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1 March 2013

Dear Michael

GCASP 2 Actuarial Function Report under Directive 2009/138/EC – Exposure Draft

I am pleased to provide comments from the Financial Reporting Council (the FRC) on the exposure draft of *GCASP 2 Actuarial Function Report under Directive 2009/138/EC*. We have shared our comments with the Institute and Faculty of Actuaries (IFoA) and the UK Forum on International Actuarial Standards.

The FRC sets technical actuarial standards (TASs) in the UK and oversees the setting of ethical and conduct standards (and other regulatory activities) by the IFoA. Our work is supported by an Actuarial Quality Framework.

As a member of the Standard-Setters Round Table we support efforts to develop a set of model standards which national standard-setters can consider adopting. We appreciate the work that the Groupe Consultatif has done in developing this exposure draft and we welcome this opportunity to contribute to its further development.

We have prepared an annotated list of comments and suggestions on the exposure draft, which is attached as an exhibit to this letter. Overall, we think the draft could be significantly shortened and clarified by removing:

- Repetition of requirements which are expressed as generic requirements in section 3.1 and then repeated for each of the three applications in sections 3.2 to 3.5; and
- Replication and paraphrasing of existing regulatory requirements.

We recognise of course that some actuaries may find it helpful to have a consolidated set of regulatory requirements and guidance but we consider this is best done in supplementary educational material. There may also be scope for additional education materials which the Groupe is well placed to provide as Solvency II is a step change in the financial and risk management of insurers. It will lead to significant new demands on actuaries in implementing new methods and reporting to boards and management on results. This calls for a major focus on continuing professional development. For example, it might be useful to develop learning material supporting the development of opinions on underwriting policy or reinsurance arrangements rather than prescribing particular formats or content.

Other suggestions we would make include:

- A more principles-based approach which promotes user understanding and allows a proportionate response to what is already a quite prescriptive regulatory regime. For example, encouraging the actuarial function to focus on the key decisions and judgements that the Board and management have to make concerning the prudent risk management of their business.

Exhibit FRC Comments on Exposure Draft of GCASP 2

- A clear and public conceptual rationale and structure for GCASPs, including consideration of the principles in ISAP 1. We see that the IAA has recently established a task force to consider the strategic development of ISAPs. In the UK, the FRC initially developed a Conceptual Framework for its standards and used this to produce a three year plan for the production of a coherent set of technical actuarial standards. The value of this is that it should lead to the development of a coherent set of standards reducing the risk of overlaps between standards or failure to cover important matters.
- A clear and public rationale and impact assessment for this particular GCASP to ensure that, in line with the European Commission's agenda of embedding "smart regulation" across European policymaking, it represents a proportionate response to the risks it is designed to mitigate.
- Consideration of common principles which could apply to Pillar 2 as well as Pillar 1 reports, along the lines of the principles of our Generic TASs. Actuaries are likely to be involved in a range of work supporting Solvency II beyond just the tasks prescribed for the Actuarial Function. We consider that there is a need for a generic standard for the reporting of the work that actuaries do within the Solvency II framework and not just exclusively for the AFR. This generic standard might then be supplemented by shorter, focused specific standards if it is considered that there are additional requirements for particular work – for the AFR for example.

We would be happy to discuss our general comments and any specific comments and suggestions with the Groupe.

Yours sincerely



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Exhibit FRC Comments on Exposure Draft of GCASP 2

Section 1. General

	Text	Comment
1.1	Purpose	
1.1.1	Groupe Consultatif Actuarial Standard of Practice 2 (GCASP2) provides guidance to actuaries when issuing an Actuarial Function Report (AFR) in connection with an insurance undertaking's compliance with [Article 262 SG10.8] of Commission Regulation (EU) [../.], which lays down detailed rules to implement the Solvency II Directive ¹ .	<p>We do not consider that the purpose of a standard is the provision of guidance. We consider that a standard lays out principles or rules that intended users can expect practitioners to follow, when carrying out work covered by the standard, for the intended users' benefit.</p> <p>The purpose defined in this paragraph – to provide guidance to actuaries – is very different to the purpose defined in paragraph 1.1.2 which is to enable users of the AFR to be able to place reliance on it. We consider the user focused purpose is more appropriate and consistent with other standards such as financial reporting standards which focus on the needs of investors and other users of financial information.</p> <p>The drafting team might like to consider whether this introductory paragraph is really required.</p>
1.1.2	The purpose of GCASP2 is that the intended users of the AFR should be able to place a high degree of reliance on the report , its relevance, transparency of assumptions , completeness and comprehensibility, including the communication of any uncertainty inherent in the results stated in the report .	<p>This is very similar to the FRC's Reliability Objective for actuarial information but replacing the generic concept of actuarial information with the specific AFR. We naturally agree that this is a good over-arching purpose for actuarial standards but wonder whether in the narrow context of GCASP 2 the purpose should be more specific to the AFR. For example:</p> <p><i>The purpose of GCASP2 is that the information contained in the AFR is complete, relevant, and comprehensible to its intended users and includes information concerning uncertainty inherent in:</i></p> <ul style="list-style-type: none"> a) <i>the estimates of the technical provisions;</i> b) <i>the opinion in the overall underwriting policy; and</i> c) <i>the opinion in the adequacy of reinsurance arrangements.</i>
1.1.3	This standard will contribute to ensuring consistent, efficient and effective practices within the Actuarial Function (AF) across undertakings in the European Union concerning the preparation of the AFR . This will strengthen and contribute towards harmonised and consistent application of EU legislation.	<p>We agree that the work of the actuarial function should be performed efficiently and effectively but we also consider that the work should be proportionate to the nature of the insurance undertaking taking account of its size, the risks it takes and its complexity. We suggest that proportionality is mentioned explicitly.</p>

¹ The draft of this regulation states: "The actuarial function shall produce a written report to be submitted to the administrative, management or supervisory body at least annually. The report shall document the tasks that have been undertaken by the actuarial functions and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p>Given the diversity of both insurance business and insurance undertakings across Europe we do not consider consistent practices are necessarily something the standard should ensure. We suggest that the reference to consistent practices is deleted. We consider that this diversity demands a more principles-based standard rather than a rules-based tick-box approach.</p> <p>We accept that there is a public interest in the harmonised and consistent application of EU legislation but we consider this is a role for EIOPA and national supervisors to monitor and enforce.</p> <p>We suggest the following:</p> <p><i>This standard will contribute to ensuring consistentproportionate, efficient and effective practices within the Actuarial Function (AF) across undertakings in the European Union concerning the preparation of the AFR. This will strengthen and contribute towards harmonised and consistent application of EU legislation.</i></p>
1.2	Scope	
1.2.1	This GCASP applies to actuaries performing professional services when issuing an AFR in connection with an insurance undertaking's compliance with [Article 262 SG10.8] of Commission Regulation (EU) [...]. An actuary who provides these professional services may be acting in one of several capacities such as an employee, officer or director of the principal , or be external to the principal .	We do not consider it is necessary to describe the possible capacities in which the actuary or actuaries preparing the AFR may be acting. We understand that a similar sentence is included in ISAP paragraph 1.4 but in the context of this standard we suggest that the final sentence is deleted.
1.2.2	Laws or regulations may also impose obligations upon an actuary . Compliance with binding requirements of law or regulation that conflict with this standard shall not be considered to be a deviation from the standard.	This is rather an odd clause to include in a standard applicable to actuarial work required by regulation. We suggest it is deleted.
1.2.3	This standard will assist the achievement of the purpose by ensuring that in the AFR <ul style="list-style-type: none"> – sufficient information is included to enable intended users to judge the relevance of the contents of the AFR; – sufficient information is included to enable intended users to understand the implications of the contents of the AFR; and – information is presented in a clear and comprehensible manner. 	<p>We question the need for this paragraph. We note that this is similar to the purpose of TAS R (paragraph A.1.2) which applies generically to the reporting of all actuarial work within the scope of the UK TAS regime but the purpose of this standard is already defined in paragraph 1.1.2.</p> <p>We agree that information presented to users should be presented in a clear and comprehensible manner but we are unsure how GCASP 2 ensures this as it is currently drafted. We suggest that this is best achieved by inclusion of a specific principle dealing with clarity and comprehensibility.</p> <p>If the generic principles in ISAP 1 are judged to be insufficient to cover the matter of clarity and comprehensibility, we suggest a specific principle is included within section</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p>3.</p> <p>Possible examples that might be considered are:</p> <p>ISAP 1 paragraph 4.1:</p> <p><i>Any communication should be appropriate to the particular circumstances and take the skills, understanding, levels of relevant technical expertise, and needs of the intended user into consideration to allow the intended user to understand the implications of the actuary's communication. (ISAP 1 4.1)</i></p> <p><i>The actuary should word each communication to be clear and use language appropriate to the particular circumstances, taking into account the intended users. (ISAP 1 4.1.2)</i></p> <p>The FRC's TAS R paragraph C.6.1</p> <p><i>The style, structure and content of reports shall be suited to the skills, understanding and levels of relevant technical knowledge of their users.</i></p>
1.2.4	<p>Nothing in this standard should be taken to imply a requirement to depart from statutory provisions deriving from the Solvency II Directive, the Omnibus II Directive, the regulations issued by the EU-Commission or the standards and guidelines issued by EIOPA or other statutory or legal requirements under the applicable jurisdiction. It should be read in the context of these statutory provisions. The scope of this standard could be affected by any amendments to statutory provisions issued after the issuance of this standard.</p>	<p>We consider that GCASP 2 should be tested against these statutory provisions and any requirement that departs from these provisions removed or clarified. There should therefore be no reason for such a clause.</p> <p>Given the broad scope of this GCASP – professional services performed when issuing an AFR (GCASP 2 paragraph 1.2.1) – we would be surprised how it could be affected by amendments to statutory provisions concerning Solvency II.</p> <p>We therefore consider that this paragraph is unnecessary and suggest that the drafting team might like to consider whether this paragraph might be deleted.</p>
1.2.5	<p>GCASP2 assumes that actuaries will also comply with ISAP 1, approved as a model standard by the International Actuarial Association (IAA) on [18 November 2012] [and with GCASP1² issued by the Groupe Consultatif on [date]].</p>	<p>UK actuaries are required to comply with the FRC's TASs in respect of actuarial work within their scope. This includes the work of the actuarial function required by Solvency II.</p> <p>The FRC is currently considering what action it will take concerning ISAP 1 but it is unlikely that we will adopt it. We will consider whether we can assert that the TASs are substantially consistent with the technical matters covered by ISAP 1.</p> <p>We suggest that rather than assume compliance with ISAP 1 the standards should allow the possibility of asserting compliance with substantially consistent national</p>

² Consideration is being given by the Standards Project Team of the Groupe Consultatif to recommending that the Groupe adopts (or adapts) ISAP1 as GCASP1.

Exhibit FRC Comments on Exposure Draft of GCASP 2

		standards. We therefore suggest the following wording: <i>GCASP 2 assumes that, for work within its scope, the work will also comply with actuarial standards that are substantially consistent with ISAP 1 approved as a model standard by the International Actuarial Association (IAA) on 18 November 2012 [and with GCASP1 issued by the Groupe Consultatif on [date]].</i>
1.3	Language	
1.3.1	Some of the language used in this GCASP is intended to be interpreted in a very specific way in the context of an action of the actuary . In particular, the following verbs are to be understood to convey the actions or reactions indicated: <ul style="list-style-type: none"> • “must” means that the indicated action is mandatory and failure to follow the indicated action will constitute a departure from this GCASP. • “should” (or “shall”) means that, under normal circumstances, the actuary is expected to follow the indicated action, unless to do so would produce a result that would be inappropriate or would potentially mislead the intended users of the professional services. If the indicated action is not followed, the actuary should disclose that fact and provide the reason for not following the indicated action. • “may” means that the indicated action is not required, nor even necessarily expected, but in certain circumstances is an appropriate activity, possibly among other alternatives. Note that “might” is not used as a synonym for “may”, but rather with its normal meaning. 	No comment.
1.3.2	This document uses various expressions whose precise meaning is defined in section 2. Words and expressions which are included in section 2 are shown in bold elsewhere in the document. Headings are shown in bold whether or not they contain defined terms.	No comment
1.4	Cross references	
1.4.1	When this standard refers to the provisions of other documents, the reference includes the referenced documents as they exist on the adoption date as shown on the cover page. The referenced documents	No comment

Exhibit FRC Comments on Exposure Draft of GCASP 2

	may be amended, restated or replaced after the adoption date. If any amended, restated or replacement document differs in a material way from the originally referenced document, the actuary should consider the extent to which it is applicable and appropriate to the guidance in this standard.	
1.5	Effective Date	
1.5.1	This standard applies to professional services related to an Actuarial Function Report completed after [31 December 2014].	No comment.

Exhibit FRC Comments on Exposure Draft of GCASP 2

Section 2. Definitions

	Text	Comment
	Terms appearing in bold in the text are used with the meanings set out below. The definitions are used consistently in Groupe Consultatif Actuarial Standards of Practice (GCASP).	No comment.
	Actuarial Function (AF): An administrative resource to undertake the particular governance tasks described in Article 48 of the Solvency II Directive .	No comment.
	Actuarial Function Report (AFR): The report from the Actuarial Function to the AMSB in accordance with article 48 of the Solvency 2 Directive and associated regulations, standards and guidelines.	No comment.
	Actuary: An individual member of a professional association of actuaries which is a full member of the Groupe Consultatif Actuariel Européen.	We note this is a different definition to the definition of an actuary in ISAP 1.
	AF: Actuarial Function	This is not really a definition rather it is an abbreviation which is already defined in the definition of Actuarial Function above. We suggest it's separate definition is unnecessary.
	AFR: Actuarial Function Report	This is not really a definition rather it is an abbreviation which is already defined in the definition of Actuarial Function Report above. We suggest it's separate definition is unnecessary.
	Aggregate report: The set of all component reports relating to a piece of work within the scope of this standard. The aggregate report for an intended user in connection with work within the scope of this standard is the set of all component reports received by the intended user containing information material to that work.	<p>This is similar to the definition used in the FRC's TASs:</p> <p><i>The set of all component reports relating to a piece of work within the scope of this standard. The aggregate report for a decision taken by a user in connection with work within the scope of this standard is the set of all component reports received by the user containing information material to that decision.</i></p> <p>We do not consider the proposed definition works. What if only some of the required information is received by the intended user? This would still be an aggregate report. The concept of the aggregate report is that it should capture the totality of the information that the intended user needs. In the TASs we assume that actuarial work is required before making a decision. In the case of the AFR, this is more in the nature of a compliance statement. The decisions concerning technical provisions, underwriting policy and reassurance will already have been made by the AMSB.</p> <p>We suggest the following definition:</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<i>The set of all component reports relating to a piece of work within the scope of this standard. The aggregate report for <u>a decision taken by an intended user or to enable an intended user to comply with regulation</u> in connection with work within the scope of this standard is the set of all component reports received by the user containing information material to that decision <u>or enabling compliance with regulation</u>.</i>
	AMSB: Administrative, management or supervisory body.	This is not really a definition rather it is an abbreviation.
	Anti-selection: The progressive tendency of a portfolio of insurance contracts to attract or retain insured risks with a higher risk profile.	No comment.
	Approved Person: An individual approved by a regulator to hold a controlled function within an insurance or reinsurance undertaking .	No comment.
	Assumptions: Values of parameters assumed for use in models.	No comment.
	Component report: A document given to an intended user in permanent form containing material information which relates to work within the scope of this standard. A component report may be given to the user in hard copy or electronically. Formal written reports , draft reports , emails and presentations are examples of component reports . Possible contents of component reports include tables, charts and other diagrammatic presentations as well as or instead of text. A component report may form part of one or more aggregate reports .	This is similar to the definition in the FRC's TASs. The word <i>user</i> in the second sentence should be preceded by the word <i>intended</i> .
	Conflict of Interest: Occurs when an individual or organisation is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other or result in work which is not, or is not perceived to be objective and impartial.	This is a broad definition of a conflict of interest. Given the context, we suggest that it is made specific to actuaries. The UK Actuaries' Code defines a conflict of interest (paragraph 3.2) as: <i>A conflict of interest arises if a member's duty to act in the best interest of any client conflicts with:</i> d) <i>the member's own interests; or</i> e) <i>an interest of the member's firm; or</i> f) <i>the interests of other clients.</i>
	Controlled function: a function, relating to the carrying on of a regulated activity by an approved person or a firm ³	There should be a full stop at the end of the definition.

³ In UK controlled functions are specified, under section 59 of the Act (Approval for particular arrangements), in the table of controlled functions., In Germany there is a controlled function « Verantwortlicher Aktuar nach §11 VAG »

Exhibit FRC Comments on Exposure Draft of GCASP 2

	Data: Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder data , claims data , asset and investment data , operating data (such as administrative or running costs), benefit definitions and policy terms and conditions.	No comment.
	To document: To record in documentation .	No comment.
	Documentation: Records of facts, opinions , explanations of judgements and other matters. Documentation may be paper or electronic based. It is not necessarily provided to intended users but should be available to any reviewer. Documentation is material if it concerns a material matter.	<p>We note that documentation should be available to any reviewer. This is the only mention in the standard of a reviewer of actuarial work. There is no regulatory requirement for the work of the actuarial function to be reviewed although professional codes of conduct may require consideration of the need for actuarial work to be peer reviewed.</p> <p>We note the definition of Documentation includes opinions in the meaning defined by the GCASP. We question whether this is right and it should include opinions in the generally accepted definition of the word rather than the particular definition in GCASPs.</p>
	EIOPA: The European Insurance and Occupational Pensions Authority is a European Union financial regulatory institution that replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).	We question whether there is a need for a definition of EIOPA. If there is we do not consider that this is the appropriate definition. EIOPA is rather more than a replacement for CEIOPS.
	EU-Commission: The executive body of the European Union.	We question whether there is a need for a definition of the EU-Commission.
	GCASP: Groupe Consultatif Actuarial Standard of Practice.	This is not really a definition rather it is an abbreviation.
	GCASP1: Groupe Consultatif Actuarial Standard of Practice 1: Quality of Actuarial Work under the Solvency II Directive.	This is not really a definition rather it is an abbreviation.
	IAA: The International Actuarial Association is the worldwide association of professional actuarial associations.	<p>We suggest using the same definition as used in ISAP 1.</p> <p><i>The International Actuarial Association.</i></p>
	Insurance business: The business of effecting or carrying out contracts of insurance.	No comment.
	Insurance undertaking: A direct life or non-life insurance undertaking which has received authorisation to carry out insurance business in accordance with Article 14 of the Solvency II Directive .	No comment.
	Intended user: Any legal or natural person (usually including the	This combines the definition in ISAP 1 and in the FRC's TASs.

Exhibit FRC Comments on Exposure Draft of GCASP 2

	<p>principal) whom the actuary intends to use the work product at the time the actuary provides professional services. Here intended users are those people whose decisions a report is intended (at the time of writing) to assist. Examples of possible users are those to whom the report is addressed, regulators and third parties for whose benefit a report is written.</p>	<p>ISAP 1 <i>Any legal or natural person (usually including the principal) whom the actuary intends to at the time the actuary performs the actuarial services to use the report.</i></p> <p>TASs <i>Those people whose decisions a report is intended (at the time of writing) to assist. Those to whom the report is addressed, regulators and third parties for whose benefit a report is written are examples of possible users.</i></p> <p>However, we consider the second sentence is inconsistent with the first sentence. The second sentence refers to intended users as people making decisions, the first defines intended users as persons using a work product; the second sentence focuses on the report, while the first focuses on the work product.</p> <p>We suggest that the Groupe use either one or the other definition but not both.</p>
	<p>ISAP : International Standard of Actuarial Practice issued by the IAA.</p>	<p>No comment.</p>
	<p>Material: Matters are material if they could, individually or collectively, influence the decisions to be taken by intended users on the basis of the relevant information given. Assessing whether something is material is a matter of reasonable judgement which recommends consideration of the intended users and the context in which the work is performed and reported (similarly materiality).</p>	<p>No comment.</p>
	<p>Measure: The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different measures of the same asset or liability may produce different results.</p>	<p>No comment.</p>
	<p>Method: The mechanism that is used to quantify an (uncertain) asset or liability amount, when a measure has been specified.</p>	<p>No comment.</p>
	<p>Model: A simplified representation of some aspect of the world. A model is defined by a specification that describes the matters that should be represented and the inputs and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using an implementation to produce a set of outputs from inputs in the form of data and assumptions.</p>	<p>No comment.</p>
	<p>Omnibus II Directive: Directive 2012/???/EC</p>	<p>No comment.</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

	<p>Opinion: A statement summarising the key findings of the actuary's work.</p>	<p>This is not the generally recognised definition of an opinion which allows for the statement to rely on some element of professional judgement.</p> <p>For example an audit opinion will set out the scope of the audit, the auditor's opinion of the procedures and records used to produce the financial statements, and the auditor's opinion of whether or not the financial statements present an accurate picture of the company's financial condition. The purpose of this opinion is to give confidence to the users of the financial statements that the financial statements are reliable.</p> <p>We note that the IAA has included a definition in the exposure draft of <i>ISAP nn Valuation of Social Security Programs</i>.</p> <p><i>An opinion expressed by an actuary and intended by that actuary to be relied on by the intended users.</i></p> <p>We suggest that the definition is narrowed to Actuarial Opinion and a similar definition to that developed by the IAA is used.</p>
	<p>Own risks and solvency assessment: a regular practice by an insurance undertaking of assessing overall solvency needs in the light of their specific risk profile, required under Article 45 of the Solvency II Directive.</p>	<p>Article 45 of the Directive refers to an Own Risk and Solvency Assessment with Risk in the singular form.</p>
	<p>Policy: A statement of principles or rules setting out how an undertaking intends to act in specific circumstances. It is normally approved and adopted by the AMSB of the undertaking.</p>	<p>We agree that the Directive requires insurance undertakings to have a number of policies in place to define how the insurance undertaking manages itself. However to avoid confusion with insurance policy we suggest this term is defined as:</p> <p>Management Policy.</p>
	<p>Principal: The party who has the right to provide direction to the provider of professional services. The principal will usually be the client or the employer of the actuary.</p>	<p>There is an inconsistency between the first sentence which refers to <i>the provider of professional[actuarial] services</i> and the second sentence which refers to <i>the actuary</i>.</p> <p>We suggest that the second sentence is deleted as it does not add anything material to the definition.</p>
	<p>Professional services: Services provided to a principal, which may include the rendering of advice, recommendations, findings or opinions based upon actuarial considerations.</p>	<p>The definition of professional services is very broad as they only <i>may</i> be based on actuarial considerations. In the context of actuarial standards, we suggest that if it is felt necessary the definition should be of actuarial services rather than professional services. We note the IAA has followed this route.</p> <p>However, we question whether the GCASP needs to define professional services. The FRC spent a considerable time trying to define actuarial work without being able to</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		come up with a complete definition. The FRC has developed some guidance to assist users and practitioners in making judgements about whether or not work might be regarded as actuarial work or not. It decided that what constitutes actuarial work depends on matters such as whether users would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. The FRC also recognises that some work performed by actuaries might not be actuarial work.
	Proportionate: At an appropriate level of detail and complexity for the nature and the risk profile of the insurance undertaking and the <i>materiality</i> of the matter in question (similarly proportionality).	We do not see the need for a specific definition of proportionate. What is proportionate is a matter for judgement and might depend on the expertise of users in the matters being reported on and their needs.
	Regulations: Level 2 legislative instruments issued by the EU-Commission under powers contained within the Solvency II Directive . The requirement for an AFR is contained in [Article 262 SG10.8] of Commission Regulation (EU) [../..].	As this is a generic definition that will apply across all GCASPs we see no need for the second sentence referring to the requirement for an AFR.
	Reinsurance arrangement: Reinsurance contracts and any Special Purpose Vehicle (“SPV”) and other risk mitigating contracts used as part of the overall reinsurance policy of the undertaking .	No comment.
	Reinsurance undertaking: An insurance undertaking which has received authorisation to carry out the business of reinsurance in accordance with Article 14 of the Solvency II Directive .	No comment.
	Report: An actuary’s communication presenting the results of professional services .	Given the definition of a component report we suggest that this definition is unnecessary.
	Reporting Actuary: An actuary appointed by an insurance or reinsurance undertaking to produce the actuarial function report or parts of it.	We question the need for this definition given that the actuarial function has to produce the AFR and the actuarial function does not have to be performed by an actuary.
	Solvency II Directive: Directive 2009/138/EC.	No comment.
	Solvency II principles: The provisions contained in the Solvency II Directive and the associated regulations, standards and guidelines .	These provisions are not exclusively principles as they include a large number of prescriptive rules. We suggest deleting the word <i>principles</i> .
	Specification: A description of a model that describes the matters to be represented, the inputs and their interactions with each other, and the outputs to be produced.	No comment.
	Special Purpose Vehicle (SPV): A special purpose vehicle is an	This is contradictory. The first emboldened undertaking should not be emboldened as

Exhibit FRC Comments on Exposure Draft of GCASP 2

	<p>undertaking which assumes risks from insurance and reinsurance undertakings without being an insurance or reinsurance undertaking.</p>	<p>an undertaking is defined below as an insurance ore reinsurance undertaking.</p> <p>We suggest the following definition:</p> <p><i>An undertaking which assumes risks from insurance and reinsurance undertakings without being an insurance or reinsurance undertaking.</i></p>
	<p>Standards and guidelines: Binding (Level 2 or Level 3) standards and non-binding guidelines issued by EIOPA under powers given by the Omnibus II Directive.</p>	<p>No comment.</p>
	<p>Technical Provisions: The technical provisions of an undertaking calculated under the valuation principles of the Solvency II Directive (Articles 75 to 85)</p>	<p>There should be a full stop at the end of the definition.</p>
	<p>Undertaking: An insurance or reinsurance undertaking</p>	<p>There should be a full stop at the end of the definition.</p>
	<p>Underwriting: The process of defining, evaluating and pricing (re)insurance risks, including the acceptance or rejection of the obligation to pay or indemnify the insured under a contract of (re)insurance.</p>	<p>No comment.</p>
	<p>Work product: The totality of the professional services provided by an actuary to intended users including any opinion or report, as well as any supporting calculations and documentation.</p>	<p>This definition is very broadly drawn. As it is only used in the definition of intended user we suggest that consideration is given to amending that definition to eliminate the need for this definition.</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

Section 3. Appropriate Practices

	Text	Comment
3.1	General principles	
3.1.1	The Actuarial Function (AF) must produce a written report (the Actuarial Function Report (AFR)) to be submitted to the administrative, management or supervisory body (AMSB), at least annually.	<p>This is a restatement of the regulatory requirement in article 262 SG10.8 but using slightly different words.</p> <p>We consider it is unnecessary for an actuarial standard to repeat regulations and if it does so it should not use a different wording no matter how small the change is. We accept it might be helpful to holders of the actuarial function role if all the regulations applying to that role are brought together in one place – they are currently spread across the Directive, Level 2 and its associated regulations, standards and guidelines. This might be useful service to be provided by the Groupe. However, this should not be included in an actuarial standard.</p> <p>We therefore suggest that this paragraph is deleted from the standard.</p>
3.1.2	The AFR may consist of two or more component reports each of which contributes to the compliance of the aggregate report with this standard. This standard does not require that any single component report on its own complies fully unless it is also an aggregate report . If there is only one report relating to a piece of work within the scope of this standard, that report is an aggregate report .	<p>This is guidance and not a general principle.</p> <p>The first sentence implies that the AFR should consist of at least two documents. It should say <i>one or more</i> which allows the AFR to be a single document should the AMSB require it.</p> <p>Given the wide scope of the AFR that is prescribed by the Solvency II regulations we agree that it is likely that it may consist of a number of distinct component reports addressing particular requirements. For example the two opinions on underwriting and reinsurance might be reported and considered separately from reporting on technical provisions. We agree that the standard should not mandate the preparation of an AFR as a single document. However, we consider that the structure should be a matter for the AMSB to decide.</p> <p>We consider that the relevant general principle applying to work within the scope of actuarial standards is:</p> <p><i>All aggregate reports relating to work within the scope of this standard shall comply with this standard. (TAS R C.2.1)</i></p> <p>Given this is a specific standard, the only relevant aggregate report is the AFR and the scope is work concerning the AFR this principle collapses to</p> <p><i>The AFR must comply with this standard.</i></p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		We question the need for such a principle.
3.1.3	The AFR should contain an Executive Summary which summarises the most important elements of the report and its conclusions.	<p>We agree that good report writing practice would usually indicate an Executive Summary is being appropriate. However, we consider that this is a matter for the AMSB to decide and not for actuarial standards to dictate. We suggest that this paragraph is deleted.</p> <p>The general principles we consider appropriate for actuarial reports are:</p> <p><i>The style, structure and content of reports shall be suited to the skills, understanding and levels of relevant technical knowledge of their [intended] users.</i> (TAS R C.6.1)</p> <p>and:</p> <p><i>A report shall not include information that is not material if it obscures material information.</i> (TAS R C.6.6)</p>
3.1.4	The AFR must express a conclusion from the AF on the adequacy and reliability of the Technical Provisions as per section 3.2 of this standard. Where the AFR concludes that the Technical Provisions are either inadequate or unreliable, a summary of the key concerns and recommendations should be included in the conclusion.	<p>We consider this goes further than the requirements of regulation which only require that the AFR includes a reasoned analysis on the reliability and adequacy of the calculation of technical provisions. If the actuarial function has concerns about the adequacy of technical provisions these need to be clearly stated and explained. (article 262 SG10.5)</p> <p>We consider that the regulatory requirements are sufficient. We consider that the amount of technical provisions is the responsibility of the AMSB. The role of the actuarial function is to provide them with information that enables them to make good decisions over the amount of those provisions.</p> <p>We suggest that this general principle is unnecessary and should be deleted.</p>
3.1.5	The AFR must express a conclusion on the underwriting policy as per section 3.3 of this standard and whether it reflects and is consistent with the risk appetite of the company. Where any shortcomings are identified, a summary of the key concerns and recommendations should be included in the conclusion.	<p>An opinion on the overall underwriting policy is a regulatory requirement (Article 48(g) and Article 262 SG10.6).</p> <p>The AFR is also required to clearly identify and deficiencies and give recommendations how such deficiencies should be remedied. (Article 262 SG10.8)</p> <p>We consider that the regulatory requirements are sufficient and do not need to be repeated in an actuarial standard.</p>
3.1.6	The AFR must express a conclusion on the reinsurance policy as per section 3.4 of this standard and whether it reflects and is consistent with the risk appetite of the company. Where any shortcomings are identified, a summary of the key areas of concerns and recommendations should be included in the conclusion.	<p>An opinion on the adequacy of reinsurance arrangements is a regulatory requirement (Article 48(g) and Article 262 SG10.6).</p> <p>The AFR is also required to clearly identify and deficiencies and give recommendations how such deficiencies should be remedied. (Article 262 SG10.8)</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		We consider that the regulatory requirements are sufficient and do not need to be repeated in an actuarial standard.
3.1.7	In formulating professional conclusions, the AF should be objective and free from influence of other functions or of the AMSB and should provide its opinion in an independent fashion.	<p>We agree that the AF must be objective in carrying out his or her duties. We also agree that the AF should take reasonable steps to satisfy himself or herself that he or she is free from bias, or from any conflict of interest from which bias may reasonably be inferred.</p> <p>These requirements on the AF already exist in UK regulation (FSA Handbook SUP 4.5.1 and 4.5.3)</p> <p>We consider that professional conduct standards should ensure this objectivity and freedom from bias.</p>
3.1.8	The AFR must document a summary of all major tasks that have been undertaken by the AF and their results.	<p>Regulation already requires the AFR to document all tasks that have been undertaken by the AF and their results. (Article 262 SG10.8)</p> <p>We see no need to repeat this regulation in this GCASP.</p>
3.1.9	The AFR must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.	<p>Regulation already requires this. (Article 262 SG10.8)</p> <p>We see no need to repeat this regulation in this GCASP.</p>
3.1.10	The level of detail of the AFR should be dependent on nature, scale and complexity of the underlying risks of the undertaking . (Principle of Proportionality)	<p>This is an overarching principle of EU legislation in general and Solvency II in particular.</p> <p>We suggest that such a principle is also relevant to actuarial standards in general. This is best achieved by including appropriate wording in Section 1. ISAP 1 paragraph 1.5.2 contains a generic principle of proportionality.</p>
3.1.11	The AFR should include sufficient information and discussion about each area covered so as to enable the AMSB to judge its implications.	<p>We agree that the AFR should contain sufficient information to enable the AMSB, as the intended users, to be confident in making their decisions concerning:</p> <ol style="list-style-type: none"> the amount of technical provisions; the underwriting policy; and reinsurance arrangements. <p>TAS R C.3.1 is a generic principle requiring reports to include sufficient information:</p> <p><i>An aggregate report shall include sufficient information to enable its [intended] users to judge its relevance to the decisions for which they use it.</i></p> <p>TAS R C.5.1 is a generic principle concerning the completeness of information:</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p><i>An aggregate report shall include all material matters relating to the work being reported on.</i></p> <p>In the specific context of this GCASP we suggest that:</p> <p>a) <i>sufficient information</i> encompasses <i>discussion</i>; and b) there should be greater specificity about areas covered.</p> <p>We do not consider that the AMSB need to make judgements about the implications of the AFR rather they need to make decisions concerning the adequacy of technical provisions, the underwriting policy, and reinsurance arrangements.</p> <p>We therefore suggest the following wording:</p> <p><i>The AFR should include sufficient information and discussion about each area covered so as to enable the AMSB to judge its implications <u>relevance to their decisions concerning the amount of technical provisions, the undertaking's underwriting policy and the undertaking's reinsurance arrangements.</u></i></p>
3.1.12	The AFR must identify the individuals responsible for writing the report and, if applicable, the person taking overall responsibility for the production of the AFR .	<p>This is a requirement of the IAA's code of professional conduct.</p> <p>We note that ISAP 1 also includes this requirement. This clause is, therefore, unnecessary.</p>
3.1.13	The AFR should provide information to demonstrate that each of the writers of the AFR , and, if applicable, the person taking overall responsibility for the AFR , has the relevant knowledge and experience to fulfil the role.	<p>We also consider this requirement is unnecessary. It is a responsibility of the AMSB to ensure that the actuarial function is able to comply with the requirements of article 48.2 of the Solvency II Directive.</p> <p>It is a requirement of the IAA's code of conduct that an actuary should only act if he or she is competent to do so. ISAP 1 paragraph 3.1.2.a also imposes a competency requirement.</p>
3.1.14	The AFR should include a description of the main responsibilities and tasks of the AF , including any which are not required by the Solvency II principles .	<p>We do not consider this requirement is necessary. Solvency II regulations define the responsibilities of the AFR.</p> <p>While the AMSB might also ask the actuarial function to take on additional responsibilities, for example risk function responsibilities, these are not relevant to the AFR and should be reported separately.</p>
3.1.15	The AFR should also provide details of any approved person relationship the Reporting Actuary may have with regulators.	We do not consider this is relevant to the AFR.
3.1.16	The AF should consider the preference of the undertaking's AMSB on depth of reporting and on the potential inclusion of additional topics in the AFR .	We do not consider this principle is relevant to the work concerning the AFR.

Exhibit FRC Comments on Exposure Draft of GCASP 2

	<p>This standard does not prevent items or tasks appearing in the AFR which are not specifically referred to in this standard.</p>	<p>The depth of reporting will depend on the requirement that the AFR report contains sufficient information to enable the AMSB to fulfil their obligations under Solvency II particularly concerning technical provisions.</p> <p>As we commented above, we consider it important that the AFR should be suited to the skills, understanding and levels of relevant technical knowledge of the AMSB. We would expect these to be at a high level when measured collectively given the AMSB's responsibility for the proper management of an insurance undertaking.</p>
3.1.17	<p>The AFR must set out information identifying relevant conflicts of interest and describing how they have been managed.</p>	<p>There is an obligation under the IAA's code of professional conduct for an actuary not to act if there is a conflict of interest or to make full disclosure.</p> <p>We also note that paragraph 3.1.7 requires the actuarial function to be objective and free from influence.</p> <p>We agree that any conflicts of interest that cannot be avoided should be documented and disclosed.</p>
3.1.18	<p>The AFR should set out the data used to reach the opinions expressed and should draw attention to any material areas of uncertainty and their sources, and also any material judgements made in the assessments by the AF.</p>	<p>We agree that the AFR should describe the data used in the work.</p> <p>The FRC recognises that judgements will be made when performing actuarial work but does not generally require these judgements to be documented. However, we agree that, in the context of the work of the Actuarial Function for Solvency II, the AMSB should be aware of material judgements made in order to be in a position to challenge these judgements and gain a better understanding of any risks or uncertainties in the information contained in the AFR.</p> <p>We are unsure what the <i>material areas of uncertainty</i> apply to. There may be uncertainty over the accuracy of the data used; there may be uncertainty in the models used to calculate technical provisions. We consider that all sources of material uncertainty should be described.</p> <p>We suggest the following wording:</p> <p><i>The AFR must:</i></p> <ol style="list-style-type: none"> a) describe any data or any other information used; and b) state the source of the data or other information. (TAS R C.4.1) <p><i>If there is any material uncertainty over the accuracy of the data, the AFR must</i></p> <ol style="list-style-type: none"> a) describe the uncertainty; and b) explain any approach taken to the uncertainty in the calculations or in the results. (TAS R.C.4.3)

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p><i>The AFR must describe the nature and extent of any other material uncertainty in the information it contains.</i></p> <p><i>The AFR must describe the material judgements made in assessing the reliability and accuracy of the calculation of technical provisions and providing the opinions on the overall underwriting policy and the adequacy of reinsurance arrangements.</i></p>
3.1.19	The AF should disclose any material reliance on other work and how the AF gained assurance on the reliability of the other work.	If this is the case, we agree that this information should be disclosed.
3.1.20	After submission of an AFR the AF should seek feedback from the AMSB on the contents of the report .	<p>We consider that the AF should confirm that the AMSB understands the information in the AFR. Seeking feedback is one way of obtaining that confirmation.</p> <p>We suggest that the outcome is included in the principle. For example:</p> <p><i>The AF should confirm that that AMSB understands the information in the AFR. Seeking feedback on the contents of the AFR is one way of obtaining that confirmation.</i></p>
3.1.21	Details of whether recommendations in the AFR have been accepted, and, if so, on progress towards implementation, should be summarised in the next AFR .	<p>Draft level 3 guidelines indicate that there is likely to be a requirement that there should be adequate follow-up procedures in order to keep track of remedial actions taken in areas where shortcomings were observed and reported.</p> <p>While providing a summary in the next AFR might be one way of doing this contained we do not consider that this GCASP should mandate how undertakings meet this requirement.</p>
3.1.22	The AFR may explicitly state that it is in compliance with this standard.	We believe that a compliance statement should be mandatory.

Exhibit FRC Comments on Exposure Draft of GCASP 2

	Text	Comment
3.2	Technical Provisions	
3.2.1	Conclusion on adequacy of Technical Provisions	
3.2.1.1	The AFR must express an opinion from the AF on the adequacy and reliability of the Technical Provisions .	This repeats 3.1.4 using replacing <i>express a conclusion</i> with <i>express an opinion</i> . The same comments apply.
3.2.1.2	The opinion should include the results of an assessment whether the Technical Provisions have been calculated in accordance with Articles 76 to 85 of the Solvency II Directive and advise if any changes are necessary in order to achieve compliance.	Regulations require that the AF ensure that the calculation of technical provisions is consistent with these requirements. (Article 262 SG10.1 (a)). Regulations require that the AFR documents the work done to ensure this and the result. (Article 262.SGF10.8). We see no need to repeat the regulation in this GCASP.
3.2.1.3	The AFR must clearly state and explain any concerns the AF may have as to the sufficiency of the Technical Provisions , in particular the degree of uncertainty about the ultimate outcome and the circumstances that might lead to the outcome deviating significantly from the assumptions underlying the Technical Provisions .	The regulations require that concerns over the adequacy of technical provisions are clearly stated. (Article 262 SG10.5). The same regulation also requires the AFR to include information concerning sources and the degree of uncertainty of the estimate of technical provisions and an investigation of the sensitivity of the technical provisions to each major risk underlying the obligations which are covered in the technical provisions. We see no need to repeat the regulation in this GCASP.
3.2.2	Important information about Technical Provisions	
3.2.2.1	The AFR should disclose how the AF has assessed the sufficiency of Technical Provisions .	The regulations require the AF to apply methodologies and procedures to assess the sufficiency of technical provisions. (Article 262 SG10.1(a)) Regulations require that the AFR documents the work done in making this assessment this and the result. (Article 262.SGF10.8). We see no need to repeat the regulation in this GCASP.
3.2.2.2	The AF must ensure that all factors, including risk drivers and assumptions made, which have material impact on the amount of Technical Provisions , are made clear in the AFR .	We agree but we consider these requirements are generic across all actuarial work within the scope of actuarial standards. The FRC's TASs therefore contain the following generic requirements for all actuarial work within their scope: <i>An aggregate report shall state the material assumptions on which any calculations or judgements are based. (TAS R C.4.4(a))</i> and:

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p><i>For each material risk or uncertainty faced by the entity in relation to the work being reported on, an aggregate report shall state the nature and significance of the risk...(TAS R.C.5.5)</i></p> <p>In the absence of the Groupe not having developed generic standards, we suggest the following wording:</p> <p><i>The AFR must state the factors, including risk drivers and assumptions, which have a material impact on the amount of Technical Provisions.</i></p>
3.2.2.3	In particular the AFR must draw attention to any material judgements made in the calculation of Technical Provisions .	This repeats the general principle 3.1.18 which requires disclosure of material judgements with which we agree. However, we see no reason to repeat the requirement.
3.2.2.4	The AFR must draw attention to any issues in relation to the Technical Provisions that require the special consideration of the AMSB .	<p>This GCASP already requires disclosure of material assumptions, areas of uncertainty and judgements made.</p> <p>Regulation requires disclosure of concerns about the adequacy of technical provisions and identification of deficiencies.</p> <p>We cannot think of any other issues in relation to technical provisions that might require special consideration by the AMSB.</p>
3.2.2.5	In particular the AFR must draw attention to any material areas of uncertainty and their sources related to the calculation of Technical Provisions .	This repeats 3.1.18 which requires disclosure of material areas of uncertainty and their sources with which we agree. However, we see no reason to repeat the requirement.
3.2.2.6	To comply with 3.1.9 of this standard the information and discussion related to Technical Provisions in the AFR must as a minimum include the considerations of the AF with regard to the issues addressed in 3.2.3 to 3.2.8.	We do not understand this cross-reference to 3.1.9 which deals with identification of deficiencies.
3.2.3	Disclosure of opening and closing Technical Provisions	
3.2.3.1	The AFR must disclose the opening and closing Technical Provisions , split, to the extent possible, between best estimate and risk margin.	<p>We agree.</p> <p>We consider this applies generically to all work that is repeated at regular intervals. We have therefore included in our generic TASs the following principle:</p> <p><i>An aggregate report shall include a comparison with an aggregate report which has previously been provided for a similar purpose (if one exists), with explanations of any differences. The comparison shall cover assumptions, results of calculations,</i></p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<i>recommendations and other material matters. The comparison of the results of calculations shall include a reconciliation of the two sets of results.</i>
3.2.3.2	The AFR must disclose a reconciliation of Technical Provisions which shows a breakdown of the change over the reporting period, including, where appropriate, the impact of new business, the impact of actual experience diverging from any assumptions made, the effect of any model changes, the effect of assumption changes and the amount of any unexplained movements. A commentary on the main items of movement should be provided.	We agree.
3.2.4	Co-ordination of process	
3.2.4.1	The AFR must include an overview of the overall process employed in respect of the calculation of the Technical Provisions . This should include a description of the key responsibilities and tasks, the review and sign-off process and how conflicts of interest have been managed.	We agree that documentation of the process employed in respect of the calculation of the Technical Provisions is useful for the AF in fulfilling its role but we do not see it as necessary for the AMSB who are relying on the AF for assurance.
3.2.4.2	The AFR must contain a clear description of any shortcomings identified in the overall process and the recommendations of the AF in respect of these.	This repeats 3.1.9 specifically for shortcomings in process employed in respect of the calculation of technical provisions. This in turn is regulatory requirement. We see no reason to repeat the requirement.
3.2.5	Sufficiency and quality of data	
3.2.5.1	The AFR must provide an overview of the review undertaken by the AF of the data used to perform the calculation of Technical Provisions . This should include an assessment of the internal processes and procedures in place in relation to the accuracy and completeness of the data used. The AFR should make clear what reliances have been made by the AF in making this assessment.	Regulation requires the AF to assess the sufficient and quality of data used in the calculation of technical provisions. (Article 48(c)). The AFR must document all tasks that have been undertaken by the AFs. (Article 262 SG10.8). We see no need to repeat this regulation in this GCASP. Paragraph 3.1.19 requires disclosure of any material reliance on the work of others. We see no reason to repeat the requirement. The assessment of internal processes and procedures deals with the work of the AF rather than the AFR and so does not really fit in this particular standard concerned with the AFR.
3.2.5.2	The AFR should include an assessment of the appropriateness of the data for the use to which it is being put, disclosing any interpretations made of the data which are considered to be material.	We agree that an assessment of the data required in order to calculate technical provisions and to give the opinions on underwriting policy and reinsurance arrangements should be carried out. This requirement is included in the FRC's TAS D C.5.1 that applies generically to all actuarial work within the scope of TASs. Regulation requires that this task and the result of the assessment are documented in

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p>the AFR.</p> <p>Material judgements, which will include judgements concerning data, are already required to be disclosed by the requirement of paragraph 3.1.18.</p>
3.2.5.3	<p>The AFR should describe any limitations in the data that have in a material way added to the uncertainty of the results or reliability of estimates. Such limitations might include its fitness for purpose, consistency over time, timeliness, information technology systems, availability of individual policy data and of historical data. The AFR should outline how these limitations have been addressed in relation to the calculation of Technical Provisions, for example if any adjustments were made to the data.</p>	<p>This repeats requirements of 3.1.18 and our comments on that section apply.</p> <p>We note that it provides in the second sentence some guidance on what limitations might arise which might be helpful.</p> <p>Other than the guidance we see no reason to repeat the requirement of 3.1.18.</p>
3.2.5.4	<p>If the AF has doubts about the material correctness and completeness of the data used, then the AFR must disclose this. It should describe any approaches used to mitigate such shortcomings and disclose the nature and amount of any adjustments made to the Technical Provisions in this regard. The AF must provide to the AMSB its recommendation on how to overcome such shortcomings.</p>	<p>This effectively repeats the previous paragraph as data limitations might include inaccuracy in the data or incomplete data.</p> <p>We see no reason to repeat the requirement.</p>
3.2.6	Methods and models	
3.2.6.1	<p>The AFR must provide a description of the methods used in the calculation of the Technical Provisions, an explanation of why such methods were chosen and how their appropriateness has been assessed with regard to the specific lines of business of the undertaking and the way in which it is being managed. The AFR should also disclose how the appropriateness of methods has been judged, not only in relation to the main benefits specified under contracts written by the undertaking, but also in relation to any ancillary benefits, including options and guarantees.</p>	<p>We agree that the AMSB should be provided with an explanation of the methods used in the calculation of the Technical Provisions. We also agree that the AMSB should be provided with a description of the rationale for the methods used.</p> <p>These requirements are included in the FRC's TAS R C.5.8(c) and C.4.6(c).</p> <p>However, while the AFR might be a convenient report in which to provide this information, we do not consider that this is the only route for providing this information to the AMSB.</p> <p>The role of the AF is to ensure the methodologies are appropriate and to ensure that an appropriate assessment is provided of options and guarantees. We consider that it is this assurance which needs to be documented in the AFR.</p> <p>These assessments are requirement of regulation (article 262 SG10.1(h) and 10.2) which we consider do not need repeating in the GCASP.</p>
3.2.6.2	<p>The AFR should indicate the nature of the cash inflows and outflows being quantified, including the unit, the time horizon of any projection and the projection steps.</p>	<p>We agree. We have a similar generic requirement in TAS R C.5.10</p> <p>In the context of Solvency II, we suggest that the standard might go further and require</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

		<p>more than just an indication of the nature of the cash inflows and outflows being quantified.</p> <p>For example:</p> <p><i>The AFR shall quantify the liability cash flows expected to arise in each of the first N years.</i></p>
3.2.6.3	The AFR should give an overview and assessment of any models and information technology systems used in the calculation of Technical Provisions , highlighting any shortcomings.	Draft Level 3 guidelines require the AF to ensure the main drivers of risk are reflected and appropriately addressed in the valuation models underlying the calculation of technical provisions.
3.2.6.4	Where the Technical Provisions depend on additional models , for example that used to calculate the capital requirements used in the cost-of-capital calculation for the risk margin, the AFR should make reference to any material differences between the models and what allowance has been made in respect of these.	No comment.
3.2.6.5	The AFR should disclose and justify any material changes in methods from those used in the previous AFR .	<p>We agree and would go further by requiring a quantification of the effect on the results.</p> <p>We consider this applies generically to all work that is repeated at regular intervals. We have therefore included in our generic TASs the following principle:</p> <p><i>An aggregate report shall include a comparison with an aggregate report which has previously been provided for a similar purpose (if one exists), with explanations of any differences. The comparison shall cover assumptions, results of calculations, recommendations and other material matters. The comparison of the results of calculations shall include a reconciliation of the two sets of results. (TAS R C.5.17)</i></p> <p>Specifically for actuarial work concerning insurance, we require:</p> <p><i>Aggregate reports shall explain any changes in the measures, methods or assumptions between two similar and related exercises and quantify the overall effect on results. (Insurance TAS D.3.1)</i></p> <p>However, regulation already requires that the AF compares and justifies material differences in the calculation of technical provisions from year to year. (Article 262 SG10.1(g)). We consider that differences include both differences in method and assumptions. We therefore see no need to repeat the regulation in this GCASP.</p>
3.2.6.6	The AFR should draw attention to any unusual or non-standard techniques which have been used.	We agree.

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.2.6.7	The AFR should give an overview of the business covered, the split of data into homogeneous risk groups and how this split has been assessed for appropriateness.	<p>We agree that an overview of the business covered is useful information in order to put the work of the AF into context. However, there may be a number of different ways that this might be presented to the AMSB other than in the AFR. We suggest that requirement for the inclusion of an overview is deleted.</p> <p>Regulation requires the AF ensures homogeneous risk groups are identified (article 262 SG10.1.(e). This work and the results must be documented in the AFR (article 262 SG10.8). We see no need to repeat this regulation in this GCASP.</p>
3.2.6.8	The AFR should also disclose any judgements made in relation to the definition of contract boundaries which have a material impact on the amount of Technical Provisions .	<p>This repeats the general requirement to disclose material judgements in paragraph 3.1.18.</p> <p>We see no reason to repeat the requirement in this specific instance although it might be useful guidance (included perhaps in an appendix) that judgements concerning contract boundaries might have a material impact on Technical Provisions and this should be disclosed in the AMSB.</p>
3.2.6.9	The AFR must disclose, where relevant, the methods used to calculate Technical Provisions in respect of contracts where the insufficiency of the data has prevented the application of a standard actuarial method, specifically those cases referred to in Article 82 of the Solvency II Directive . The AFR should comment on the approach used for such contracts, any limitations imposed by the techniques used and the additional resulting uncertainty.	<p>Paragraph 3.2.6.1 requires disclosure of methods.</p> <p>Paragraph 3.1.18 requires disclosure of material uncertainties.</p> <p>We see no reason to repeat the requirements.</p>
3.2.7	Assumptions	
3.2.7.1	The AFR must include a description of the methods used to determine the assumptions underlying the Technical Provisions . This should include a description of the data , and their source, relied upon for this purpose.	<p>We agree that the methods used to determine material assumptions should be described.</p> <p>We consider that actuarial methods include methods to determine assumptions as well as methods to determine technical provisions.</p> <p>Similarly, we consider the data used in the calculation technical provisions includes not just policy and claims data used in valuation models but the data used to determine assumptions. Paragraph 3.1.18 deals with disclosure of data.</p> <p>The requirements in the FRC's TASs for description of methods (TAS R C.5.8) and statements on data are generic (TAS R.C.4.1) for all actuarial work in the scope of the TASs.</p> <p>In our comments on paragraph 3.1.18 we suggested more generic wording.</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.2.7.2	<p>The AFR must disclose any significant judgements made in the determination of assumptions, including any approximations used. Where appropriate, a sensitivity analysis should be included. The AFR should also indicate those assumptions which are outside the control of the undertaking, for example where dictated by external considerations.</p>	<p>Paragraph 3.1.18 also deals with disclosure of material judgements which should include significant judgements made in the determination of assumptions. The paragraph also deals with disclosure of material uncertainty which might be disclosed by consideration of sensitivity tests.</p> <p>We see no reason to repeat the general requirement.</p> <p>We do not understand why it is necessary to distinguish between assumptions that are inside and outside the undertaking's control. We suggest deleting this requirement.</p>
3.2.7.3	<p>The AFR must disclose the key assumptions underlying the calculation of the Technical Provisions and explain their appropriateness in relation to the main drivers of risk likely to affect the (re)insurance obligations of the company. The AFR should highlight those assumptions considered to exhibit a high degree of uncertainty. The sensitivity of the Technical Provisions to the main drivers should also be shown.</p>	<p>We agree that material assumptions must be disclosed and that a rationale for those assumptions must be provided. However, paragraph 3.1.18 already deals with areas of material uncertainty which we consider also include uncertainty concerning assumptions. We see no reason to repeat the requirement.</p> <p>Regulation requires an investigation of the sensitivity of the technical Provisions to the main drivers of risk. (article 262 SG10.5). We see no need to repeat this regulation in this GCASP.</p>
3.2.7.4	<p>The AFR should disclose any material changes made to the assumptions used compared to the previous AFR and any material change to the sensitivity of individual assumptions.</p>	<p>We agree. As referred to in the comments on paragraphs 3.2.3.1 and 3.2.6.5 we consider this applies generically to all work that is repeated at regular intervals. However, we consider this is covered by the Solvency II regulations (see comments on paragraph 3.2.6.5).</p> <p>We therefore see no need to repeat this regulation (Article 262 SG10.1(g)) in this GCASP.</p>
3.2.7.5	<p>The AFR should mention any particular issues in relation to the assumptions which the AF considers should be brought to the attention of the AMSB. These may include, but are not restricted to, the following:</p> <ul style="list-style-type: none"> • The appropriateness of any allowance made in respect of contractual options and guarantees and policyholder behaviour. • How reasonable and verifiable the assumptions are in relation to future management actions. • The assumptions made in respect of amounts recoverable from counterparties, for example in respect of outward reinsurance, and the likelihood of such recoveries. • The interpretation taken by the AF in the calculation of Technical Provisions in respect of any areas of discretion exercised by the company which might impact on its future (re)insurance obligations to 	<p>Essentially this identifies areas where there might be material areas of uncertainty concerning assumptions which is also dealt with in paragraph 3.2.7.2</p> <p>We agree this is useful guidance which might be included in an Appendix or other educational material but we do not consider it is necessary to repeat the requirement in the standard.</p>

Exhibit FRC Comments on Exposure Draft of GCASP 2

	<p>customers.</p> <ul style="list-style-type: none"> The interpretation taken by the AF where uncertainty exists in relation to any obligations which might exist over and above contractual obligations. 	
3.2.8	Comparing best estimates against experience	<p>We consider that the Solvency II regulations are sufficiently explicit on the requirements to compare best estimates against experience that no further actuarial standards are needed.</p> <p>The requirements in paragraphs 3.2.8.1 repeat these regulatory requirements.</p>
3.2.8.1	The AFR must disclose and comment on the processes and procedures in place that enable best estimates, and the assumptions underlying those estimates, to be regularly compared against actual experience.	
3.2.8.2	The AFR should draw attention to those areas where actual experience has deviated from the assumptions made in a material way, and provide an explanation of these deviations. In doing so, the AFR should distinguish between deviations which are judged to arise from volatility of the underlying experience and those which are viewed as impacting on the appropriateness of the data, methods or assumptions used.	
3.2.8.3	The AFR must disclose the AF's conclusions from the process of comparing best estimates against actual experience, specifically in relation to the quality of previous estimates and any changes recommended in relation to the data, methods or assumptions used in the calculation of Technical Provisions .	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.3 Opinion on adequacy of reinsurance arrangements

3.3.1	Conclusion on the adequacy of reinsurance arrangements	<p>We consider that the requirements in section 3.3 are disproportionate.</p> <p>We consider that the Solvency II regulations provide sufficient requirements.</p>
3.3.1.1	The AFR must express an opinion from the AF on the adequacy of the reinsurance arrangements .	This is a regulatory requirement (Article 48(h)). We see no need to repeat this regulation in this GCASP.
3.3.1.2	The AFR should explain any concerns the AF may have concerning the adequacy of the reinsurance arrangements .	<p>We agree that the AFR should inform the AMSB concerning the material risks to the adequacy of technical provisions and capital adequacy that reinsurance can mitigate and the adequacy of the reinsurance arrangements to actually mitigate those risks.</p> <p>The requirement and many of the subsequent requirements are very broadly drawn. We suggest that the explanations are restricted to material concerns and similarly subsequent requirements should also be restricted to material matters.</p>
3.3.1.3	The AFR should outline recommendations of the AF to improve the reinsurance arrangements where there is inconsistency and a risk of non-performance.	<p>Similarly we suggest that recommendations should be limited to those that materially improve the reinsurance arrangements.</p> <p>We do not see the need to limit recommendations on material improvements to the reinsurance arrangements.</p>
3.3.2	Important information about reinsurance arrangements	
3.3.2.1	The AFR should set out how the AF has arrived at its opinion.	We agree. The AFR should provide a rationale for the opinion provided.
3.3.2.2	The AFR should include an overview of any areas where additional work was required during the financial period, for example in assessing reinsurance adequacy on Technical Provisions where commutation has taken place. For example, the impact of reinsurance arrangements in the event of significant claims or events and their interaction with the remaining reinsurance cover.	<p>We disagree. We consider that the opinion should be forward looking.</p> <p>We accept that information on how the reinsurance policy has performed in past periods might be data which can be used as part of the rationale for the opinion.</p>
3.3.2.3	The AFR should include a commentary on the impact of any disputes with reinsurance undertakings.	<p>We disagree.</p> <p>We accept that information on material disputes over reinsurance might be data which can be used as part of the rationale for the opinion.</p>
3.3.3	Overview of reinsurance arrangements	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.3.3.1	The AFR should include an overview of (material) reinsurance contracts and any Special Purpose Vehicle (SPV) used as part of the overall reinsurance strategy of the undertaking .	We agree. This is useful data on which the opinion will be based.
3.3.3.2	The AFR should disclose the impact of reinsurance arrangements on the undertaking's balance sheet at the opening and closing reporting date. The AFR should disclose a breakdown of the change over the reporting period including the impact of new reinsurance arrangements . A commentary on the main items of movement should be provided.	We agree but paragraph 3.2.3 already requires disclosure of opening and closing technical provisions and a reconciliation of the change over the period including a commentary. We see no need to repeat the requirement but suggest 3.2.3 is expanded to require the disclosures to be both gross and net of reinsurance.
3.3.4	Overview of the overall process employed in respect to reinsurance arrangements	We consider this is the responsibility of the Internal Audit function and not the AF. We suggest this section is deleted.
3.3.4.1	The AFR should include an overview of the overall processes employed in respect of reinsurance arrangements .	
3.3.4.2	This should include a description of the key responsibilities and tasks, the review and sign-off process and how conflicts of interest have been managed.	
3.3.4.3	This may include a description of relevant additional services provided by reinsurance undertakings , for example assistance with business plans, product development, underwriting guidelines, claims management and policy administration.	
3.3.4.4	The AFR should explain any concerns the AF may have as to the appropriateness of these processes.	
3.3.5	Areas of adequacy of reinsurance arrangements	This section says nothing and should be deleted.
3.3.5.1	Consideration of the adequacy of reinsurance arrangements should include the issues addressed in 3.3.6. to 3.3.9.	
3.3.6	Compliance with Solvency II principles	We consider this is the responsibility of the Compliance Function and should be deleted.
3.3.6.1	Where relevant, the AFR should disclose the extent to which the requirements set out in the Regulations in respect of Special Purpose Vehicles have been adhered to.	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.3.7	Consistency with other policies of the undertaking	
3.3.7.1	The AFR should outline the extent to which the reinsurance arrangements of the undertaking are consistent with other policies of the undertaking . As a minimum this should include an assessment of consistency with the risk appetite, the underwriting policy and the processes related to Technical Provisions of the undertaking as per 3.3.7.2 to 3.3.7.4	Draft Level 3 guidelines require the AF to consider the interrelationships between the reinsurance arrangements, underwriting policy and technical provisions. We see no need to repeat this regulation in this GCASP.
3.3.7.2	The AFR should make references to the reinsurance arrangements as outlined in the risk management policy of the undertaking referred to in Article 44(2) of the Solvency II Directive , including an assessment of the consistency of the undertaking's reinsurance arrangements with its risk appetite.	This paragraph repeats the requirements of 3.3.7.1. We suggest the paragraph is deleted.
3.3.7.3	The AFR should make references to the overall underwriting policy of the undertaking including an assessment of the consistency of the undertaking's reinsurance arrangements with the overall underwriting policy .	This paragraph repeats the requirements of 3.3.7.1. We suggest the paragraph is deleted.
3.3.7.4	The AFR should make references to the treatment and effect of reinsurance on the estimation of Technical Provisions .	This paragraph repeats the requirements of 3.3.7.1. We suggest the paragraph is deleted.
3.3.8	Effectiveness of reinsurance arrangements	
3.3.8.1	The AFR should outline the extent to which the reinsurance arrangements support the ability of the undertaking to remain solvent in stressed scenarios.	Regulations require the opinion shall include an analysis of the expected cover under stressed scenarios. (Article 262 SG10.7(b)). Draft Level 3 guidelines also require an assessment of how the reinsurance coverage could respond under a number of stress scenarios. We see no need to repeat these regulations in this GCASP.
3.3.8.2	The AFR may include an outline of a scenario under which the cover of the reinsurance arrangements is exhausted, including an assessment of the likelihood that reinsurance cover will be exhausted and under which circumstances such a scenario might arise.	This requirement is also include in draft level 3 guidelines. We see no need to repeat the regulation in this GCASP.
3.3.8.3	The AFR may include a calculation of the amounts recoverable from reinsurance contracts and SPVs in stressed scenarios and an assessment of the impacts on the undertaking's solvency.	This and the following paragraph are an extension of the requirement described in paragraph 3.3.8.1. We consider the ability of reinsurance to respond is inherent in the consideration of stress scenarios. We see no need for these requirements
3.3.8.4	The AFR should include an assessment of the ability of reinsurers and SPVs to be able to meet their commitments in a stressed environment.	See comment on paragraph 3.3.8.3
3.3.9	Impact of reinsurance arrangements on the undertaking's financial	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.3.9.1	strength. The AFR should include an assessment of the effect of reinsurance arrangements on the volatility of the undertaking's financial strength.	This goes further than the Draft level 3 guidelines which suggest that the opinion <i>may</i> include such an assessment. We see no need to either extend or repeat this regulation in the GCASP.
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Exhibit FRC Comments on Exposure Draft of GCASP 2

3.4 Opinion on underwriting policy

	Text	Comment
3.4.1	Conclusion on the adequacy of the overall underwriting policy	
3.4.1.1	The AF must prepare an opinion on the overall underwriting policy of the undertaking.	This is a restatement of regulation. We see no need to repeat the regulation in this GCASP.
3.4.1.2	The AFR must include the results of the AF 's assessment as to whether the underwriting policy itself is suitable, and has been followed in writing business over the period, and must provide an overall conclusion in respect of the suitability of the underwriting policy .	We do not consider that it is the AF 's role to opine on the suitability of the underwriting policy. We consider that this is the responsibility of the AMSB . Neither do we consider it is the AF 's responsibility to confirm that the underwriting policy has been followed in the period. We consider this is the responsibility of the Internal Audit function. We suggest this paragraph is deleted.
3.4.1.3	An undertaking's underwriting policy is interpreted to include the actual operation of the underwriting policy and the processes and procedures which give effect to this.	We do not agree with this interpretation. We do not consider the AF is likely to be competent to judge the operation of the underwriting policy and the processes and procedures which give effect to it. We suggest this paragraph is deleted.
3.4.1.4	The AFR should explain any concerns that the AF may have as to the suitability of the overall underwriting policy .	The AFR should provide the AMSB with information to enable the AMSB to make decisions concerning the underwriting policy. We agree that the AFR should state any material concerns and provide a rationale for those concerns. However, we consider that this is implicit in the regulations which require shortcomings to be clearly identified and recommendations for improvement to be provided.
3.4.1.5	The AFR should, where appropriate, outline recommendations to improve the overall underwriting policy .	We agree.
3.4.2	Important information about the overall underwriting policy	
3.4.2.1	The AFR should set out the basis for the AF 's opinion.	We agree that the reasoning behind any opinion should be provided in the AFR .
3.4.3	Overview of overall underwriting policy	
3.4.3.1	The AFR may include an overview of the overall underwriting policy to support the discussion of the AF 's conclusions.	This is guidance and is unnecessary. By definition, the underwriting policy already exists as a formal written document.
3.4.4	Overview of the overall process in respect to underwriting	This section is only guidance. We suggest it is deleted.
3.4.4.1	The AF may include an overview of the overall process related to	

Exhibit FRC Comments on Exposure Draft of GCASP 2

	underwriting policy to support the discussion of the AF's conclusions.	
3.4.4.2	This may include a description of the key responsibilities and tasks, the review and sign-off process and how conflicts of interest have been managed.	
3.4.5	Areas of consideration	This section says nothing and should be deleted.
3.4.5.1	The AFR must as a minimum include conclusions regarding the issues addressed in 3.4.6. to 3.4.10.	
3.4.5.2	The AFR may include considerations in other areas where the AF believes it is necessary to support the AF's conclusions on the overall underwriting policy . Additional guidance is given in 3.4.11.	
3.4.6	Sufficiency of premiums	
3.4.6.1	The AFR must conclude whether the premiums are expected to be sufficient in the light of the operation of the underwriting policy . This assessment may be performed using the calculations supporting the Technical Provisions and may be supplemented, for example, by a comparison of pricing bases to the current experience.	This is required by regulation. (Article 262 SG10.6(a)). We see no need to repeat the regulation in this GCASP.
3.4.6.2	This assessment must take into consideration of the impact of the underlying risks (including underwriting risks) to which the business is exposed, and the impact on the sufficiency of premiums of options and guarantees included in insurance and reinsurance contracts. This assessment should be linked in to the ORSA process and the assessment of Technical Provisions .	This is required by regulation. (Article 262 SG10.6(a)). We see no need to repeat the regulation in this GCASP. We agree that the ORSA process will take account of the underwriting policy including the terms on which new business is written, we consider that this is separate from the opinion required under article 48(g). We also agree that the assessment of technical provisions needs to reflect the underwriting policies in force when the in force business was written. However, we are uncertain as to what the Groupe means by the linkage between these activities and the sufficiency of premiums.
3.4.6.3	The AFR should state the process that has been followed and indicate any material differences in the experience analysis compared to assumptions used in the wider business (for example, in the business planning and underwriting processes).	
3.4.6.4	The AFR should summarise the major risks which may affect future experience.	We agree.
3.4.6.5	The AFR must assess whether the profitability and volatility of the	

Exhibit FRC Comments on Exposure Draft of GCASP 2

	business plans are within the insurer's risk appetite and make any other relevant comments on the inter-relationship between the plan and the risk appetite.	
3.4.7	External environment	
3.4.7.1	The impact on the underwriting policy of changes in the external environment should be summarised, together with recommendations to manage any risks. Such changes could include, but are not limited to, changes in inflation, the impact of legal risks, a change in the composition of the undertaking's portfolio, the impact of epidemics and advances in medical care or technology.	
3.4.8	Adjustments to Premiums	Regulation requires that the opinion on underwriting policy should include conclusions resulting from the consideration of the effect of systems which adjust premiums upwards or downwards depending on premium history. We consider this is sufficient for this purpose and there is no need to expand on the requirement.
3.4.8.1	For products where premiums may be adjusted in response to experience, the AFR must summarise any instances where premiums have been adjusted and the reasons for these adjustments.	
3.4.8.2	Where premiums have not been adjusted in response to emerging experience (e.g. for competitive reasons), the AFR must summarise the reasons for this and provide an assessment of the impact of this decision.	
3.4.9	Anti-selection	
3.4.9.1	The AFR must assess whether the underwriting process and controls used to manage the risk of anti-selection have been effective. The AFR should include an assessment of the likelihood of any anti-selection in particular product classes and recommendations to manage this risk.	Regulation requires the opinion on underwriting policy to include conclusions regarding the possible effects of anti-selection. We do not consider this imposes a requirement to assess whether historic underwriting and controls used to manage the risk of anti-selection have been effective. We are not sure that the AF necessarily has the competency to make these judgements. However, we agree that actuarial analyses as described in 3.4.9.2 might provide evidence of the effectiveness or not of such processes.
3.4.9.2	In respect of anti-selection , the AFR may include: a summary of the experience analysis performed any trends observed in the experience analysis; and an assessment of the composition of the in-force business against the assumptions made in the pricing process.	This suggested information provides evidence of the effect of anti-selection in past periods. This might be evidence to support the effects of future anti-selection.
3.4.10	Consistency with other policies of the undertaking	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.4.10.1	The AFR should outline the extent to which the overall underwriting policy of the undertaking is consistent with other policies of the undertaking.	This is too broadly drawn. It should only apply to policies that are relevant to the work of the AF. This probably means the policies outlined in 3.4.10.2. We therefore suggest that this paragraph is deleted.
3.4.10.2	As minimum this should include an assessment of the consistency with the risk appetite, the reinsurance arrangements and Technical Provisions of the undertaking.	Draft Level 3 guidelines require that the actuarial function should consider the interrelationships between these matters. We see no need to repeat the regulation in this GCASP
3.4.11	Additional information	The requirements described in paragraphs 3.4.11.3 to 3.4.11.6 are all described in draft Level 3 guidelines. We see no reason to duplicate them in this GCASP.
3.4.11.1	The information listed in 3.4.11.3 to 3.4.11.6 may be included in the AFR where the AF believes it is necessary to support the AF's conclusions on the overall underwriting policy.	
3.4.11.2	This list is not intended to be exhaustive and the AF may include any additional information necessary to support its conclusions on the overall underwriting policy .	
3.4.11.3	The AFR may include an assessment of whether the underwriting policy is consistent with the approach to product pricing used by the undertaking .	
3.4.11.4	The AFR may include an assessment of the main risk factors influencing the profitability of business to be written during the next year, including the potential impact on future profitability of external factors (for example: economic factors, inflation, legal risk and changes in the market environment, etc.).	
3.4.11.5	The AFR may include an assessment of the likely financial impact of any material planned changes in terms and conditions of the products sold by the undertaking .	
3.4.11.6	The AFR may include an assessment of the likely variability surrounding the estimate of expected profitability of the business.	

Exhibit FRC Comments on Exposure Draft of GCASP 2

3.5 Contribution to risk management

	Text	Comment
3.5.1	The AFR should list the key areas where the AF has contributed to the implementation of the risk management system as required by Article 48 (i) of the Solvency II Directive , in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and the assessment referred to in Article 45.	Draft Level 3 guidelines require the AFR to include a description of the AF's contribution to the risk modelling underlying the calculation of capital requirements. We see no need for the GCASP to repeat this regulation.
3.5.2	The AFR should summarise the main findings of these activities and, in particular, list recommendations for future improvements.	We consider that reporting on the risk management system should normally be the responsibility of the Risk Function. For this reason, we do not consider that this should normally be included within the AFR.
3.5.3	In particular any material risks that have not been covered by the risk management system should be highlighted.	We agree that the AMSB should be provided with this information. However, we consider that this should usually be the role of a responsibility of the Risk Function.
3.5.4	Where an insurance or reinsurance undertaking has an approved internal model , the AFR should indicate any inconsistencies between the Technical Provisions , the reinsurance arrangements , the overall underwriting policy and the related assumptions and values in the internal model .	We consider that this reporting on the internal model should normally be the responsibility of the Risk Function. We do not consider that this should normally be included within the AFR.