

**Minutes of a meeting of the Actuarial Council held on Tuesday 3 September 2013 in the Boardroom at Aldwych House, 71-91 Aldwych, London, WC2B 4HN**

**Present:**

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

**Apologies:**

Martin Bradley	Council Member
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**Observers:**

Rosemary Beaver	Lloyd's of London
Jon Paul-Brett	Department of Work and Pensions (DWP)
Seamus Creedon	Group Consultatif
Stuart Hicks	Financial Conduct Authority (FCA)
Ben Kemp	Institute and Faculty of Actuaries (IFoA) (in place of Jane Curtis)
Romain Lebaune	Prudential Regulatory Authority (PRA) (in place of Paolo Cadoni)
Chinu Patel	The Pensions Regulator (tPR) (in place of Nigel Peaple)

**Apologies:**

Lee O'Rourke	HM Treasury (HMT)
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**In Attendance:**

Siân Barr	Project Manager, Actuarial Oversight
Jenny Carter	Project Director, Accounting & Reporting Policy Team ( to minute 4)
Francesca Chittenden	Council Secretary
Faye Dyce	Project Manager, Actuarial Policy Team
Stephen Haddrill	Chief Executive (minute 4 only)
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Project Director, Actuarial Policy Team
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team (to minute 4)
Paul Kennedy	Director, Actuarial Policy
Melanie McLaren	Executive Director, Codes & Standards
Natasha Regan	Project Director, Actuarial Policy Team
Jim Sutcliffe	Codes & Standards Committee Chair (to minute 4)

**1. Welcome and apologies for absence**

- 1.1 The Chair welcomed Jim Sutcliffe (Chair of the Codes & Standards Committee) to the meeting. The Chair also welcomed Stuart Hicks (to his first meeting as observer from

the FCA), Romain Lebaune (PRA, in place of Paolo Cadoni), Chinu Patel (tPR, in place of Nigel Peuple) and Ben Kemp (IFoA, in place of Jane Curtis).

- 1.2 Apologies were noted from Martin Bradley (Council Member) and Lee O'Rourke (HMT Observer).

## **2. IASB Exposure Draft: Insurance Contracts – First discussion**

- 2.1 John Instance (JI) presented a paper which sought initial views from the Council in order to inform the development of a draft FRC response to the International Accounting Standards Board's (IASB's) proposals for accounting for insurance contracts. JI introduced Seema Jamil-O'Neill (Accounting and Reporting Policy Team Project Director) who is leading the project for the FRC.
- 2.2 The Council noted that the FRC Executive is preparing a draft response which will be published in mid-September on the FRC website following input from the Actuarial Council and the Codes & Standards Committee and advice from the Accounting Council. The Council noted that the FRC's UK stakeholders will be invited to comment on the draft response and that an outreach event, including the IASB, is being held on 2 October. The Council noted that output from its discussion would be considered in preparing the draft response and that the Council would then have an opportunity to discuss the draft response and any feedback received from stakeholders at a dedicated Council meeting on 8 October so as to provide input into the FRC's final response due on 25 October.
- 2.3 Melanie McLaren (MMcL) asked the Council to consider the broader objectives of the proposals, such as usability and comparability, in addition to considering the technical issues. MMcL highlighted the importance of ensuring the response is constructive and that where possible suggestions for alternative approaches are given.
- 2.4 In considering the proposals the Council noted:
  - a) the importance of proposals to the FRC, to the UK insurance industry as a global leader in insurance, and to actuaries working in the industry, as well as to investors, regulators and policyholders;
  - b) that, if adopted, the proposals would apply to all companies reporting under IFRS which issue insurance contracts, whether regulated insurers or otherwise;
  - c) that, whilst the proposals would not necessarily be adopted into UK GAAP, the FRC would consider whether the finalised standard meets UK needs in line with the principle adopted in developing the new UK GAAP. It was also noted that the FRC is currently consulting on separate interim proposals for insurance accounting under UK GAAP;
  - d) the complexity of the proposals which had been in consideration for over 15 years;
  - e) that January 2018 would be the earliest possible implementation date.

- 2.5 Through discussion of the proposals and the tentative conclusions of the Executive the following points were raised:
- a) the term 'risk adjustment' may be understood differently by actuaries and accountants. This may give rise to confusion and error and result in inconsistent and incomparable accounts. To avoid this, the term 'risk adjustment' needs to be clarified and defined and there needs to be a clear explanation of how the risk adjustment would be applied.
  - b) the allowance for discount rates to be set using either a bottom-up or a top-down approach is welcomed, as it will allow for appropriate long-term investment strategies;
  - c) there is concern that the proposals may lead to an asset-liability measurement mismatch being hardcoded into the performance reporting of insurance contracts which would result in further complexity for users of the accounts. The Council noted that this concern had also been raised by a member of the IASB who had expressed a dissenting view on the standard;
  - d) there is concern over how to explain the reconciliation of accounts prepared in accordance with the proposed standard when the preparers are also following Solvency II; the rationale for differences will be difficult to explain given that the differences are technical.
- 2.6 *In light of the discussion and the obvious complexity of the proposals, the Chair asked Council Members to share the exposure draft and draft FRC response letter with technical experts within their organisations in advance of the October Council meeting.*

### **3. FRED 49 – Draft FRS 103 Insurance Contracts**

- 3.1 JI presented a paper which summarised FRED 49, an exposure draft of a new UK & Ireland accounting standard for insurance contracts (FRS 103) which would be relevant to entities applying FRS 102 that issue or have issued insurance contracts. JI introduced Jenny Carter (Accounting and Reporting Policy Team Project Director) who is leading the project for the FRC.
- 3.2 The Council noted that the proposals consolidate the existing IFRS and UK and Ireland financial reporting requirements and practices (IFRS4, FRS27 and the ABI SORP) into one standard, and that the FRC expects FRS 103 to have a limited life as it may be fundamentally revised once the IASB has issued its updated standard (see minute 2).
- 3.3 The Council generally supported the introduction of the draft FRS 103 and agreed that it achieves the aim of allowing entities to continue with their existing policies and practices in respect of accounting for insurance contracts. However, the Council did express concern that IFRS4 might preclude insurers from basing discount rates on matching asset portfolio yields. MMCL reported that the point had been throughout the development process and that it was considered that the ability to use asset based yields was capable of meeting the criteria for rebuttal of the presumption that future investment margins should not be used. It was also noted that the specific point would only be applicable to those looking to adopt new accounting policies, not

those continuing with existing policies. *FRC staff agreed to provide evidence on existing practice at the October meeting of the Council.*

- 3.4 *As with the IASB ED, the Chair asked Council Members to share the ED with their technical experts in order to inform the discussion in October.*

#### **4. Joint Forum for Actuarial Regulation (The 'Forum')**

- 4.1 Paul Kennedy (PK) presented a paper which provided an update on progress in developing the Joint Forum on Actuarial Regulation, a central recommendation of the Capri project.

- 4.2 Stephen Haddrill (SH) confirmed that, following discussion at the Council meeting in June, the Chair of the FRC had written to the Chancellor on 20 June. The letter had drawn the Chancellor's attention to the risks arising from the existing fragmented regulatory approach in respect of actuaries and actuarial work, and sought support from the Chancellor to establish a 'Forum' which could work collaboratively to address those risks.

- 4.3 The Council noted that:

- a) the Chancellor had confirmed his support for the establishment of a FRC-chaired group along the lines of the proposed Forum. However, the Chancellor sought assurance that the group's remit would not involve any extension of the statutory regulators' remits;
- b) a response to the Chancellor was being drafted; the response would confirm that the FRC would not be seeking to extend the roles of the statutory regulators, and that the roles and responsibilities of the Forum's participants concerning the quality of actuarial work would be one of the first topics of debate at the Forum;
- c) Stephen Haddrill and other senior FRC representatives would meet senior representatives of the other regulators over the following month to discuss the Forum and agree suitable representation and terms of reference

- 4.4 The Council considered the proposed Terms of Reference for the Forum. In discussion the following points were made:

- a) Chinu Patel (CP) highlighted the external and legal constraints faced by the statutory regulators and requested that the Terms of Reference and the Remit for the Forum be clarified to make clear how the Forum would work within these constraints.
- b) CP suggested that it might be more impactful to establish one overarching objective for the Forum, such as 'to work together to reduce risk'. The provisional objectives could be renamed as deliverables and positioned underneath the main objective as steps which need to be completed in order to achieve the overarching objective. The Council suggested that this approach would be welcomed by the other regulators and would also be agreeable to the Chancellor who, in his letter,

supported the establishment of a 'FRC-Chaired Committee with a goal of identifying risks';

- c) There should be discussion with the other Regulators once the Forum has been established as to whether minutes and agendas of Forum meetings should be published;
- d) Initially the FRC will develop papers for consideration by the Forum; however, once the Forum becomes established, other regulators will be encouraged to contribute papers to the Forum;
- e) Whilst the Forum will be informal, in the sense that it will not have decision-making powers, there should be a sense of formality with regards to attendance and the running of;
- f) Gaining a shared understanding of the monitoring arrangements currently in place will be a key role of the Forum and will assist with the identification of risk.

4.5 The Council noted that the provisional objectives would be considered by the Forum at its first meeting and that the discussion points set out above would be considered in drafting the terms of reference. The Council also noted that the summary of roles and responsibilities in relation to UK actuarial regulation would be discussed with the relevant organisations before finalisation.

## **5. Actuarial Standards Framework and TAS review**

5.1 Robert Inglis (RI) presented a paper which set out progress on the project and a summary of the provisional conclusions reached by the Executive and the relevant Council sub-group. The Council noted the key proposals / vision which include the development of:

- a) a new framework for actuarial standards, which would include references to IFoA and other external materials and a statement on compatibility with ISAP 1;
- b) around five to seven high-level technical principles that can be applied to all actuarial work and will be accompanied by specific technical standards in areas where there is a high degree of risk to the public interest;
- c) a set of standards and accompanying guidance that are consistent in style, language and definitions and can all be accessed (whether FRC or IFoA standards) in one place, possibly in the form of a handbook.

5.2 The Chair of the sub-group, David Hindley (DH) acknowledged the ambitiousness of the proposals and invited the Council to provide its input. The following points were made in discussion:

- a) to get buy-in to the proposals the consultation must make the benefits of the proposals to users and practitioners very clear;
- b) both professional conduct and technical standards should be readily accessible, perhaps through a single standards portal;

- c) whilst members of the IFoA are required to apply the standards, others should be encouraged to adopt the standards when performing actuarial work. It was noted that users of work undertaken by non-actuaries might be comforted by the knowledge that the preparer has followed the principles but it was suggested that further incentives might be necessary including from regulators if adoption is to be wide;
- d) to ensure the standards are enforceable it is important that the FRC Conduct Committee and the conduct team at the FRC should be consulted and engaged in the development of the proposals;
- e) when drafting the principles, consideration needs to be given to the exercise 'judgement', a key skill of an actuary;
- f) areas of actuarial work which require specific technical standards will be identified following the development of the shared actuarial risk map and the criteria for the identification of those specific technical standards will be considered by the sub-group at a future meeting.

5.3 Ben Kemp (BK) informed the Council that there had been a number of meetings between the IFoA and the FRC. He made the following points:

- a) many actuaries would like the actuarial standards to be easily accessible in one place;
- b) that there would be merit in having consistency in the overall presentation of FRC and IFoA standards;
- c) the IFoA is developing its professional conduct standards review project plan and will share it with the FRC. BK recognises that there is potential merit in joint or at least contemporaneous consultation;
- d) development of the risk map would need to be collaborative in order to inform the work both the FRC and IFoA are undertaking in relation to standards.

5.4 The Chair welcomed the support of the IFoA and highlighted the importance of the FRC and IFoA aligning their development and consultation timetables as far as possible.

## **6. AS TM1 review and update in light of DWP changes**

6.1 Faye Dyce (FD) introduced the paper which covered four areas: the FRC's remit in relation to AS TM1, the DWP consultation on changes to the Disclosure Regulations, the FRC exposure draft and consultation paper in relation to AS TM1 and data gathered in relation to the accumulation rates used by providers of SMPs following changes introduced by versions 2.0 and 3.0 of AS TM1.

6.2 The Council noted the FRC's limited remit under DWP pension disclosure regulations which provide that the FRC is 'to adopt, prepare and from time to time revise the relevant guidance by reference to which the amount of the pension to be included in SMPs must be calculated'. The Council noted that the remit does not extend to monitoring or enforcing compliance with the requirements of AS TM1 but that in

recognition of the broader, publicly agreed mission of the FRC to foster investment, the FRC proposes to raise the Actuarial Council's wider concerns regarding SMPs with the DWP, and with the Pensions Regulator and the FCA through the Joint Forum. The Council noted that the Pensions Minister had recently shown interest in pension statements and had called for improvements to these communications. Jon-Paul Brett (DWP) confirmed that the Pensions Minister was aware of the FRC's work in this area.

- 6.3 The Council noted that the DWP's published response on the outcome of its consultation on changes to the DWP disclosure regulations had not specifically addressed the question posed in the FRC on the need for a fundamental review of SMPs; and that *MMCL and PK would raise this at a forthcoming meeting with the DWP*. The Council also noted that new regulations were expected to be made in October.
- 6.3 The Council discussed the first tranche of data that had been gathered in relation to the review of the accumulation rates being used by providers in SMPs. *Additional information would be sought over the coming months and further input on the review findings will be sought from the Council at its meeting in November.*
- Points raised in discussion were as follows:
- a) two-thirds of respondents say they have used version 2.0 for statements issued after 6 April 2013 - accordingly, there is little variation in the accumulation rate assumption for equities; in one to two years' time, as version 3.0 is adopted and the removal of the cap on the accumulation rate takes effect, it can be expected that there will be greater variation;
  - b) the accumulation rates for cash vary significantly; this might reflect differences in view between providers using short-term and long-term assumptions, although for most SMPs a long-term rate would be appropriate;
  - c) it might be useful for the FRC to collect information on age profiles of recipients of SMPs by provider;
  - d) it might be desirable to specify different rates to various asset classes.
- 6.5 The Council noted that the data collected on accumulation rates to date does not suggest that providers are increasing the accumulation rate assumption following the removal of the cap in version 3.0; accordingly, the Council confirmed that it was satisfied that there was no need to amend the provisions on SMP accumulation rates, ahead of the broader review currently scheduled for 2014.
- 6.6 The Council expressed concern and nervousness about the potential impact the information being gathered could have on the 'real world' if it is published and suggested it may encourage normalising to the same rate. *The Council asked the FRC executive to consider how the information might be managed and risks around its use mitigated.*
- 6.7 In relation to the FRC exposure draft and consultation papers, the Council endorsed the proposed approach to use an unadjusted fixed interest gilt yield to determine the interest rate used for a non-increasing annuity. The Council also agreed that the consultation should not include an exposure draft of a revised supplementary

information document. However, the Council did identify a need to discuss and clarify with the DWP the criteria for supplementary information documentation.

- 6.8 The Council confirmed its advice to the FRC Board that the FRC should publish an exposure draft of version 4.0 of AS TM1 with a four week consultation period, to be effective from 6 April 2014. The Actuarial Council's advice to the Board should be drafted as a separate stand-alone document. For this advice, the Council suggested strengthening the technical argument set out in the draft Board paper and including reference to the robustness of the evidence gathered in reaching the proposals. The Council authorised the Chair and sub-group chair (Howard Jacobs) to finalise the Council's advice.

## **7. Director's report**

- 7.1 The Council noted the Director's report informing the Council of FRC activities relevant to its responsibilities since its last meeting on 18 June 2013.

- 7.2 Paul Kennedy (PK) invited the Council to consider whether or not the FRC should respond to the EIOPA discussion paper on Sponsor Support Technical Specifications. The Council noted the background of the discussion paper which attempted to identify alternative methods for calculating the value of the employer covenant. The Council recognised that the significance of the issue had decreased following the decision not to proceed with further work on Pillar 1 Solvency Capital for pension schemes but recognised that if the FRC could helpfully contribute to the debate it should do so. RI informed the Council that he would be attending a stakeholder event organised by the tPR in mid-September and that a draft response would be prepared following that event. *Council members were invited to submit comments to RI outside of the meeting. A draft response would be circulated to the Council for input, with a view to the FRC submitting a response by 30 October.*

- 7.4 The Council noted that a sub-group to oversee the development of the shared actuarial risk map had been established and would be chaired by Ashok Gupta (AG).

- 7.5 The Council noted, and was invited to comment on, the proposed approach to the development of the shared risk map. It was noted that there would be a top-down approach including actuarial aspects of the public interest risks identified by the other statutory regulators and a bottom-up approach based on risks inherent in actuarial roles and methodologies as previously considered by the IFoA and FRC as part of Project Capri and earlier work. It was clarified that the FRC and the IFoA would work collaboratively on this aspect of the risk map and take joint ownership of its development, as well as seeking agreement from all regulators on the description of their public interest risks through the Joint Forum.

- 7.6 The Council noted that the FRC would consider with the IFoA and the Government Actuary's Department the various options concerning a possible standard on social security in light of the potential approval of ISAP 2 by the International Actuarial Association.

## **8. Stakeholder engagement – Observer reports**

8.1 The observer reports were taken as read and noted.

**9. Minutes of the Actuarial Council meeting held on 18 June 2013 and rolling actions**

9.1 The Minutes of the previous meeting were approved as an accurate record of the meeting.

9.2 The Council noted the status of the actions listed on the rolling action log.

**10. Sub-group review**

10.1 The Council noted:

a) the establishment of a sub-group for the development of the shared actuarial risk map which would be chaired by Ashok Gupta;

b) that the International sub-Group and the Standards Framework and TAS review consultation would continue.

**11. Forward Agenda**

11.1 The Council noted the forward agenda and had no comments. The Chair informed the Council that meetings of the Chair, Executive Director, Director for Actuarial Policy and Council Secretary had been scheduled following each meeting to ensure the forward agenda was complete and addressed all actions raised at meetings.