

**Minutes of a meeting of the Actuarial Council held on
Tuesday 8 November 2016 at 125 London Wall London E2Y 5AS**

Present:

Olivia Dickson Chair of Council
Martin Burke
Angela Darlington
Ashok Gupta
Howard Jacobs
Joanne Livingstone
Martin Miles

Observer:

Des Hudson IFoA Observer

In attendance:

Hazel Beveridge Project Director, Actuarial Policy Team
Sian Barr Project Director, Actuarial Oversight
Paul George Executive Director, Corporate Governance & Reporting (to minute 7)
Robert Inglis Project Director, Actuarial Policy Team
Susanne Minocha Council Secretary
Ann Muldoon Director, Actuarial Policy Team

Introductions and apologies for absence

The Chairman reported that apologies had been received from Council members David Hindley, Rosemary Beaver and Dominic Veney and from HM Treasury observer Umair Choudry.

1. Report of Executive Director, Corporate Governance and Reporting

- 1.1 PG gave an oral update on the FRC Board's discussions at the October meeting regarding the proposed consultation on actuarial regulation. He noted the Board's two main objectives were:
- gathering evidence through monitoring of the effectiveness of the practical application of the FRC's technical actuarial standards ; and
 - the strengthening of the oversight regime through an enhancement of the memorandum of understanding between FRC and IFoA.
- 1.2 He reported that, as a result of this focus, the Actuarial Policy Team would now report to the Executive Director of Audit, Melanie McLaren, who already has responsibility for oversight. As a result PG would no longer be attending Council meetings which would instead be attended by Melanie McLaren.

1.3 PG updated the Council on the response of the FRC to the BEIS Select Committee inquiry on Corporate Governance Reform and undertook to circulate a copy of the FRC's submission to members of the Council.

1.4 The Chairman thanked PG for his report and for all his past work with the Actuarial Council.

2 Report of the Director of Actuarial Policy

2.1 Ann Muldoon (AM) introduced a report that provided an update on FRC activities relevant to the Actuarial Council's remit not covered elsewhere on the agenda. Particular attention was given to the following matters:

IFoA Guidance

2.2 AM highlighted that the FRC is working with IFoA to develop a formal process on the development of guidance. The Council noted a list of areas of technical actuarial work where guidance might be helpful and that other areas could be added to the list in the future.

JFAR Risk Perspective Update

2.3 The Chairman drew the attention of Council to the Codes and Standards Committee review of the JFAR Risk Perspective Update report. It was noted that a "Dear Chief Actuary" letter to provide an update on the risk perspective was being considered. The Council discussed the proposal, noting that while there may be a Chief Actuary in insurance companies, it would be difficult to identify an equivalent person in pensions. Whilst it was suggested that an individually addressed letter from regulators does have effect, it was noted that observations were more widely applicable and the intention was to publish more widely.

3 IFoA Observer's Report

3.1 The Council noted a report that provided an update on IFoA matters since the last meeting.

3.2 DH drew the attention of Council to the Quality Assurance Scheme (QAS), which covered training and supporting actuarial staff, together with awareness of in house processes and procedures, and which it was anticipated would have an increasingly important role in the monitoring of compliance and actuarial standards. DH noted that no insurance companies hold QAS accreditation and that the IFoA was considering looking to the JFAR members to promote the QAS. It was noted that actuaries in insurance companies already have a significant level of systems and controls as a result of Solvency II.

3.3 DH also reported that a list of organisations holding QAS accreditation had been published on the IFoA web site.

4 HM Treasury Observer's Oral Report

4.1 It was noted that there was no HM Treasury Observer present on this occasion.

5 TAS Consultation

5.1 Robert Inglis (RI) presented the final drafts of the Framework for FRC Technical Actuarial Standards, TAS 100, 200, 300 and 400, the Glossary of defined terms used in FRC technical actuarial standards and a feedback statement on the revised Specific TAS consultation, He drew the attention of the Council to the following:

General Matters

- 5.2 Further to discussions at the previous meeting revisions to the text in the Framework and the Glossary concerning “material” and “materiality” were considered. Council confirmed that it was content with the revised wording.
- 5.3 Text had been inserted to the Framework to clarify that it is not permissible to opt out of the Compliance Statement requirement on the grounds that it is not material. Council was content with the new wording.

Transition

- 5.4 RI confirmed that a statement on transition arrangements would be posted on the FRC web site along with the revised standards. Following feedback received, it was proposed to change the reference from “initial” to “original” TASs, when referencing the current TAS framework in this document.
- 5.5 It was noted that the reference to transitional provisions for scheme funding exercises should be to those with an effective date on or before 1 October 2016 (and not 2017 as noted in the covering paper).

Framework

- 5.6 Minor changes had been made to the Framework document with one minor amendment proposed for 3.1. The Council was content to approve the updated version to which RI was seeking Council support prior to presenting the final version to the Codes and Standards Committee and the Board.

TAS 100

- 5.7 Council was content to recommend the executive’s proposals set out in the paper *Technical Actuarial Standard 100: Principles for Technical Actuarial Work* included in the meeting pack.

Feedback statement on covering consultation questions

- 5.8 Some changes had been made to the draft feedback statement on the covering consultation questions previously presented to Council. In particular an update to the risk assessment in relation to s.75 debt had been made. It was suggested that the wording of the rationale be strengthened to reflect the Council discussions.
- 5.9 One respondent to TAS 200 had suggested that pricing of bulk annuities should also be covered by TAS 200. The Council considered this suggestion, particularly in light of the inclusion of technical actuarial work supporting bulk transfers in TAS 300. AM noted that the high level pricing framework covering bulk annuities would be covered by TAS 200, while the bespoke pricing of each individual contract would be covered by TAS 100. It was agreed that this would be typical.
- 5.10 As part of the discussion, the Council considered whether the definition of pricing frameworks in the Glossary should include a reference to “prices” but it was agreed that this was not necessary. It was decided to make no change to the definition of pricing framework in the Glossary.
- 5.11 It was agreed that the wording in the feedback statement be strengthened to ensure it was clear that the pricing framework covering bulk annuities would be included in TAS 200, with bespoke pricing in TAS 100.

TAS 200 Insurance – Draft standard and feedback

- 5.12 In relation to Provision 9, AM reported that the executive had amended the wording as agreed at the previous Council meeting.
- 5.13 The Council noted that feedback from the consultation was that it is unclear whether the provision required an explanation of the derivation of the assumption or whether the “best estimate” should not have any bias. In response the wording had been re-worded to clarify the intention that a “best estimate” have no bias.

Core Provision 3

- 5.14 AM reported that a small number of respondent were concerned that the section of the feedback statement on TAS 200, relating to Provision 3 “*we consider users understanding would be enhanced if provided with information concerning the possible changes in circumstances that might invalidate the result of the work to ensure that users use actuarial information in an appropriate manner*” is overly onerous and that, as a result, practitioners would likely use boiler plate text to deal with it.
- 5.15 The Council noted the executive had considered the issue, particularly as similar wording exists in TAS 300. Following detailed review it had been concluded the Communications provisions in TAS 100, which require communications to be comprehensive and comprehensible, Provision 5.1 which requires that the purpose and scope are clearly stated, and the requirements of the Actuaries’ Code, sufficiently address the intention underpinning Provision 3, accordingly, Provision 3 could be removed. The Council discussed the conclusion that had been reached in detail and was unanimous in its agreement to remove Provision 3. The Council agreed that, in response to the removal of Provision 3, the wording in the TAS 200 feedback should be enhanced to explain how the intention behind core Provision 3 is covered by TAS 100 and ensure consistency with IFoA TAS 100 guidance.
- 5.16 RI reported that the draft TAS 200 had been sent to members of the TAS 200 practitioner working group and respondents to the consultation, and had been updated on the basis of the seven responses received. The Feedback Statement had been updated to take in to account these comments, together with those of Council at its September and October meetings.
- 5.17 The Council confirmed its support for the draft TAS 200 together with feedback statement as presented to it, noting some minor proofreading edits.

TAS 300 – Pensions

- 5.18 RI introduced the updated TAS 300 and Feedback Statement which had been amended in response to feedback from the TAS 300 practitioner working group. Following the advice of the Council to include s75 debt calculations. RI reported that the updated TAS had been recirculated to some practitioners on the TAS working group and to some respondents to the consultation and that the extension of scope was not controversial. Whilst the Council considered the amendments suitably addressed the feedback that had been received the Council suggested changes to the Feedback Statement to enhance the explanation in respect of the extension to scope.
- 5.19 The Council also agreed that paragraph 2.10 in the Feedback Statement required re-wording to give clarity to the work to be risk assessed, with review of final wording delegated to Chair and one other Council member.

Subject to the amendments discussed the Council confirmed its support for the draft TAS 300 and the feedback statement.

TAS 400 – Funeral Plan Trusts

- 5.20 RI reported that the word “material” had been inserted into provision 3; no other changes had been made.

The Council confirmed its support for the draft TAS 400 and the feedback statement.

Glossary of terms used in FRC technical actuarial standards

- 5.21 It was agreed to extend the definition of “insurer” to include reinsurance business; there were no other changes. The Council confirmed its support for the draft Glossary.

Additional comments on the overall proposals

- 5.22 The Chairman appraised the Council on comments received by email in advance of the meeting from Council Member Rosemary Beaver which were noted by the Council. Several of Mrs Beaver’s comments had been addressed in earlier discussions.
- 5.23 The Chairman reported that the overall level of responses had been good. She thanked members of the Council who had been particularly involved in the work to bring the standards to this stage.

6 TAS 100 – draft guidance from IFoA

- 6.1 DH reported that the Regulation Board was due to meet the next day to review the draft guidance, subject to any points arising from this meeting. It was intended that this would be published contemporaneously with the FRC’s standards at the end of the year. A working party meeting had been fixed for 10 November to review case studies, which are currently in a relatively raw state. The case studies will cover both generic and practice specific examples. DH will update the Actuarial Council in due course on the discussions of the working party. Council was invited to note proposals in the paper rather than approve it, as it was subject to further IFoA discussions.
- 6.2 DH reported that the Regulation Board would be considering whether IFoA needed to consult on the guidance; although the expectation was that consultation would not be necessary as the guidance is to support standards which had already been the subject of consultation.
- 6.3 It was noted that, whilst not formally set out, the IFoA guidance is issued with the agreement of FRC, and that Council’s role is to review the executive’s view and raise with the FRC Executive any matters it feels ought to be considered by the FRC when deciding whether or not it should agree the IFoA guidance.
- 6.4 AM considered the IFoA TAS 100 Guidance read well and was an improvement on the first draft. It was suggested that additional reference and guidance on the Reliability Objective along with other drafting suggestions.

- 6.5 It was noted that the case studies are still work in progress, although it was noted that separate publication dates could facilitate a message that the case studies would be dynamic and responsive to the needs of practitioners. The Council was broadly supportive of the guidance and noted the expectation for ongoing involvement of the FRC Executive in the drafting process.

7 Minutes of the previous meeting and rolling actions

- 7.1 The minutes of the meetings held on 20 September 2016 and 11 October were approved, subject to two minor amendments.
- 7.2 The rolling action log was reviewed.

8 Any other business

- 8.1 The Chair noted that this was the last Council meeting which RI would be attending and thanked him sincerely for his highly valued contribution to the work of the Council, particularly in relation to the development of the standards, during his time with the FRC.

9 Date of next meeting

- 9.1 The next meeting of the Actuarial Council will be held on Tuesday 7 February 2017.