

Minutes of a meeting of the Actuarial Council held on 26 March 2013 at Aldwych House, London WC2B 4NH

PRESENT

Olivia Dickson	Chair
Keith Barton	
Angela Darlington	(to item 3 only)
Ashok Gupta	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	
Oonagh McDonald	
Martin Miles	

Observers

Jon-Paul Brett	DWP
Seamus Creedon	Groupe Consultatif
Sir Philip Mawer	Institute and Faculty of Actuaries
Chris Opie	The Pensions Regulator (in place of Nigel People)

In Attendance

Anna Colban	Codes & Standards Project Manager (to item 3 only)
Jenny Carter	Project Director, Accounting & Reporting Policy Team (item 5 only)
Ufuk Cengiz	Economist, Corporate Division - Strategy (item 3 only)
Peter Dingwall	Council Secretary
Faye Dyce	Project Director, Actuarial Policy Team
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Project Director, Actuarial Policy Team
Andrew Jones	Seconded, Accounting & Reporting Policy Team (item 5 only)
Ben Kemp	General Counsel, Institute and Faculty of Actuaries (to item 3 only)
Paul Kennedy	Director, Actuarial Policy
Melanie McLaren	Executive Director, Codes & Standards

1 APOLOGIES

Apologies were noted from Martin Bradley (member) and from Paolo Cadoni and Amit Kamal (observers).

2 SCHEME FUNDING CONSULTATION AND NEXT STEPS

2.1 The Council noted that:

- a. The FRC had submitted a response to the DWP's Call for Evidence on Pensions and Growth. This had been the first instance of Actuarial Council involvement in developing a response to a consultation on a significant public interest matter. One of the learning points for future

responses was the need to agree, at an early stage, the key issues that the response should include;

- b. In the Budget Statement on 20 March, the Chancellor had announced that the call for evidence on the likely effect of asset and liability smoothing had not revealed a strong case for changing legislation to permit smoothing. The Government would, therefore, not be pursuing this measure. However, the Government would provide tPR with a new objective to support scheme funding arrangements that were compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation.
- c. The FRC Executive was already engaging with tPR and had, *inter alia*, asked tPR to include reference to the TASs in its Code of Practice when revising it to reflect the new objective.

3 REVIEW OF THE FRC'S ACTUARIAL AGENDA

Introduction

- 3.1 The Council noted that the Review Steering Group had met on 11 February and had:
 - a. Agreed the project's workstreams (ethics, quality monitoring and firms, mission, role of actuaries, actuarial methods, scope of regulation, international framework and research);
 - b. Considered changing environmental factors and their implications for actuarial regulation, including swings between regulatory and deregulatory initiatives in the UK and Europe, as well as greater consumer rights and activism; adapting to economic developments including the current low interest rate environment; and the impact of an ageing society, including developments in the healthcare sector;
 - c. Considered the relationship between the FRC's actuarial activities and the FRC's mission to promote high quality corporate governance and reporting to foster investment;
 - d. Agreed that the FRC's actuarial activities had direct relevance to corporate investment in insurers and in other companies reliant on significant actuarial information and advice;
 - e. Decided to defer reaching conclusions about the FRC's mission until the changing role of actuaries was clearer. This decision recognised that the FRC was not the only regulator with responsibilities for actuarial work; and
 - f. Considered success measures for the project, in particular:
 - Confirming that the FRC's current regulatory approach is fit for purpose or identifying and recommending changes to address emerging threats and opportunities;
 - Agreeing with the FRC Board a programme of work for the next three years; and
 - Developing an appropriate format for inclusion in the FRC's annual report to the Secretary of State.

- 3.2 The Council noted that, at this meeting, its preliminary views were being sought on the emerging conclusions from the project. It was being invited to discuss the key issues and to consider what further engagement Council members required with the Executive in order to finalise its input to the project on 2 May. The Council would have an opportunity at its meeting on 18 June to provide input to matters for inclusion in the FRC's report to the Secretary of State.
- 3.3 To this end, the Council was presented with preliminary positions on each of the eight project workstreams, and Council's views were invited in each case.

International framework

- 3.4 The Council noted that the key issues were:
- a. The scope of international developments;
 - b. Whom the FRC should seek to influence internationally and how, e.g. whether the IFoA should be invited to nominate FRC staff to key international committees; and
 - c. How the FRC should respond to invitations to adopt standards from international actuarial standard-setters (ISAP 1 for example).
- 3.5 The Council was generally content with the workstream's analysis of international developments. Points made in discussion included:
- a. The motivation of the Groupe Consultatif in developing actuarial standards relates to the expectations of other stakeholders, such as EIOPA, rather than an internal Groupe agenda; and
 - b. Some foreign actuaries operating in the UK are not members of the IFoA and may not, therefore, be subject to UK actuarial standards, although some non-UK actuarial associations require their members to comply with UK standards when undertaking actuarial work in the UK. The IFoA has no locus in such circumstances, and is seeking to address the issue through the IAA;
- 3.6 The Council was generally content with the workstream's analysis of whom the FRC should seek to influence internationally. Points made in discussion included:
- a. With regard to FRC representation on committees of the IAA and Groupe Consultatif, there is a balance to be struck between proactive influencing from the inside and maintaining independence;
 - b. The preliminary position is long on structure and process but short on style of influencing;
 - c. With regard to the drivers for the FRC's continuing engagement (preventing dilution of and promoting the quality of UK actuarial standards; promoting efficiency in standard-setting; and avoiding confusion over which standards apply), it would be preferable to express all drivers in positive terms, eg "achieving clarity" rather than "avoiding confusion". In addition, reference could be made to relevance/proportionality/subsidiarity; and
 - d. The drivers should be positioned as high level issues.
- 3.7 The Council agreed the workstream's conclusions in relation to ISAP1, namely:

- a. It would be impractical for the FRC to adopt or endorse ISAP 1, since this would require a complete overhaul of existing UK standards. The IFoA and the FRC have developed a coherent set of professional conduct and technical standards applicable to actuarial work carried out by members of the IFoA in the UK; these standards have wide acceptability;
 - b. As ISAP 1 has a broader scope than the TASs, it is not possible to confirm that the overall framework of UK standards is 'substantially consistent' with that of ISAP 1, although a review of the scope of the TASs is planned in 2013/14; and
 - c. The requirements of ISAP 1 are substantially covered by the requirements of the Actuaries' Code, and the FRC's Technical Actuarial Standards (TASs). Consequently, it is possible to say that actuarial work which complies with UK actuarial standards including the TASs may be treated as substantially compliant with ISAP 1.
- 3.8 In agreeing the above conclusions, the Council noted that it was unlikely that the IAA would require its member associations to report formally on what action they had taken in respect of ISAP 1 before autumn 2013, by which time the IFoA would have issued an ethical standard on peer review, which would further reduce the differences between ISAP 1 and the UK regime (TASs plus IFoA ethical standards).
- 3.9 The Chair commented that the review of IASP 1 had helpfully road-tested how the FRC should respond generally to invitations to adopt standards from international actuarial standard-setters. However, the approach should be reviewed by the Codes & Standards Committee in autumn 2013.

Quality, monitoring and firms

- 3.10 The Council was invited to consider the IFoA's proposals for quality controls at actuarial firms; its comments would constitute input to the Conduct Committee.
- 3.11 The Council noted that:
- a. This was one of the IFoA's most important projects, both in terms of the IFoA's own regulatory strategy and the IFoA's ongoing dialogue with the FRC;
 - b. The starting position was that the IFoA regulated individuals and that it had no locus to regulate firms;
 - c. The critical importance of the working environment for actuaries as professionals needed to be recognised as a driver of quality;
 - d. The objectives of the IFoA's project were to:
 - produce a framework which would set expectations for employers of actuaries concerning the quality of and professionalism in actuarial work; and
 - introduce a quality assurance regime to which the IFoA would be encouraging employers to sign up.
 - e. Actuarial consultancies would be targeted first in respect of the quality assurance regime. However, the scheme would not be closed to other employers;

- f. Informal discussions had been held with the ACA and some firms and there had been a degree of positive feedback on the proposals; and
 - g. A formal consultation was planned for circa April 2013.
- 3.12 The Council was generally supportive of the IFoA's proposals, regarding them as a significant step in the right direction. Comments made in discussion included:
- a. The proposals seem to focus on process, which, in itself, may not improve outcomes; experience in the financial services sector shows that process is a necessary but insufficient component of maintaining quality – culture within an organisation is also key;
 - b. The issue of kite-marks by regulators carries the risk of instilling a false confidence; however, firms which are awarded kite-marks will, even if only for marketing reasons, be loath to lose their kite-mark and will, therefore, strive to maintain quality within the firm;
 - c. In 2008 the FRC undertook a review of the monitoring and scrutiny of actuarial work, and this identified a number of areas where there is scrutiny not only of process but also of outcomes. The FSA does both, and tPR reviews some outcomes as part of its process but tends not to engage with actuarial work to the level envisaged by the IFoA's proposals. The review indicated that consultancy firms all had quality processes but many firms said that they were unsure how their processes compared with the regimes in other consultancies;
 - d. The FRC has published an actuarial quality framework, which is a description of the FRC's expectations for actuarial quality, but the FRC does not know how, in practice, quality measures up to the framework – there is no evidence-base. The scheme would be one way of acquiring the necessary evidence;
 - e. The IFoA's proposed standard will set the IFoA's own benchmark for quality;
 - f. More information is needed on the gap between the FRC's expectations and current levels of quality; it is uncertain that the proposals will have a significant impact on the majority of insurance consultancy work, particularly in general insurance, which is mainly undertaken within large firms with well-established quality control frameworks;
 - g. It is likely that the proposals will work well in firms that are dominated by actuaries; it is not clear how they will work in multi-disciplinary firms, where actuaries are in a minority, although in principle the scheme should support these actuaries with their quality controls as well;
 - h. The fact that the regime cannot be made mandatory is a weakness; the firms that sign up will probably be those who have good quality control processes; the issue will be with those that do not sign up;
 - i. It is unclear from the proposal how the IFoA, as the regulator, or the FRC, as the oversight body, will be informed of the quality of the work being undertaken within kite-marked firms;

- j. It is unclear from the proposal which body would assess a firm's suitability for a kite-mark; an entity with some independence from the IFoA would have more credibility than the IFoA itself;
- k. How does the IFoA's proposal fit with other accreditation schemes such as Investors in People?
- l. Will the IFoA's proposal shift the focus of responsibility for quality away from the individual professional towards the employing entity? In the auditing profession there seems to be a shift in the opposite direction. It might help to incorporate that element of the FSA model which focuses on senior management responsibility; and
- m. The IFoA's proposal should be seen as an additional measure to assure quality, in no way detracting from the individual professional's responsibility.

Ethics

3.13 The Council was invited to consider:

- a. An update in relation to the current programme of work, in accordance with the timetable agreed with the Conduct Committee, on the development of the "ethical model"; and
- b. An indication of preliminary thinking in relation to the workstream's objective: the FRC and IFoA to articulate at a philosophical level what the professional responsibilities of actuaries are – to address the question "what does it mean to be a professional actuary?"

3.14 The Council noted that, in relation to what it means to be a professional actuary:

- a. The initial thinking was necessarily provisional, recognising that:
 - finalised input from a related research exercise was awaited; and
 - a workshop had been arranged specifically with a view to addressing the questions:
 - What does it mean to be a professional actuary? and
 - What is the right scope and mechanism for the regulation of actuaries?
- b. The goal, as seen by the IFoA, was to reach a level of shared understanding and agreement with the FRC in relation to these questions, which would, to some extent, provide the philosophical underpin for the agreed future agenda;
- c. The propositions and principles drew on a more discursive analysis (still in draft);
- d. The question "What does it mean to be a professional actuary?" begged at least two further questions:
 - What does it mean to be a profession or professional? and
 - What does it mean to be an actuary?

3.15 The Council considered several propositions and the following provisional conclusion regarding actuaries as professionals:

- a. As with other professions, the public interest is protected through actuaries' submission to a mandatory and enforceable code of ethical norms. These obligations and responsibilities extend beyond the requirements imposed as a matter of general law on society at large. It is submitted that the existence and effective embedding and enforcement of this code is in fact central to the identity of a profession, to which other limbs of the professional regulatory framework relate. So for example, technical standards, in whatever form, support the over-arching responsibility on professionals to achieve and maintain an appropriate level of competence;
- b. Of fundamental importance, therefore, to the effectiveness of a profession are not only the content, but also the embedding, of its overarching ethical code, and the values which it encapsulates; and
- c. Whilst ethical codes vary in their presentation and wording, principles in relation to the following are usually considered fundamental and go to the heart of what it means to be a professional:
 - Integrity;
 - Professional objectivity and the duty to act, and to be seen to act, in the best interests of each client; and
 - The obligation to speak up, where appropriate, in relation to matters of public interest.

3.16 The Council generally supported the analysis, propositions and preliminary conclusion, although there was a sense of 'so what?' amongst some practitioner members. Discussion focused on:

- a. The extent to which an actuary's primary allegiance is to the client/employer;
- b. The extent of the influence on the individual of firm culture/policy, ie whether ethical problems stem from individuals or organisations; and
- c. What constitutes ethical responsibility – can it be codified/exemplified?

Role of actuaries

3.17 The Council considered the emerging findings on roles of actuaries and the implications for other workstreams.

3.18 The Council noted the key messages that:

- a. The number of qualified members of the IFoA had significantly increased since 2005 (increase of 46%);
- b. In 2013 employment of qualified actuaries was still concentrated in the traditional areas, although there had been a decline of about 5% in pensions. There had been no significant increase in the number of actuaries working in wider fields; and
- c. Work in some areas is changing, eg in pensions there has been a shift from work for trustees to work for employers.

3.19 Discussion focused on:

- a. The high level nature of the data presented, eg 34.2% of qualified actuaries employed in life insurance; greater granularity would be needed to indicate the roles that actuaries undertake rather than their general area of employment;
- b. The lack of evidence to underpin any forecast of future roles; and
- c. The importance of stochastic modelling.

Scope of regulation

3.20 The Council was invited to consider the preliminary position emerging from the workstream, presented as answers to specific questions, as detailed below.

To whom should standards apply?

3.21 The provisional Executive view was that:

- a. The FRC's standards should be mandatory for all members of the IFoA, without exception; and
- b. Standards should continue to apply to members of the IFoA, but, where appropriate, other regulators and users should consider requiring compliance with the TASs by entities and non-actuaries.

Is the right work in/out of scope of the TASs, given respective risks/opportunities and the work of other regulatory bodies?

3.22 The provisional Executive view was that:

- a. The FRC should develop and consult on proposals for:
 - Extending the scope of the Generic TASs to include all actuarial work; and
 - Developing a single definition of actuarial work;
- b. The scope review should also consider whether the scope of the TASs should be extended to additional areas of actuarial work (eg pensions M&A work and asset/liability modelling). The review should take account of the feedback being collected as part of the post-implementation TAS review. Any changes to the scope of the TASs would be subject to an impact assessment and would require consultation;
- c. The scope review might be supported by a list of actuarial work (in and out of scope) and a process to support the FRC in determining whether work should be in scope. This process could include an assessment system based on criteria which might include complexity, level of risk and other safeguards; and
- d. A separate project could be established to consider whether the FRC should publish a modelling code which could be more-widely applied. The code might be based on elements of the three Generic TASs. The project might also consider how such a code would be promoted and monitored.

Should the FRC change the scope of regulation or approach to monitoring/oversight and if so why?

3.23 The preliminary position was:

- a. The FRC and IFoA should review the boundaries between technical and ethical standards. A workshop was planned;

- b. There may also be scope for the IFoA to issue supplementary material on technical matters, including actuarial methods, under a procedure akin to 'statements of recommended practice' (SORPs) which are issued in respect of accounting standards by the FRC Board;
- c. The POB review in 2008 found significant monitoring in insurance and less in pensions, compensated by strong quality controls in many pension consultancy firms. The IFoA should consider ways of placing greater reliance on the quality controls in actuarial firms so as to promote quality without imposing disproportionate requirements on individual actuaries;
- d. The FRC and the IFoA are currently considering a possible approach along these lines (see Quality, Monitoring and Firms); and
- e. There is a need for greater co-ordination of monitoring between the FRC and other regulators including the PRA/FCA and the tPR.

3.24 In support of the preliminary position, the Council was presented with two supporting papers:

- a. A discussion paper on a possible definition of actuarial work; and
- b. A table detailing the elements of actuarial regulation: the form of standard or regulation; the responsible regulator; application to actuaries in actuarial reserved roles; application to actuaries in actuarial non-reserved roles; application to actuaries in a private or other capacity not requiring relevant skills; and application to entities.

3.25 Points made in discussion of the scope of the TASs included:

- a. Further evidence would need to be presented to the Actuarial Council before it could support a case for widening scope;
- b. Before the scope of the TASs were changed, it would need to be clear that the benefits would outweigh the costs; in this context, it would be helpful to have clarification of the risks associated with: actuarial work not currently covered by the standards remaining outside their scope; and retaining within scope actuarial work which some users consider should not be or do not expect to be within scope;
- c. Consistency with international standards should not be an objective of changing scope; it fails the dilution test; and
- d. Would an extension of scope lead to a more or less competitive position for actuaries/firms undertaking the work brought into scope?

3.26 Points made in discussion of the definition of actuarial work included:

- a. The proposed definition excludes work falling outside the definition but still presented as actuarial work, accepting that such work is within scope of the TASs by virtue of the *Scope and Authority for TASs*;
- b. The proposed definition states that actuarial techniques are techniques acquired by actuaries through their training; some techniques are acquired post-qualification;
- c. One of the characteristics of actuarial work which differentiates it from other work is its probabilistic nature; this could usefully be referred to in the definition of actuarial techniques;

- d. The reference to 'compound interest' appears dated;
- e. Judgement should be covered by the definition;
- f. There should be a reference to probabilistic or stochastic methods; this might be addressed by inclusion of the concept of uncertainty;
- g. The definition of actuarial techniques ("... techniques acquired by actuaries ...") appears to imply that such techniques are not actuarial if acquired by those not qualified as actuaries; this is relevant because, in some circumstances, non-actuaries undertake work within the scope of the TASs;
- h. The definition of actuarial work should be kept simple and actuaries should be the main focus;
- i. It would be helpful if the Executive could explore the possibility of adopting the definition of actuarial work used in ISAP 1; this would require a definition of 'actuarial considerations' used, but not defined in, ISAP1; it should embrace references to actuarial techniques, to judgement, and to the work on actuarial skills being undertaken by the IFoA;
- j. One of the risks in not having a definition of actuarial work is that some work is subject to the TASs without there being an expectation of such on the part of users;
- k. Agreement of a definition of actuarial work might provide a catalyst to addressing the regulatory hole whereby the TASs cannot be enforced against those who undertake work within the scope of the TASs unless those people are members of the IFoA; and
- l. There is a need to agree whether asset/liability modelling is actuarial work, recognising that asset/liability models are often carried out by those who are not qualified as actuaries, eg economists, and may even be considered to be econometric models. Another consideration might be the position taken on asset/liability modelling by other regulators.

3.27 The Council noted that the FRC and IFoA would discuss at the forthcoming workshop, whether maintaining the current boundaries between technical and ethical standards was appropriate. It was recognised that this was a very sensitive issue and one with significant implications for the FRC and IFoA. Any proposal to change the current boundaries might be seen as a challenge to the post-Morris settlement, as well as affecting the fundamental responsibility of the IFoA to regulate its members. This would also have implications for the FRC's oversight of the IFoA's regulatory activities.

3.28 Points made in discussion of whether the FRC should publish a modelling code included:

- a. A related activity might be to produce a version of TAS(M) which is easier to understand, particularly for non-actuaries;
- b. It is not obvious that the FRC should develop such a code;
- c. If it is concluded that a code is unnecessary, there might still be a public benefit in promoting the elements of the TASs which deal with modelling; and

- d. The FRC has a wider responsibility in this area, for example in relation to the Sharman recommendations regarding modelling in banks; there is also an issue about the governance of models;

Actuarial methods

- 3.29 The Council noted that the workstream had yet to develop a firm preliminary position; key information was awaited from the IFoA's Practice Executive Committees. Discussion of the work-in-progress focused on the extent to which the FRC should become involved in the development of actuarial methods and whether the FRC should limit its involvement to a focus on the risks posed by the use of current methods and the development of new methods. It was agreed that a useful output from the workstream would be a recommended process for ensuring visibility of actuarial methods in use and in development.

Mission

- 3.30 The Council noted that a preliminary analysis had been undertaken for the Steering Group of how the work undertaken by actuaries contributed to the FRC's mission and its principal activities in corporate governance and reporting. The analysis had distinguished between direct and indirect contributions with the assessment that most contributions were indirect, but, nevertheless, relevant to the mission. The analysis had also considered the areas of actuarial practice which the FRC regulated directly such as the TASs and significant disciplinary cases, or indirectly through its oversight of the profession. The analysis demonstrated that much actuarial work made a significant contribution to investment through the channels of reporting and governance and/or to the FRC's mission. The Council noted the Steering Group's decision to defer reaching conclusions about the FRC's mission until the changing role of actuaries was clearer.
- 3.31 Discussion focused on the importance of the mission statement in signalling the current focus of the FRC's work, recognising that the FRC's Articles, MOUs etc provided the formal basis for the FRC's work in the round. It was suggested that mission statements imply current priorities and allocation of resources.

Research

- 3.32 The Council noted the workstream's preliminary position on the respective roles of the FRC and the IFoA in relation to actuarial research, including the proposition that the FRC's focus should be on its own evidence needs to support its policy making and actuarial regulatory activities, notwithstanding that the FRC needs to be aware of key areas of research being undertaken by the IFoA and contribute and assess findings where appropriate. The workstream had also proposed options for how the FRC should govern, assess and fund its own research proposals in relation to actuarial work;
- 3.33 Discussion focused on the need to develop, on a cross-FRC basis and for consideration by the Council at its next meeting, frameworks for:
 - a. Developing and assessing research proposals, with a 12-month forward programme to underpin actuarial activities; and
 - b. Greater coordination of research activities between the FRC and its co-regulators including the IFoA, the FCA, the PRA and tPR.

4 **CHANGES TO THE DISCLOSURE REGULATIONS AND AMENDMENTS TO AS TM1**

- 4.1 The Council noted that the DWP had published a consultation on changes to the Disclosure Regulations and the Council was being asked to provide:
- a. Advice on whether the FRC should submit a response to the consultation and the content of any response; and
 - b. A preliminary position on the content and timing of the FRC's consultation on amendments to AS TM1.

DWP consultation

- 4.2 The Council noted the Executive's provisional view that the FRC should respond to the DWP consultation, and the Council was invited to consider a draft response, which reflected discussions of the Council's AS TM1 sub-group. The key points in the draft response were:
- a. The DWP should defer the effective date for SMPI changes from October 2013 to April 2014;
 - b. The DWP should clarify its policy intent for SMPs given the apparent move from consistency to personalisation;
 - c. Reiteration of concerns about the disparate regulatory landscape for DC projections; and
 - d. Whether there should be a fundamental review of SMPs.
- 4.3 The Council agreed the key points in the proposed response. In addition, it was agreed that the point in the response about the need for a review of "the effectiveness of the current fragmented regulatory framework, particularly given the absence of concerted monitoring" was very important and should be given greater prominence in the response.

Amendments to AS TM1

- 4.4 The Council considered its preliminary position on amendments to AS TM1, the key issues for consideration being:
- a. A review of assumptions philosophy;
 - b. The interest rate used in the annuity calculation;
 - c. The allowance for cash lump sums;
 - d. How to deal with salary inflation; and
 - e. The need for guidance alongside the standard.

Assumptions philosophy

- 4.5 The Council agreed that there should be a more fundamental review of the approach to the assumptions in AS TM1, for example reviewing the current use of:
- a. Long-term assumptions in the period up to retirement and using assumptions linked to market conditions at retirement;

- b. A fixed date to determine the interest rate used in the annuity rate calculation.
- 4.6 The Council noted that the FRC was currently committed to a more limited review of the impact of the changes to AS TM1 in 2013 and a review of more fundamental matters would be undertaken in 2014.

Interest rate used in the annuity calculation

- 4.7 The Council supported the proposal to consult on the use of fixed interest gilt yields to determine the annuity rate for non-increasing pensions, subject to confirmation from annuity providers that the general practice is to base non-increasing annuity rates on fixed interest gilt yields. The Council noted that such a change would introduce a further inconsistency with the FSA's point-of-sale calculations for non-increasing pensions, which was derived from index-linked gilts.

Allowance for cash lump sums

- 4.8 The Council supported the sub-group's view that AS TM1 should not be specific on the allowance for cash and that providers should be allowed to make assumptions that reflected the characteristics of the individual and the arrangement.

Salary inflation

- 4.9 The Council noted the sub-group's view that AS TM1 should continue to specify a salary growth assumption equal to price inflation. The current salary inflation assumption in AS TM1 was 2.5% pa – the same as the price inflation assumption. The Council noted that the FSA's point-of-sale rules specified a salary growth assumption of 4% (in relation to 2.5% price inflation), which reflected the general view before 2008 that long-term earnings growth would exceed inflation, particularly for younger members, although this was less apparent for older members. The Council agreed that, whilst AS TM1 continued to specify an assumption rate for salary growth, this should be the same as the assumption for price inflation. However, a review of the need for AS TM1 to specify a rate at all should be part of the general review of assumptions philosophy (minute 4.5).

Need for guidance alongside the standard

- 4.10 The Council noted that:
- a. When version 2.0 of AS TM1 was published, elements of the previous version which were not part of the statutory function of AS TM1 were moved into a separate Supplementary Information document. The information moved to the Supplementary Information document included guidance on material which providers might consider supplying to members alongside statutory illustrations. In taking its decision, the Board for Actuarial Standards had agreed that the Supplementary Information document would not be maintained, notwithstanding that providers found the document helpful and would have liked it to be maintained;
 - b. Some references in the Supplementary Information document were now out of date, and the sub-group had considered whether the document should be updated or possibly deleted; there had been no consensus; and

- c. The FRC was currently reviewing the circumstances in which it should produce guidance, and it was intended that the future of the AS TM1 Supplementary Information document should be considered in light of the emerging FRC principle for guidance.
- 4.11 Council's discussion focused on the desirability of producing an AS TM1 'significant considerations' document rather than producing guidance on implementing the standard, and it was suggested that such a document should be produced in association with the next review of AS TM1.
- 5 **FRS 103**
- 5.1 The Council was invited to comment on a draft FRC financial reporting standard: FRS 103 – Insurance Contracts.
- 5.2 The Council noted that:
 - a. The objective of the standard was to specify the financial reporting for insurance contracts by any entity that issues such contracts until the IASB completed the second phase of its project on insurance contracts, and the consequential implications for UK GAAP insurers had been assessed;
 - b. The draft FRS included elements of IFRS 4, FRS 27 and the ABI SORP on Insurance Accounting;
 - c. It is intended that the proposed standard introduce no new requirements for insurers; and
 - d. The Accounting Council was providing primary advice to the FRC Board on the matter.
- 5.3 The Council had no comment.

6 **DIRECTOR'S REPORT**

Introduction

- 6.1 The Director presented his report. Council's input was being sought on three issues:
 - a. A draft response to the Pensions Regulator's consultation on regulating work-based defined contribution pension schemes in which the FRC would highlight issues of relevance to the FRC related to its role in maintaining the actuarial standard AS TM1;
 - b. The FRC's draft plan and budget for 2013-14, in particular in light of Review of the FRC's Actuarial Agenda; and
 - c. The FRC's approach to judgement and principles.
- 6.2 The Council noted that the remaining items in the Director's report were for information only.

Consultation on regulating work-based DC pension schemes

- 6.3 The Council noted that:
 - a. The Pensions Regulator had issued a consultation on regulating work-based DC pension schemes, which would close on 28 March 2013;

- b. The FRC proposed submitting a response to the consultation that covered issues relating to its actuarial and its corporate governance remits. The actuarial points to be raised in the response included:
 - A recommendation that tPR considers monitoring compliance with AS TM1; and
 - That consideration be given to the communication to members of the risks and uncertainties around their pension.
- 6.4 The Council was content with the proposed response.

FRC's draft plan and budget for 2013-14

- 6.5 The Council noted that:
- a. The FRC was currently consulting on its Plan and Budget for 2013/16. The consultation would close on 28 March;
 - b. The major projects in actuarial regulation largely reflected the Review of the FRC's Actuarial Agenda workstreams and generally had a one-year time horizon. The Executive would be reviewing whether any of this work was likely to continue over the 3 years of the plan in the light of the Review of the FRC's Actuarial Agenda discussion; and
 - c. The draft plan noted that "Our activities and hence our budget for actuarial standards and regulation will be finalised in the light of our current work with the Institute and Faculty of Actuaries to consider whether the framework for actuarial regulation remains appropriate. In addition, we have assumed no significant new disciplinary cases arise".
- 6.6 The Council was invited to consider, in the light of the earlier discussion on the Review of the FRC's Actuarial Agenda, whether there was any significant extra work which should be brought to the attention of the FRC Board before the Board was invited to finalise the FRC plan in April.

- 6.7 The Council agreed that it had no comment to make at this stage.

FRC's approach to judgement and principles

- 6.8 The Council was invited to consider a note from the FRC CEO on the FRC's approach to judgement and principles and the application of the criteria, espoused by the CEO, to actuarial regulation and standards, as well as the approach to guidance.
- 6.9 In view of time constraints, it was agreed to defer discussion of the matter to a future meeting.

7 STAKEHOLDER ENGAGEMENT

- 7.1 Written reports from the DWP, the Groupe Consultatif, HMT, the IFoA, and the Pensions Regulator were noted.
- 7.2 The Council noted an Executive report of recent FRC actuarial stakeholder engagement activities. It was agreed that such a report need not be produced for future meetings.

8 MINUTES AND ACTIONS

- 8.1 The minutes of the Actuarial Council meeting held on 15 January 2013 were agreed.

- 8.2 Draft minutes of the 5 March 2103 Actuarial User Group meeting were noted.
- 8.3 Progress with actions arising from previous meetings was noted.

9 **COUNCIL EFFECTIVENESS – REVIEW AND PLAN**

Forward agenda

- 9.1 The Council noted a forward agenda for the remainder of 2013. The paper detailed the actuarial policy business that was planned to be on the agendas of future meetings of the FRC Board, the Codes & Standards Committee, the Conduct Committee, the Review Steering Group, the Actuarial Council, and the Actuarial User Group. It was noted that a decision had yet to be taken on whether to cancel the 8 October meeting of the Actuarial Council.

Council sub-groups

- 9.2 The Council reviewed its sub-groups. Sub-groups that would continue were:
 - a. Funeral Plans TAS;
 - b. AS TM; and
 - c. ISAP 1/ Review of the FRC's Actuarial Agenda's International Framework workstream.

10 **AOB**

There was no other business.