the proposed inclusion of non-mandatory technical guidance would be presented to the Council in October for agreement.

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 11 June 2014.

8. Minutes of the previous meeting and rolling actions

- 8.1 The minutes of the Council meeting held on 15 July were approved as an accurate record of the meeting.

- 8.2 The rolling action log was noted.

9. Actuarial Council Working Groups review

- 9.1 The Council noted that the memberships of the Actuarial Council working groups were unchanged from the previous meeting. It was suggested that consideration be given to reforming the Funeral Plans working group once the letter from the IFoA (minute 6.2 refers) had been received.

10. Forward Agenda

- 10.1 The forward agenda was noted.

11. AOB

- 11.1 The Council noted that PK would be leaving the FRC and that this would be his last meeting of the Council. On behalf of the Council, the Chair placed on record her thanks to PK for his work and conveyed best wishes for his future career.

- 11.2 The Council also noted that that JI had agreed to act as interim Director of Actuarial Policy from 1 October to the end of 2014.