

**Minutes of a meeting of the Actuarial Council held on  
Tuesday 20 September 2016 at 185 London Wall London E2Y 5AS**

**Present:**

Olivia Dickson            Chair of Council  
Rosemary Beaver        (to minute 5.14)  
Martin Burke  
Ashok Gupta  
David Hindley  
Howard Jacobs  
Joanne Livingstone  
Martin Miles  
Dominic Veney

**Observer:**

Umair Choudhry        HM Treasury  
Emma Gilpin            IFoA (Deputising for Des Hudson)  
Nick Land                (attending as Codes and Standards Committee Chair)

**In attendance:**

Hazel Beveridge        Project Director, Actuarial Policy Team  
Dawn Dickson           Director of Professional Oversight  
Paul George             Executive Director, Corporate Governance & Reporting  
Stephen Hadrill         FRC Chief Executive (to minute 2)  
Robert Inglis           Project Director, Actuarial Policy Team  
John Instance           Actuarial Consultant (from minute 3.3)  
Melanie McLaren       Executive Director, Audit  
Susanne Minocha       Council Secretary  
Ann Muldoon            Director, Actuarial Policy Team

**Introductions and apologies for absence**

Apologies were noted from Angela Darlington (Council Member) and Des Hudson (IFoA Observer).

The Chairman welcomed Hazel Beveridge (HB), Stephen Hadrill (SH), Nick Land (NL) and Susanne Minocha (SM) to the meeting.

**1. Chief Executive's oral update**

- 1.1 SH gave an oral update on the FRC's review of actuarial regulation, outlining the drivers for the review and some of the matters to be considered.

1.2 SH also reported that the FRC had established an internal cross-FRC project team to consider the challenges associated with defined benefit pension schemes, The Council made observations and there was discussion on the matters raised.

## **2. Executive Director, Corporate Governance and Reporting oral update**

2.1 Paul George (PG) presented his report to the Council, noting that a draft annual assessment of the quality of corporate reporting was being submitted to the Codes and Standards Committee with a view to the assessment being published at the end of 2016.

## **3. Report of the Director of Actuarial Policy**

3.1 Ann Muldoon (AM) introduced her report, highlighting the following matters:

- The DWP has been in discussion with the FRC regarding additional disclosure requirements for Statutory Money Purchase Illustrations for people with guaranteed annuity options. The regulations will point to the Disclosure Regulations that require the application of ASTM1 but will not extend the scope of our responsibility. This has been confirmed by the FRC legal team.
- ISAP 1A and ISAP 5 – most of the feedback received had been incorporated into the final drafts of both standards; with one matter on ISAP 1A requiring clarification.

3.2 It was agreed that AM would present an updated version of the FRC international standards policy for consideration at the next meeting alongside the IFoA policy.

### *JFAR Review*

3.3 AM commented on the JFAR report on GI provisioning.

3.4 It was observed that a review of seven reserving reports was an insufficient sample size to draw significant conclusions. It was also noted that a desktop review of actuarial reports limited the level of assessment of the quality of the underlying actuarial work. However it was possible to form some understanding of how the work satisfied the requirements of the reporting standards.

3.5 Members of the Council were concerned to distinguish between the underlying risk to the public arising from poor quality technical actuarial work and failure to comply with TAS.

3.6 It was suggested that FRC should seek more information where possible in the follow up work planned.

## **4. IFoA Observer report**

4.1 Emma Gilpin (EG) provided an update on IFoA matters since the last meeting, drawing the attention of the Council to the following:

- 27 actuarial employers had been accredited under the QAS most of which are consultancies. The IFoA was discussing ways to encourage other types of firm to participate. The next significant phase was annual monitoring.

- A working party had been established to consider guidance to support TAS 100. A very early draft, together with case studies to establish how TAS 100 will work, would be reviewed at the end of the month.
- In view of the need for consistency between the FRC and the IFoA it was expected that the IFoA guidance would be drafted in sufficient time for Council to be able to review it prior to it being issued for consultation and that it would be in the public domain on or before publication of the final FRC standards at the end of the year.

## **5. TAS Consultation**

### *General*

5.1 Robert Inglis (RI) presented his paper, noting that TAS 300 and feedback on the covering consultation would be covered at the next meeting. He drew attention to the following:

### *Framework and TAS 100*

5.2 Comments had been received on the final draft of the framework and TAS 100. Some GI pricing actuaries continue to be resistant to extending the scope to all actuarial work, and a group of in-house pension actuaries had requested an opt-out from TAS 100.

5.3 Council made the following comments:

- Feedback was limited, but did not reveal any new major issues.
- The FRC was not fully sighted on the development of the IFoA guidance. It was suggested that the FRC communicate its concerns about the slow progress in developing TAS 100 guidance to the IFoA.

5.4 Council noted that there were some small changes to be made in relation to geographic scope and to give more clarity on materiality, and agreed to review the final version of TAS 100 at its meeting in October.

### *TAS 200: Insurance*

5.5 The majority of respondents to TAS 200 supported the retention of pricing frameworks within scope, although some GI actuaries' responded that this should not be retained in scope. After discussion it was agreed that the technical actuarial work to support pricing frameworks should remain in the scope of TAS 200.

5.6 Council approved amendments which clarified the description of the work intended to be within the scope of TAS 200, moving the provisions on with profits discretion and other minor amendments to the section on scope.

### *TAS 200 Core Provisions*

5.7 Council agreed that it was appropriate to expand on high level principles and provisions of TAS 100 for work in the core provisions of TAS 200, and agreed that the feedback statement should highlight how that should be achieved.

#### *TAS 200 Specific Provisions*

- 5.8 JI reported that most feedback related to changes to provision 9. There was general agreement with the feedback that the wording of the provision was circular. There was general agreement not to revert to the use of the term “neutral” in the current generic TAS. There was some debate in relation to the wording of the provision, in particular the phrase “shall not contain adjustment to reflect the desired outcome”. A change to refer to “a desired outcome” was suggested. It was agreed this be re-worded and re-submitted to Council for approval.
- 5.9 Council approved the move of specific provision 12 into the core provisions.
- 5.10 The other suggested amendments to the core provisions in the paper were supported subject to Council’s final review of the feedback statement and TAS, and a review of Core Provision 3.

#### *TAS 200: Provisions for specified work*

- 5.11 Council supported the amendments to the wordings to the specified provisions outlined in the pre-circulated paper.

#### *TAS 200: Insurance and Feedback Statement*

- 5.12 Council was asked to agree the revised draft of TAS 200: Insurance and the feedback statement Analysis of Responses to the May 2016 Consultation Annex 1 Insurance prior to them being submitted to the Codes and Standards Committee (CSC) and Board for approval.
- 5.13 Council considered that the risk assessment matrices should be updated and that the provisions relating to Lloyd’s be reviewed by Lloyd’s.
- 5.14 Council agreed to provide any further comments on the draft TAS and feedback statement to the FRC team with a view to the final drafts being presented to its November meeting.

#### *TAS 400: Funeral Plan Trusts*

- 5.15 Council was asked to agree the revised draft TAS 400 and feedback statement Analysis of Responses to the May 2016 Consultation Annex 3 Funeral Plans prior to them being submitted to CSC and Board for approval.
- 5.16 It was reported that respondents had generally supported the proposed scope and principles in the exposure draft; however a revised exposure draft had been produced following requests for greater clarity on what was required and other concerns in relation to risk. The key change extended the current requirement in paragraph D.4.6 of TAS 400 to be explicit about the potential impact of certain risks. This was supported.
- 5.17 The feedback statement on the TAS 400 consultation questions, together with an explanation of the FRC response, was noted and supported.

### *TAS 300: Pensions*

- 5.18 RI presented the pre-circulated discussion paper, noting that much of the work done would be brought to a later meeting. The issues he wanted to bring to this meeting of the Council were:

#### *Transition*

- 5.19 It was noted that only pension actuaries had fed back concerns on the proposed transition arrangements. The uncertain length of valuation processes and scheme funding being in the control of other decision makers led several respondents to comment that they would not know which regime to follow when starting work.
- 5.20 Council discussed the issues in allowing early adoption, including disapplication of the existing regime (which would involve publication of a document on transition on the web site), and a requirement for actuaries to clearly state which TAS regime they were complying with.
- 5.24 RI also noted that some respondents had proposed that, where funding work starts prior to the publication of the revised TAS but is completed on or after 1 July 2017, the work be done in compliance with the old regime to avoid extra costs.
- 5.25 Council was asked to agree to there being an additional transitional arrangement for Scheme Funding exercises with an effective date on or before 1 October 2016. The choice of this date was considered. It was noted that
- The choice was constrained by the new TAS not yet being available.
  - Schemes with valuations starting later than 31 July would be aware of the transitional arrangements.
  - As valuations required completion within 15 months, the choice of 1 October 2016 would act as an incentive to completion by 1 January 2018 in order to remain under the old regime.
- 5.26 Council was sympathetic with the choice of effective date but requested the rationale for choosing 1 October prior to making a decision on its advice to the Board.
- 5.27 It was noted that feedback on insurance transitional arrangements suggested that 1 July was acceptable to respondents.

#### *Scope of work for employers*

- 5.28 Council was asked whether it agreed that work for the employer on statutory funding, scheme modifications and bulk transfers should be in the scope of TAS 300: Pensions.
- 5.29 RI reported that this question had been asked in the consultation paper. A significant number of respondents considered that the work should be in scope.
- 5.30 It was noted that the requirement for Trustees to seek actuarial advice was covered in TAS 300 and employers' work on scheme funding was covered in TAS 100; however there was no requirement for employers to carry it out, with a large variation in the amount and type of work carried out. It was further noted that there was an interdependence between the work being done for trustees and employer and excluding work for the employer from the scope of

TAS 300 would make the different types of work subject to different regimes. This was considered unhelpful. Council also considered the extent to which there was a public interest to take into account.

- 5.31 Council supported the proposed addition of work for the employer to the scope of TAS 300: Pensions.

## **6. AS TM1**

### *2016 Review of Accumulation Rate Survey Findings*

- 6.1 RI presented the results of the 2016 review (which had included additional questions), reporting that it had provided useful feedback but identified no major changes from the previous year. Council was asked to comment on the draft publication annexed to the results.
- 6.2 RI highlighted the large variation in providers' approaches, noting that achieving consistency was one of the aims of the exercise, and that DWP had raised concerns about members giving up Guaranteed Annuity Rates on transfer out of DC schemes.
- 6.3 Whilst acknowledging that allowing respondents to exercise their judgment might lead to inconsistencies and that the ranges and medians of responses were not obviously unacceptable, Council considered whether some responses should be queried in order to ascertain how judgment was being exercised. Council noted that if judgment was not exercised responsibly the underlying standard may need to be revised.
- 6.4 Council supported the draft publication.
- 6.6 RI reported that he had consulted the DWP in relation to the review of disclosure regulations. It was considered that providing further information in addition to illustrations would be helpful to people who were not taking a pensions annuity.
- 6.7 Council considered that the FRC's responsibilities in relation to AS TM1 should be included in the actuarial regulation consultation.

### *Review of Version 4.2*

- 6.8 Council was asked to provide its advice to the FRC Board to issue a revised version of AS TM1 with amendments to the mortality basis.
- 6.9 RI reported the need to make changes to AS TM1 on mortality as a result of changes in the CMI mortality tables. He confirmed that there were no significant implications in doing so.
- 6.10 It was noted that the completed FCA consultation referred to FRC making similar changes. Council agreed that the FCA consultation indicated that further consultation by the FRC was unnecessary.

## **7. Minutes of the previous meeting and rolling actions.**

- 7.1 The minutes of the meeting held on 12 July 2016 were approved for publication.
- 7.2 The rolling action log was noted.

## **8. Forward agenda**

8.1 The forward agenda was noted. It was requested that this be provided in a larger font.

## **9. Feedback on Council from Nick Land, Chair of Codes and Standards Committee**

9.1 Nick Land (NL) reported that his observations of the meeting confirmed his perception that Council was very diligent in discharging its responsibilities.

9.2 NL's impression was that there had been a good discussion of the public interest in relation to monitoring of actuarial work; however, he noted that whilst he recognised that the extent to which monitoring should be increased was not established, Council appeared intuitively reluctant for the profession to be monitored in a more rigorous way. Nick also noted that arrangements for monitoring in areas such as accounting and auditing were already established.

9.3 Council noted the comments made.

## **10. Any other business**

10.1 There was none.

## **11. Date of next meeting**

11.1 The next meeting of the Actuarial Council is a special meeting convened to deal with the TAS consultation, and will be held on Tuesday 11 October 2016.

