

Minutes of a meeting of the Actuarial Council held on Tuesday, 7 November 2017 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	Member
Ashok Gupta	Member
David Hindley	Member
Joanne Livingstone	Member
Dominic Veney	Member (from Minute 1 to 10.8)

Observer:

Des Hudson	IFoA Observer
Ben Kemp	IFoA Observer (via teleconference from Minute 1 to 4.4)
Stephanie Paul	HM Treasury Observer (via teleconference from Minute 1 to 5.1)

In attendance:

David Andrews	Relationship Manager for BEIS
Anu Bhartiya	Council Secretary
Ufuk Cengiz	Economist
Dawn Dickson	Director of Professional Oversight
Melanie McLaren	Executive Director, Audit & Actuarial Regulation
Ann Muldoon	Director of Actuarial Policy
Erica Nicholson	Project Director, Actuarial Policy Team
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting and in particular Stephanie Paul to her first meeting as the HM Treasury Observer. Apologies were noted from Martin Burke and Angela Darlington.

2. Declaration of conflicts of interests

There were none to be reported.

3. International Model Actuarial Standards

3.1 Ben Kemp (BK) summarised the key points of the paper which highlighted what the IFoA and the FRC are doing in relation to the development and the consideration of adoption of international model actuarial standards developed by the IAA and the AAE. The Council noted that:

- The IFoA, as a member of both the IAA and AAE, has expressed its support, in principle, for the development of international model actuarial standards.
- The IFoA and FRC have committed to engage with the development of model actuarial standards and to consider the extent to which those standards, once issued by the IAA and AAE as models, should be applied to members of the IFoA.

3.2 The Council noted the proposed next steps for the consideration of the adoption of the international model actuarial standards published to date. The main standards that will be focused on during 2018 are the standards in respect of social security (ISAP 2) and those in respect of risk management (ESAP 3, ISAP 5 and ISAP 6). It was noted that

the IFoA and FRC should monitor developments in ISAP 1 on an ongoing basis and the development of ISAP 4, in light of the interest in IFRS 17.

- 3.3 The Council was supportive of the plan and the approach for recognising / incorporating international model actuarial standards which included consultation as required through the governance process of both bodies.

4. **Report of the Director of Actuarial Policy**

- 4.1 Ann Muldoon (AM) provided a brief summary of the key points of her paper.

AS TM 1

- 4.2 The Council noted that the FRC will consider changes proposed by the FCA to their point of sale projection assumptions to determine whether the FRC should follow FCA's changes to the assumptions concerning inflation and salary growth rates. A paper will be presented to the Council at its meeting in February 2018.

Ogden Discount Rate

- 4.3 The Council noted that the Justice Committee had received evidence on 1 November 2017 on the proposed legislation on the personal injury discount rate often referred to as the Ogden discount rate. Erica Nicholson (EN) provided a summary of the evidence sessions highlighting various points including that:

- A number of bodies had provided evidence including the IFoA, the Association of British Insurers, the Association of Personal Injury Lawyers and the Medical Protection Society.
- All parties supported the current legislation that the claimant should receive '100% compensation'.
- The social impacts of both under compensation with claimants having to also rely on state benefits, and over compensation due to higher premium rates and costs to NHS were also raised.
- There was a general agreement that the rate should be reviewed more regularly with a convergence of views around updates every three years.
- There were mixed views around whether the decision should be with a politician or an expert panel but the verbal evidence leaned towards wanting the Lord Chancellor to be responsible.
- The link to evidence is:
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/justice-committee/prelegislative-scrutiny-draft-personal-injury-discount-rate-legislation/oral/72599.html>

- 4.4 The Council also noted that the ABI and others commented on why Index Linked Gilts (ILGs) were not an appropriate base for methodology and their rationale. However, the IFoA had supported ILGs as a risk free basis for setting discount rate and as a methodology that could easily provide regular updates. In response to a query as to why the IFoA had a different view from the ABI, Des Hudson (DH) confirmed that the IFoA had reflected the requirements under its Royal Charter to consider the element of public interest and explained the IFoA view. The Council noted that the drivers for the change in the Ogden rate were covered in the JFAR risk perspective document.

Work & Pensions Select Committee Pension Freedoms inquiry

- 4.5 Simon Wasserman (SW) provided an update on the inquiry conducted by the Work & Pensions Select Committee which included a review into whether and how far the pension freedom and choice reforms are achieving their objectives and whether policy changes are required. The update included main themes from the submissions to the inquiry, which included:

- There is a need to ban cold calling on pensions.
 - There is a concern that people are not sufficiently financially aware as to how to invest effectively to manage their retirement income.
 - Regulators, insurers and IFAs view pension freedom as a step forward whilst TUC and others are concerned with its unintended consequences.
- 4.6 In response to a query whether Statutory Money Purchase Illustrations was considered within the inquiry, it was suggested and agreed that the FRC should monitor the discussions and any resulting recommendations with a view to informing our standard setting obligations.

Universities Superannuation Scheme

- 4.7 The Council noted the challenges to actuarial techniques raised by academics in relation to the pensions deficit on the Universities Superannuation Scheme and their call for greater transparency of method and assumptions. The view was expressed that this is symptomatic of different views as to whether pension fund valuation discount rates should start from gilt based returns or whether they should start from best estimate economic assumptions. It was noted that the TASs do not specify a method of calculation but rather set out principles for setting discount rates. It was agreed that JFAR should be asked to consider this risk within the Risk Perspective. The Council noted the situation and agreed to monitor how the debate develops.
- 4.8 The Council noted and congratulated AM on her appointment as the Chair of the Standard Setters Round Table¹ group for the 2018 meetings.

5. H M Treasury Observer's Report

Stephanie Paul (SP) informed that the HM Treasury continue to engage with the industry in relation to the IFRS 17 standard which was issued in May 2017 and that the EFRAG would be conducting an independent formal assessment in 2018 which would include cost benefit analysis of the standard on the UK companies. With regards to the pensions dashboard, it was reported that the Department for Work and Pensions will take over the responsibility for helping industry to bring the dashboard to market. HM Treasury will continue to work closely with DWP and the DWP will present a feasibility study on the pensions dashboard in Spring 2018.

6. Update from the Chair

The Chair reported that the FRC Governance Review was still ongoing and an update would be provided to the Council when it concluded.

7. Update from the Executive Director, Audit and Actuarial Regulation

Melanie McLaren (MM) provided a brief update on the matters considered at the Board meetings held on 13 September (away day), 24 October (additional meeting) and 2 November 2017.

8. Report from the Director of Professional Oversight

- 8.1 Dawn Dickson (DD) reported that all monitoring visits were completed. It was noted that the visit to Oxford had included the monitoring of the IFoA's examination procedures. The Edinburgh visit had included the monitoring of the CPD and the Practising Certificates regimes. It was noted that the FRC was now analysing its findings in liaison with the IFoA and present the recommendations to the Council at a future meeting.

¹ The SSRT is a group of national actuarial standard setters that aims to provide a forum for the discussion of matters relevant to supporting the IAA's objective of global convergence of international actuarial standards. It meets half-yearly at the same time as the IAA.

9. IFoA Observer's report

Consultation on Actuaries' Code

9.1 DH reported that the consultation was launched on 3 October 2017 and will close on 17 January 2018.

Actuarial Monitoring proposal

9.2 The Council considered the final copy of the Actuarial Monitoring paper and noted that the 'hallmarks' as advised by the Council, had been considered in the proposal. Whilst the Council was broadly content with the proposal, a concern was expressed that the paper was complex and the proposals mainly focused on the practicing certificate holders and the Quality Assurance Scheme members and with not enough focus on wider actuarial work. In response to this concern, it was reported that broader actuarial work would be covered by thematic reviews. Following a query, it was reported that the consultation would be published within a demanding timetable and therefore it would not include a cost analysis. The Council agreed to meet on 18 January 2018 to discuss the draft consultation and provide its advice to the Conduct Committee.

10. Consultation on Actuaries' Code

10.1 AM provided a brief update on the paper which sets out the over-arching questions in relation to the changes to the Actuaries Code that may have an impact on the Technical Actuarial Standards.

Scope - As the Code is one of the key mechanisms by which actuaries are bound by the TASs, is there sufficient clarity that actuaries are bound by the Code if they are doing technical actuarial work, even if they do not consider that they are acting in an actuarial role?

10.2 The Council considered that the current Scope of the Code is clear that actuaries doing technical actuarial work would be required to comply with the Code. However, the proposed revision to the Scope is unclear in respect of some actuaries for e.g. investment actuaries who do not consider themselves doing an actuarial role, even though they apply TASs. Therefore, the Council supported the view that it was necessary to have consistency within the regulatory framework which could be achieved through guidance notes by clarifying that all actuaries doing technical actuarial work are covered by the TASs.

Competence and Care - Does the Council consider that this proposed change has an impact on the Standard

10.3 The Council considered that the proposed change to *Competence* would not have an impact on the Standard because an actuary undertaking a piece of work would have an appropriate level of relevant knowledge and skill to carry out the work.

Competence and Care – Consideration of stakeholders other than users – If this requirement is removed from the Code, is there a need to review the TASs to determine if the consideration of other stakeholders needs to be included for additional areas of work and/or to strengthen the consideration that is already present?

10.4 Whilst one of the Council Members considered that actuaries do not have an explicit public interest role, it was noted that the actuaries work in the public interest by adhering to the Actuaries' Code and the Technical Actuarial Standards. The Council discussed that the definition of 'user' in the proposed Code and suggested that there is a consistent definition of user between the TAS and the Code. Council was supportive of the IFoA approach to the use of the Guide and asked the Executive to consider whether additional clarification was required in the TAS to allow for the changes.

Reference to compliance with TASs – Could the removal of the specific reference to the TASs in the revised Code and the lack of explicit reference to TASs in section 6 of the Guide have an adverse impact on actuaries' compliance with the TASs?

10.5 The Council considered that it is unlikely that the lack of explicit reference to TASs in the revised Code and the Guide would have an adverse impact on actuaries' compliance with the TASs.

Does the removal of the requirement for communications to meet reporting standards have an impact on the TASs?

10.6 The Council was reminded of the recommendation following the Morris Review in respect of the need for clear and effective communication in a timely manner and in particular the assumptions made to help non actuarial users understand better. Council agreed that it would be useful to have consistency in 'communication' as set out in TASs and the Code.

Other matters

10.7 It was suggested that the Code not include detailed references to other documents.

10.8 It was also suggested that while making reference to compliance with the laws of different countries in the Guide, care should be taken in using the words 'local laws'. It was suggested to use a phrase like 'relevant laws' as that would encompass the concept that an actuary could be bound by his own domestic law as well as international laws of the specific country. In addition care should be taken not to imply that another country had lower ethical standards and an actuary would be encouraged to adopt them.

11 Stakeholder Survey

Since the meeting had overrun, the Chair advised the meeting that the topic will be considered at a future meeting.

12 FRC Strategy: Actuarial Policy

An early draft of the FRC's Strategy and Plan for 2018-21 was noted without discussion. It was agreed that Council's input into a more advanced draft of the FRC's Strategy and Plan for 2018 – 21 will be sought via email.

13 Council Effectiveness Review – Action Log

The Council noted the Council Effectiveness Review action log.

14 Minutes and rolling actions

14.1 The minutes of the meeting held on 11 September 2017 were approved for publication.

14.2 The rolling action log was noted.

15 Forward agenda

The Council noted the Forward agenda.

16 Any other business

There was none.

17 Date of next meeting

18 January 2018 at 10:00am