



Financial Reporting Council

Post Implementation Review Technical Actuarial Standards

Call for Feedback

February 2021

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2021
The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

1 Introduction



- 1.1 This Call for Feedback (CFF) seeks feedback on the current Framework for Technical Actuarial Standards¹ (TASs), Technical Actuarial Standard 100² (TAS 100), and potential actuarial standards in relation to IFRS 17.

Background

- 1.2 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. Following the Morris Review of the UK Actuarial Profession (published in March 2005) the FRC took on responsibility for independent oversight of the UK Actuarial Profession and the independent setting of technical actuarial standards in April 2006.
- 1.3 The first TAS was issued by the FRC in 2009, and the TAS regime was revised by the FRC in 2016, taking effect from 1 July 2017. There are currently four TASs³.
- 1.4 Members of the Institute and Faculty of Actuaries (IFoA) are required to comply with TAS 100 for all technical actuarial work within the geographic scope of the FRC. TAS 200, 300, and 400 relate respectively to insurance, pensions and funeral plan trust business, and must be complied with if the technical actuarial work falls within the scope specified in the relevant TAS.
- 1.5 Compliance with TASs is incorporated into the IFoA's Disciplinary and Capacity for Membership Schemes⁴; the most-recent update took effect from 1 February 2018. In addition, the FRC operates an investigation and discipline scheme in relation to matters involving members of the Institute and Faculty of Actuaries which raise or appear to raise important issues affecting the public interest in the UK.
- 1.6 The Actuaries' Code and Actuarial Professional Standards, which the IFoA is responsible for, are not within the scope of this review.

Purpose

- 1.7 In the Independent Review of the FRC in 2018, Sir John Kingman raised the question of the FRC's (or its successor, Audit, Reporting and Governance Authority) role in overseeing the actuarial profession. Whilst the consideration of the recommendations and any changes that follow will be taken forward by the Government, in the meantime, we recognise that it is the FRC's duty to keep the TASs and other actuarial standards under regular review and reconsidered at least once every five years. In that context, the FRC is now carrying out a post implementation (PIR) review of the TASs.

¹<https://www.frc.org.uk/getattachment/03a1d210-621b-411a-8605-4f8a51cbeb21/Framework-for-FRC-actuarial-standards-April-2019.pdf>

²<https://www.frc.org.uk/getattachment/b8d05ac7-2953-4248-90ae-685f9bcd95bd/TAS-100-Principles-for-Technical-Actuarial-Work-Dec-2016.pdf>

³[https://www.frc.org.uk/actuaries/actuarial-policy/technical-actuarial-standards/technical-actuarial-standards-2017-\(1\)](https://www.frc.org.uk/actuaries/actuarial-policy/technical-actuarial-standards/technical-actuarial-standards-2017-(1))

⁴<https://www.actuaries.org.uk/upholding-standards/complaints-and-disciplinary-process/disciplinary-and-capacity-membership-schemes>

Changing Environment for Technical Actuarial Work

- 1.8 The nature and extent of technical actuarial work and the environment in which actuaries operate has evolved considerably since the publication of the TASs in 2016.
- i) In insurance, Solvency II has now been in effect for a number of years and IFRS 17 to be implemented in 2023.
 - ii) In pensions, the development of the Pensions Dashboard could revolutionise the way that different types of accrued and actual pension rights will be projected to retirement and new forms of securing pensions (such as Collective Defined Contribution) are now on the horizon. There is also the anticipation of new forms of consolidation for small pension funds or those that might otherwise fall into the Pension Protection Fund.
 - iii) The use of data science is becoming more prevalent in technical actuarial work, and actuaries are increasingly performing technical actuarial work in new fields such as climate change and responding to the current Covid crisis.
- 1.9 These developments are likely to provide new challenges to actuaries.
- 1.10 In taking forward this PIR, the FRC's principal concern is that the TASs and other actuarial standards used in the UK continue to support the delivery of high-quality technical actuarial work and satisfy the Reliability Objective⁵.

Developments in International Standards

- 1.11 A further objective is to consider the positioning of the TASs with respect to the International Standards of Actuarial Practice (ISAPs) as set by the International Association of Actuaries (IAA) which is the global association that brings together actuarial professions from around the world.
- 1.12 ISAPs are "model standards". This means that they have no direct application unless adopted by national actuarial standard setters. The foundational standard is ISAP 1 and the IAA wish all member associations either to adopt ISAP 1 or to state that their local standards are "substantially consistent" with ISAP 1.
- 1.13 In 2016, the FRC and the IFoA confirmed that TAS 100 together with the Actuaries' Code and APS X2 were substantially consistent with the provisions of ISAP 1.
- 1.14 The policy of the FRC has been to consider all ISAPs and:
- i) determine whether current actuarial regulation is already substantially consistent with the ISAP concerned;
 - ii) if not, the FRC will consider whether it believes that it is the right thing to enact the provisions of the ISAP for the UK;
 - iii) subject to the above the FRC will consider what would need to be introduced in the UK to create substantial consistency if this is applicable;

⁵Paragraph 3.2 <https://www.frc.org.uk/getattachment/03a1d210-621b-411a-8605-4f8a51cbeb21/Framework-for-FRC-actuarial-standards-April-2019.pdf>

-
- iv) unless there is good reason to the contrary the FRC will not strengthen or weaken ISAP provisions in adopting the ISAP;
 - v) before committing to any adoption, the FRC will consult and introduce such amendments as necessary to ensure that the ISAP provisions are suitable for UK conditions.

1.15 Examples of such international considerations since 2017 include:

- i) ISAP 4 which is designed to provide assistance to the actuary on the application of IFRS 17;
- ii) Addition of ISAP 1A (model governance) into ISAP 1; and
- iii) Glossary definition of user where the ISAP Glossary uses the UK definition but labels the term “Intended User”.

Process

1.16 The FRC intends to carry out the PIR in two phases. The first phase of the review will focus on the framework for TAS and the more generic aspects of the TASs. The second phase of the review will focus on the sector specific TASs. The exception would be the consideration of possible introduction of further standards in relation to IFRS 17, which will be within the scope of phase one. As such, the consultation and publication of the standards will also be staggered.

1.17 As part of our effort to seek comprehensive feedback on the TASs, we are publishing this CFF to invite feedback to help inform our thinking as we consider what, if anything, needs to be changed in the way that technical actuarial work is regulated. This will be followed by an outreach programme to which we will invite views from more in-depth and focused discussions.

1.18 We welcome feedback from actuaries and “users” of technical actuarial work (e.g. Directors, Board members, Pension trustees). As such, we have specified some questions as intended for actuaries and some for users of actuarial work. Please feel free to answer whichever questions are appropriate to you.

1.19 The CFF poses questions of a fundamental and overarching nature which seeks feedback on the TASs and its underlying framework. In addition, we include more detailed questions on specific topics which relate to developing areas or issues which have been brought to our attention since the TASs were last revised.

1.20 As this CFF only covers the more generic aspects of the TASs and in relation to IFRS 17, a further CFF will be published to invite feedback on the sector specific issues including TAS 200 and TAS 300.

1.21 This consultation does not include TAS 400. At the beginning of 2020 the Funeral Planning Authority (FPA) changed their rules to require an annual Asset Adequacy Report. This is within a context of transition of authorisation and supervision from the FPA to the Financial Conduct Authority (FCA). We were concerned about the extra risks during this transition period in that some Funeral Plan Trusts might not transfer to FCA supervision and the members might be disadvantaged as a result. Accordingly, we made changes to TAS 400 and (with the IFoA) initiated contact with actuaries practising in the funeral plan space

to ensure that they are aware of these extra risks. To address the perceived heightened risk, we made the changes to be effective from December 2020 rather than aligning to the timescale of the overall Post Implementation Review of the TASs. As such we do not intend to review TAS 400 until the FCA has published the regime of authorisation and supervision that they will implement.

- 1.22 Feedback should be submitted [via the online form](#) or by email to APT@frc.org.uk. Feedback should be received by **5pm on Friday, 7 May 2021**. If you represent a group of interested parties who may benefit from further direct outreach from the FRC on this TAS PIR please contact us on the same email address above.
- 1.23 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004). The FRC will process any personal data in accordance with the DPA. Information on the FRC's privacy policies are available at <http://www.frc.org.uk>.
- 1.24 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore, only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.
- 1.25 We aim to publish non-confidential responses on our website within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

- Question 1:** Please provide your name (note that anonymous responses will not be accepted).
- Question 2:** Are you responding as an individual or on behalf of an organisation? If so, please list.
- Question 3:** Please provide your email address so we can validate your response is legitimate. The responses to this survey are being collected and processed by the Financial Reporting Council (FRC) in order to inform certain aspects of the Actuarial Policy Team's work. In particular, the data collected through this survey will be used by the FRC APT for the Technical Actuarial Standards Post Implementation Review. The FRC will process any personal data provided by you in accordance with the General Data Protection Regulation and the Data Protection Act 2018. More information about how we handle the personal data of stakeholders is contained in the privacy notice on the FRC website at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>.
- Question 4:** Do you request confidentiality of your response? (note: if so, your response will NOT be published to the FRC website as described in paragraphs 1.23 to 1.25)

2 Over-arching questions



2.1 This section sets out the over-arching questions in relation to the TASs. The rest of the document then sets out the questions that relate to specific topics within each section.

- Question 5:** To what extent have the TASs been effective in supporting high quality technical actuarial work?
- Question 6:** What aspects of the TASs have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.
- Question 7:** **[for users of technical actuarial work]** Have the TASs been effective in ensuring the quality and clarity of the actuarial information you receive is reliable to any decisions that you take based on that information?
- Question 8:** Are there any aspects of the TASs that do not help to ensure the quality of actuarial information? Please explain your response with examples of where this has been an issue.
- Question 9:** Is TAS 100 of sufficient detail to enable you to have a clear understanding of what is required in order to comply with this TAS? Are there areas of guidance which are vital to your understanding to the TASs?
- Question 10:** **[for users of technical actuarial work]** Are there any areas where you would welcome further standards; in particular, new areas where an increasing number of actuaries are performing technical actuarial work?
- Question 11:** Do you foresee any issues with the TASs being reviewed and updated in a staggered approach?

3 Professional Judgement



- 3.1 Judgement must be exercised in many situations. A professional is distinguished by being bound to standards set by their profession when exercising this judgement.
- 3.2 The first principle of TAS 100 states:
“Judgement shall be exercised in a reasoned and justifiable manner; material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information.”
- 3.3 Currently, the TASs go no further than this and do not define nor constrain the above principle.
- 3.4 Recent trends have been towards providing greater clarity on what constitutes good professional judgement. The Brydon Review⁶ recommended providing more clarity on the professional judgement exercised by auditors. The Actuarial Association of Europe (AAE) has published guidance⁷ on the issues that actuaries should consider when making professional judgements.

⁶<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

⁷https://www.actuaries.org/IAA/Documents/CMTE_PC/Meetings/ConfCall_28Jan2020/Agenda/9ii_20200120-AAE_Professional-judgement-FINAL.pdf

- 3.5 The AAE guidance contains lists of items for the actuary to consider when making judgements. In this guidance the intention was not to create a tick box mentality, rather the intention was to create aide memoires for the actuary to ensure that all aspects had been properly considered when coming to the judgement.
- 3.6 Central to the concept of professional judgement is that it should be exercised for the benefit of users.

Question 12: Are there specific considerations or factors that actuaries should take into account when making professional judgements?

Question 13: Does TAS 100 currently give sufficient direction on the nature of professional judgement and what it involves?

Question 14: *[for users of technical actuarial work]* In making your decisions based on the actuarial information requested, how much reliance do you place on the professional judgement made which resulted in the actuarial information, and has there been sufficient clarity of how these judgments are arrived at?

4 Modelling



- 4.1 Modelling techniques continue to develop with a trend for models to become more complex over time. Key examples in recent years include Solvency II internal models and associated proxy modelling and price optimisation models for non-life business. Stochastic modelling and option pricing are now mainstream in many areas of actuarial work.
- 4.2 Looking forward, actuaries are likely to become more involved in areas such as climate change and pandemic modelling, and the use of data science⁸ is becoming more prevalent. Actuaries are increasingly working in multi-disciplinary teams to develop and use models.
- 4.3 All of these trends could increase the importance of model governance, including control of the model environment, model validation, and communication of results.
- 4.4 Recognising the need for higher standards on model governance, the International Actuarial Association (IAA) developed an addition to International Standard of Actuarial Practice (ISAP) 1, namely ISAP 1A Governance of Models⁹ which has subsequently been incorporated into ISAP 1. As part of the PIR, we will examine whether the FRC should adopt the relevant standards within the TASs.

⁸While there is no single definition of data science, it can be broadly thought of as scientific, computational and analytical methods used to process and extract information from data. It is synonymous with 'big data', machine learning (artificial intelligence), and data pipelines (automated systems that capture and process data). Data science brings together several fields including maths, statistics and computer science.' Source: A Guide for Ethical Data Science - A collaboration between the Royal Statistical Society (RSS) and the Institute and Faculty of Actuaries (IFoA)

⁹https://www.actuaries.org/CTTEES_ASC/isaps/Final_ISAPs_posted/ISAP_1A_Final_November2016_Web.pdf

- Question 15:** How has TAS 100 supported you in determining whether a model is fit for purpose?
- Question 16:** How have changes in modelling techniques in recent years impacted on your models used in technical actuarial work? What changes should be made to TAS 100 to reflect these developments?
- Question 17:** How has TAS 100 supported you in determining whether sufficient controls and testing is in place for the models used in technical actuarial work?
- Question 18:** How are recent or anticipated changes in modelling techniques, or other influences, changing the nature of model governance and validation? What changes should be made to TAS 100 to reflect these?
- Question 19:** *[for users of technical actuarial work]* How are recent or anticipated changes in modelling techniques affecting the communication of
a) methods and measures used in the technical actuarial work and
b) significant limitations to the models?

5 Statement and evidence of TAS compliance



- 5.1 Each TAS includes a requirement for a statement of TAS compliance, which can be summarised as follows:
“Communications for reserved work, work in the scope of a Specific TAS, and technical actuarial work which is central to a significant decision by the user, shall include a statement confirming compliance with TAS 100, and a statement confirming compliance with the Specific TAS if relevant.”
- 5.2 The specific wording of the statement of TAS compliance is not defined.
- 5.3 We have observed that a wide variety of wordings are adopted for the statement of TAS compliance, ranging from the concise to the less concise. This could lead to a perception that different levels of compliance to TASs are available and acceptable.
- 5.4 The actuarial reports and communications we have examined do not always make it clear which provisions of each TAS apply to the work in question, and which sections of the work come within the provisions of the TASs. It is often left to the reader to form their own view.

Question 20: Do you consider standardising the wording of the statement of TAS compliance would lead to better clarity on the quality of the work provided? Please provide rationale for your view.

Question 21: As an actuary completing a work review as defined in APS X2¹⁰, or as a user of technical actuarial work, is the evidence supporting the statement of TAS compliance clear and accessible, and how important is it to have this evidence available to you?

Question 22: Have there been circumstances where you have experienced issues with making a statement of compliance with TAS 100? Please can you provide examples of such.

6 IFRS 17



6.1 The International Actuarial Association (IAA) has introduced International Standard of Actuarial Practice 4 (ISAP 4) as a model standard, focused on work produced in relation to IFRS 17. The FRC is assessing the costs and benefit of adopting this for the UK.

Question 23: Should ISAP 4 be adopted by the FRC? Please provide your rationale supporting your view.

Question 24: If ISAP 4 is adopted as a UK standard, are there either additions or deletions that we should consider to ensure that it best reflects UK conditions?

¹⁰ <https://www.actuaries.org.uk/system/files/documents/pdf/20150122-aps-x2-final-version.pdf>



Financial Reporting Council

**Financial
Reporting Council**

8th Floor
125 London Wall
London EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk