

Minutes of a meeting of the Actuarial Council held on Monday, 15 October 2018 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

John Coomber	Chairman
Rosemary Beaver	Member
Naomi L'Estrange	Member
Dominic Lindley	Member (From Minute 5)
Joanne Livingstone	Member
Dominic Veney	Member

Observer:

Des Hudson	IFoA Observer
Alice Habisreutinger	HM Treasury Observer

In attendance:

David Andrews	Relationship Manager for BEIS (From Minute 1 to 4.4)
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Council Secretary
Dawn Dickson	Director of Professional Oversight (From Minute 1 to 10.5)
Paul George	Executive Director, Corporate Governance & Reporting
Ann Muldoon	Director of Actuarial Profession
Erica Nicholson	Project Director, Actuarial Policy Team
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

- 1.1 The Chairman welcomed everyone to the meeting and in particular, Naomi L'Estrange and Dominic Lindley to their first Council meeting as Members. The Chairman also welcomed Alice Habisreutinger to her first Council meeting as the HM Treasury Observer. The Chairman informed that Bob Scott is also appointed as new member of the Council.
- 1.2 Apologies were noted from Martin Burke and Bob Scott. Mr Burke had emailed his feedback comments on the agenda items, which were taken into consideration during the discussion.

2. Declaration of conflicts of interests

There were none reported.

3. Minutes of the Actuarial Council meetings and rolling action log

- 3.1 The minutes of the meeting held on 17 September 2018 were approved for publication subject to a minor amendment.
- 3.2 The rolling action log was noted. Mr Hudson informed that he is following up with the IFoA in respect of the proposal for the FRC to liaise with their Specialist Practice Boards through an IFoA central point of contact. (Secretary's after meeting note: The proposal was emailed to the FRC and was forwarded to the Council Members on 17 October 2018.)

4. FRC Strategy 2019/20 - Actuarial

- 4.1 Mr Andrews introduced the paper and noted that the FRC's strategy for setting actuarial standards and actuarial oversight for 2019/20 is consistent with the FRC's three-year strategy 2018/21.
- 4.2 The Council considered the actuarial oversight and the actuarial policy projects that would be promoted in 2019/20 and noted that there may be changes to the FRC's responsibilities in light of the findings of the review of the FRC by Sir John Kingman, which may require further changes to the FRC's strategy for the actuarial matters in 2019/20 and beyond. The Council suggested that the plan reflect the planned activities in the TAS Post-implementation Review.
- 4.3 In response to a query as to the process on how an emerging risk / threat in the market is identified and which regulator would provide guidance to mitigate or manage such risks, it was clarified that the regulators on JFAR consider such issues and based on the scope and remit of the regulators, the topics are managed. In response to a specific query relating to the risks around covenant assessments, the Council noted that tPR provides practical guidance on how to assess the employer covenant of a DB pension scheme as part of an integrated approach to manage scheme risks, monitor the covenant and take action to improve scheme security.
- 4.4 The Council discussed its actuarial responsibility relating to the risks to the FRC's objectives and noted that this responsibility would focus on the FRC's Principal Risk '*Decisions based on the work of actuaries are ill-founded due to a failure of such work to meet the professional standards expected*'.

5 Actuarial Council input to JFAR Risk Perspective: 2018

- 5.1 Ms Beveridge introduced the JFAR Risk Perspective which sets out the collective view of the regulators on risks to high quality actuarial work arising from current issues. The Council noted that the intention of the paper was to seek its input in relation to the FRC Executive's role in the updating of the JFAR Risk Perspective.
- 5.2 The Council considered the appropriateness of the current hotspots and proposed changes for the JFAR Risk Perspective: 2018 Update and made a number of comments and suggestions including:

Hotspots Risk Perspective: 2017 Update

- The term 'common themes' could be defined.
- The Executive could ensure a common structure for the presentation of the update.

Political and legislative risk

- It was suggested that the risks associated with the interpretation of new legislation during the implementation phase are also reflected in the description.
- This topic could include risks arising from increased complexity in entities' operations resulting from their response to Brexit.

Regulatory change

- The commentary on IFRS17 should be kept under review as the effective date for IFRS 17 may change and the section could also include reference to risks around IFRS 9.
- The risk of over regulation could have impact not just on actuaries but also on clients receiving advice.

- It was suggested that the commentary on professionalism could be expanded and to also include reference to commercial pressures.

Market performance and uncertainty

- Given the market pressures, the risks in maintaining appropriate reserves levels within general insurance companies could be included.
- Reference could also be made to general market uncertainties which could include mergers and acquisitions and challenges around introduction of new products in the market.

Climate-related risk

- Reference would be made to the PRA's recent consultation paper on a draft supervisory statement which sets out expectations regarding firms' approaches to managing the financial risks from climate change.

Financial security

- The source of the comment on 'postcode lottery' could be included. Consideration could be given to the effects of Brexit, which could have positive or negative impact.
- In relation to actuaries managing customers, reference could be made to the FCA's thematic review on fair treatment of long-standing customers in the life insurance sector.

Defined Benefit pension scheme management

- The description of the risks relating to modelling systems and transfer values could be reviewed.

Technological change – automation and digitisation, Big Data, artificial intelligence and cyber risk

- Challenges around authenticity and legality of Big Data sources could be included.
- Implications of GDPR on actuaries could be incorporated in this section.

Terrorism and Cyber crime

- The term 'fit for purpose' could be clarified as to how it relates to risks around occurrence of terrorism.

Mortality

- Consideration could be given in respect of including lethal epidemic risk in the description of this risk.

5.3 The Council discussed that there is a general risk of failing to identify a risk by JFAR which could lead to reputational damage to a regulator. This "blind spot" risk is described in the Feedback Section of the JFAR Risk Perspective. The Council also suggested a small number of structural changes within the document.

5.4 The Executive agreed to take the Council's comments and suggestions into consideration while revising the Risk Perspective. The Council noted that the revised document would be presented to the Council at its meeting in January 2019.

6. Updates from Chairman and Executive Director, Corporate Governance & Reporting

6.1 The Chairman provided an update on the changes made to the Council's Terms of Reference, as part of the changes in the FRC's internal governance arrangements. The Council noted that the Terms of Reference have been aligned with those of the Audit & Assurance Council and the Corporate Reporting Council, where appropriate. It

was agreed that the Council's work programme should be mapped to the revised Terms of Reference, and that these should be reviewed after the announcement of the findings of the review of the FRC by Sir John Kingman.

- 6.2 Mr George provided a brief update on the ongoing review of the FRC by Sir John Kingman.
- 6.3 The Chairman reported that, since the last Council meeting, the FRC Board had met on 19 September 2018. The Board discussion had included the revisions to the Stewardship Code, Annual review of Corporate Governance and Reporting, the Future of Audit project, the FRC Communications Strategy, Charity SORP, and the amendments to the FRC Code of Conduct in relation to the publication of a Gifts & Hospitality Register and the Register of Interests. It was further reported that the Codes & Standards Committee had met on 25 September 2018 and the discussions have included the revisions to the Stewardship Code, Annual review of Corporate Governance and Reporting and the FRC Taxonomies.

7. Director of Professional Oversight

Ms Dickson introduced the item and summarised briefly the work of the Professional Oversight Team for the benefit of the new members on Council. She further provided an update on the ongoing activities of the Team, which included engagement with IFoA in relation to:

- The concerns in respect of the draft Guide to the Actuaries' Code. The Council noted that if the concerns are ongoing, an update would be provided to the Council via email in December 2018.
- The outcome of the IFoA's consultation on its Monitoring proposal. The consultation closed on 28 September 2018.
- The review of the evidence supporting the conclusions of the IFoA's review of its Practising Certificate Scheme.

8. IFoA's Report

Mr Hudson provided an update on his report, which included:

- Consultation on proposals to introduce monitoring of actuarial work – The results of the consultation will be analysed, with interim results available for internal IFoA discussion in October 2018.
- Review of Practising Certificates regime – The recommendations of the review were agreed by the Regulation Board at its meeting in July and the revised Practising Certificate Scheme was published on 14 August with an effective date of 1 September 2018.

9. HM Treasury's Report

9.1 Ms Habisreutinger provided an update on the following matters:

- IFRS 17 – EFRAG has written to the IASB highlighting certain aspects of IFRS 17 that in EFRAG's view, merit further consideration. This may have impact on the effective date of IFRS 17 which is currently set as 1 January 2021.
- Pension Dashboard – The DWP have laid a ministerial statement and their report on dashboard feasibility study is expected to be published shortly.

9.2 Mr George informed the Government's thinking in relation to the IFRS endorsement process post-Brexit and the creation of a UK IFRS Endorsement Board that would sit within the FRC. He highlighted that the resourcing and appointments process for the Board may not be timely to reach conclusions on IFRS 17 to help insurers to be prepared for the effective date.

10. Report from the Director of Actuarial Policy

10.1 The Report was taken as read.

10.2 In response to a query in respect of a replacement for Ms Nicholson when she joins the Professional Oversight Team, it was reported that the FRC plans to recruit for a replacement and will consider a temporary resource in January 2019.

10.3 The Council noted that the IAA's Actuarial Standards Committee has agreed to integrate ISAP 1 and ISAP 1A. The consideration whether to reflect changes in the revised ISAP 1 in the TASs will form part of TAS post-implementation review project.

10.4 The Council noted the Competition and Markets Authority's decision from its market investigation into the investment consultancy and fiduciary management markets. The Council briefly discussed potential conflicts of interest that can arise when actuaries advise on fiduciary management products. It was noted that the FRC would develop a granular understanding of the work of investment consultants as part of the TAS post-implementation review.

11. ASORP 1 – Financial Analyses of Social Security Programs – form and consultation

11.1 Mr Wasserman provided a brief update on the purpose of the paper which was to seek Council's advice on the draft consultation.

11.2 The Council considered the draft consultation including the Exposure Draft and made a number of comments and suggestions including:

- The term 'financial analysis' which is currently defined in terms of pension matters could be expanded to include wider matters. However, it was agreed to restrict the definition for ASORP1 requirements. The definition of Social Security Programme could also require eligibility through 'credited' National Insurance contributions.
- It could be clarified that the approach taken in developing ASORP 1 endeavours to ensure that the actuarial work on social security pensions is treated no less seriously than the regulation of private sector pensions. It could also be clarified that the combination of TAS 100 with the overlay of ASORP 1 providing specific 'comply or explain' requirements are believed to achieve that.

11.3 Mr Wasserman agreed to take the above points into consideration while presenting the consultation to the FRC Board. Subject to the comments and suggestions provided, the Council supported the draft consultation and the Exposure Draft. The Chairman thanked Mr Wasserman for his hard work and contribution in the development of the consultation.

12. Conformance changes to Framework

12.1 Ms Muldoon outlined that the conformance changes to the '*Framework for FRC technical actuarial standards*' (the Framework) simply update the references to the Actuaries Code to reference equivalent requirements in the revised Code. With regards to the expected publication of revised ISAP 1, the year of issue of the ISAP referenced in the Framework is added for completeness.

12.2 In response to a query in respect of the overall effects of changes to the Code, Mr Hudson clarified that there are some new explicit requirements introduced to the Code which makes the Code stronger and less subject to interpretation.

12.3 Since the conformance changes to Framework include simply updating references to reflect changes to the Code, the Council supported the proposals and advised that there is no need to consult on the changes.

13. TAS Post-implementation review plan

- 13.1 Ms Nicholson introduced the plan for TAS Post-Implementation review which will seek feedback on whether the current TASs have been successfully implemented, whether there have been changes in the external environment affecting the work of actuaries since the current TASs were developed, that may require changes to the current TASs, changes to international model standards and updating the Specific TAS risk assessment.
- 13.2 The Council noted that if changes are required to the current TASs, they need to be published with an effective date no later than 1 July 2022. In order to achieve that effective date, the Council noted the plan that showed planning and technical review activities which would commence in early 2019.
- 13.3 Following a query in relation to the reasons for such an extensive period for research activities, it was clarified that the review would include not only engagement and outreach with practitioners, users of technical actuarial standards and other interested parties but also technical preparation which will include consideration to the changes in the regulatory, legislative and external environment in order to complete an initial review of the Specific TAS risk assessment. It is also planned to engage with the JFAR regulators.
- 13.4 The Council noted that regular updates on the progress of the review would be provided at Council meetings scheduled in 2019.

14. Council Effectiveness Review – Action log

The Council noted that most of the actions were completed. The only pending action relating to the establishment of a forum for the Chairs of the Codes & Standards Committee, Conduct Committee and the Actuarial Council for greater co-ordination of oversight of vision, would be reviewed when the wider review of the FRC is completed.

15. Forward Agenda

The Council Forward Agenda was noted.

16. Any other business

The Chairman noted that this would be Ms Nicholson's last meeting as the Project Director of the Actuarial Policy Team. He thanked her for her hard work and contribution towards the work of the Council.

17. Date of next meeting

The Council noted that the next meeting would take place on 30 January 2019.