

Minutes of a meeting of the Actuarial Council held on Tuesday 17 June 2014 in the Boardroom at 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Olivia Dickson	Chair of Council
Keith Barton	
Ashok Gupta	
Angela Darlington	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	
Martin Miles	

Observers:

Jane Curtis	Institute and Faculty of Actuaries (IFoA)
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In Attendance:

Siân Barr	Project Manager, Actuarial Oversight, FRC
Francesca Chittenden	Council Secretary, FRC
Faye Dyce	Project Manager, Actuarial Policy Team, FRC
Robert Inglis	Project Director, Actuarial Policy Team, FRC
John Instance	Project Director, Actuarial Policy Team, FRC
Paul Kennedy	Director, Actuarial Policy, FRC
Melanie McLaren	Executive Director, Codes & Standards, FRC
Natasha Regan	Project Director, Actuarial Policy Team, FRC

Apologies for absence

Apologies were noted from Rosemary Beaver and Martin Bradley (Council Members) and Lee O'Rourke (HMT Observer).

1. Actuarial Standard Setting Framework

- 1.1 John Instance (JI) introduced the latest draft of the FRC / IFoA statement on the framework for actuarial codes and standards. JI highlighted that the statement had been expanded to include a section on international developments and the roles of the International Association (IAA) and the Actuarial Association of Europe (AAE).
- 1.2 The Council discussed the purpose and intended audience for the statement. The Council noted that the aims of the statement are to:
- Provide clarity on the roles of the FRC and IFoA.
 - Explain the current arrangements between the FRC and IFoA in relation to standard setting and regulation.
 - Clarify the roles of the IAA and AAE.
 - Provide an update on recent developments, including the conclusions of the FRC's review of actuarial regulation in 2013 with respect to standards and next steps.
 - Provide signposts to other information that may be of interest to readers.

The Council noted that the statement had been produced in response to a perception that it would be helpful for the actuarial profession if the respective roles of the FRC and IFoA were clarified; accordingly, the profession is the primary audience, although the aim is to make the document accessible to other stakeholders. The Council suggested that a summary, setting out the objective and the intended audience of the statement, should be included in the foreword.

1.3 The Council discussed the statement in detail and the following observations and suggestions were made:

- The Council discussed whether too much detail is provided, particularly in relation to the processes through which the FRC and IFoA will set standards. However, it was agreed that the level of detail is appropriate, given a desire to be open and transparent and to answer any potential questions that could be asked should less detail be provided. The Council suggested that the intention to be open and transparent should also be referenced in the foreword.
- It was suggested that the summary of the findings of the 2013 review, in relation to the Technical Actuarial Standards, be revised to mirror the wording published in the 2013/14 FRC Annual Report and Accounts.
- It was discussed whether greater emphasis should be given to the work of the Joint Forum on Actuarial Regulation (JFAR) and the development of the shared risk map in light of the impact the risks identified in the risk map will have on the development of specific technical actuarial standards. However, it was concluded that the current wording, with the possible inclusion of a signpost to the risk map project in the FRC Plan 2014/15, is sufficient, given that the work has not yet concluded and agreement has not yet been reached on what the JFAR intend to publish.
- It was suggested that greater emphasis should be placed on the FRC's and IFoA's objectives in relation to international influence and that the principles the FRC and IFoA seek to achieve through international engagement, namely the promotion of high quality standards, substantial consistency and the avoidance of duplication, should be set out.

1.4 Subject to the proposed amendments the Council agreed to advise the FRC Codes & Standards Committee (CSC) and Board to publish the Statement and to approve the proposed amendment to the MOU with the IFoA to reflect the statement.

1.5 Jane Curtis (JC) reported that the IFoA Standards Review Working Party and Regulation Board were in the process of reviewing the Statement and following their consideration the Statement would be presented to the IFoA Council for approval.

FRC actuarial standards consultation

1.6 Robert Inglis (RI) introduced the proposed text of the draft Technical Actuarial Code (TAC) and reported that the text had been updated following feedback from the IFoA, the Codes & Standards Committee and practitioner workshops

1.7 The Council noted that two practitioner workshops had been held to review the proposed approach in the consultation that and that a third workshop was to be held in Edinburgh on 25 June. RI reported that at the two events practitioners had expressed broad support for the proposed TAC, welcoming the shorter length, the consolidation of many documents into one, and that the TAC is easy to understand. It was noted,

however, that concern had been expressed over the application of the TAC in instances where a whole team is working on a specific piece of work and whether a compliance statement should be required from each individual team member.

- 1.8 The Council discussed the reliability objective and whilst it was noted there is no reference to 'correctness' or 'accuracy' it was concluded that the definition is appropriate given the requirements for 'relevance', 'completeness' and for 'the communication of any uncertainty inherent in the information'. The Council suggested that it would be helpful to clarify in the TAC that where the term 'rely on' is used, it is used in the context of the reliability objective.
- 1.9 The Council discussed the application of the TAC and a suggestion from one actuarial employer that the proposed approach of making the TAC applicable to **all** actuarial work, including work that is not considered to be of high risk to the public interest, could be considered disproportionate, since the TAC contains both principles and supporting provisions. Through discussion the following observations and suggestions were made:
- The TAC, as currently drafted, contains both principles and provisions as the TAC has been drawn directly from the content of the existing TASs; initial feedback suggests that the transfer of the TASs to the TAC has been done well.
 - The Council considered that the rebuttable presumption of compliance with the TAC is not disproportionate as there is scope for non-compliance where this will have no effect on decisions as the statement on proportionality and materiality provides for non-compliance in some circumstances.
 - The Council considered that the alternative proposal - to confine supporting provisions to specific TASs which would apply to work that is considered to be of high risk to the public interest, and have only the four high level principles in the TAC applicable to all actuarial work - is not appropriate, and would not be consistent with the recommendations of the FRC's 2013 review. Furthermore, restricting the TAC to the four high level principles would make achieving substantial consistency with ISAP1 problematic.
 - The proposed approach is such that a specific technical standard will be developed for work that has been identified as of high risk to the public interest; therefore, work that is of high risk to the public interest ought to be captured.
 - It is common practice for a Code to set out principles and supporting provisions, the Corporate Governance Code and original 'Takeover Code' being prime examples. The Council highlighted that, in such examples, the provisions explain on how the principles should be applied in actuarial practice and this was thought to be helpful for both practitioners and users.
 - Consideration should be given to introducing a comply or explain requirement to the TAC as is required in the Corporate Governance Code.
 - The requirements set out in the TAC are broadly compatible with the requirements of Solvency II; accordingly, the demands on actuaries should not be greater than those placed on actuaries working under Solvency II.
- 1.10 On the basis of the discussion it was concluded that the application of the TAC as is currently proposed should be retained. However, the Council suggested that the text in relation to proportionality and materially be revised to make it clear that 'notwithstanding that actuaries have to comply with the Code, the Code need not be applied where it would be disproportionate to do so; and non-compliance with the Code may be

justifiable where non-compliance would not have the potential to materially affect the decisions to be taken by the users of the related work'. The Council also suggested that the proportionality and materiality section be repositioned to sit directly under the information on the scope and application.

- 1.11 The Council considered that the regulatory impact assessment should be updated to address issues such as the number of individuals that would be affected by the proposals, the cost implications of the proposals, detail of what aspects of actuaries' work are likely to change as a result of the proposals, and how they will change and further detail on what the benefits of the proposals are expected to be. It was recognised that the consultation itself could be used to obtain further information.

2. Actuarial Risk Map

- 2.1 Natasha Regan (NR) introduced a paper setting out progress made in the identification and prioritisation of risks to the public interest in relation to actuaries and actuarial work. The Council noted the paper and two appendices, one setting out the fourteen JFAR risks that had been identified and the hot spots associated with those risks, and a second setting out a proposed approach to quantification of those risks.
- 2.2 The Council discussed the scoring guidance and highlighted the importance of ensuring that individuals with significant experience and expertise, in the areas of work which have been identified as being of high risk to the public interest, are invited to contribute to the quantification process to ensure that the scores and descriptions of context and possible effects on individuals are accurate. In order to begin the process of expert review, the Chair invited Council Members to identify risk hot spots within their area of expertise to review; steps would then be taken to develop a process through which any hot spots that could not be reviewed by the Council could be externally reviewed.
- 2.3 The Council noted that the JFAR had agreed that publication of the risks would be useful. Accordingly, the JFAR would consider the publication of a risk perspective document at its next meeting. The Council noted that the document would be 'owned' by the JFAR but that each regulator would approve the document prior to publication.
- 2.4 The Council also noted that, subject to the agreement of the Codes & Standards Committee, its role in relation to the development of the Risk map would be to consider and agree with the positioning and substance of the risk perspective publication and to provide assurance in relation to the process undertaken to develop the risk perspective.

3. International Consultations

- 3.1 JI introduced a paper which summarised EIOPA's consultation on Set 1 of the Solvency II Implementing Technical Standards (ITs) and set out the FRC's proposed responses to the IAA's consultation on Draft Statement of intent on:
- ISAP [5] Insurer Enterprise Risk Models
 - ISAP [6] ERM programs and IAIS Core Principles
- 3.2 The Council agreed with the proposed response to the IAA in respect of ISAP [5], noting that whilst the introduction of ISAP [5] in the UK is unnecessary, given that the detail

falls largely within the scope of the TASs, there may be a need for a model standard for use outside the UK.

- 3.3 The Council considered the proposed response to the IAA in respect of ISAP [6] and agreed that the introduction of a specific standard to address insurers' ERM programmes would be duplicative. However, the Council suggested that the response be revised to recommend that ISAP [5] and ISAP [6] be merged with the detail of ISAP [5] forming the basis of the standard, rather than recommend that ISAP [6] be merged in to ISAP [5]. The Council highlighted the importance of engaging with the IAA in order to influence the development of the standards in order to promote consistency.
- 3.4 The Council was content with the proposal not to respond to the EIOPA consultation on Set 1 of the Solvency II ITSs given that there are no implications for the trustworthiness of actuarial and accounting information and therefore the particular consultation is not relevant to the FRC's objectives.
- 3.5 The Council noted that draft responses to the EIOPA consultations on the application of Solvency II would be circulated to the Council for agreement by email during the summer period and that a draft response to the AAE working draft on ESAP 2 would be brought to the Council for agreement in September.

4. Institute and Faculty of Actuaries

Observer report

- 4.1 JC introduced a report from the IFoA and highlighted the following key points:
- A working group was reconsidering the objective of APS X2: *Actuarial Quality & Peer Review* following the consultation.
 - The Quality Assurance Scheme pilot had been launched.
 - The Annual Report of the IFoA Disciplinary Board had been published and was appended to the report.

Professional implications for pensions actuaries arising from the use of third party automated valuation products

- 4.2 JC reported that a working party had been established to look at the professional implications for actuaries arising from the use of third party automated valuation products and the membership, excluding the Chair, is comprised of actuarial practitioners and users. JC said that although the actuarial practitioners on the working party were all pensions actuaries, the issue also affected actuaries in other areas such as insurance. She reported that the working party had met twice and that the scope of the project had broadened significantly and was now focused on providing support for the pensions actuary by identifying what it is a Scheme Actuary should be looking for in order to be able to, and to be comfortable to, rely on the outputs produced by such software.
- 4.3 The Council welcomed the broadened remit of the working party and highlighted the importance of ensuring that the updated scope and detail of the proposed outputs are communicated to the profession. The Council also highlighted the importance of engaging with insurance actuaries and identifying parallels with Solvency II requirements in relation to the validation of models to inform the groups.

- 4.4 The Council highlighted a number of issues in relation to the proposed TAC including a query as to whether the production of third party software would be classified as actuarial work, and if so, how the reliability objective could be tested. The Council suggested, and JC agreed, that the working group would consider all aspects of actuarial work that may be relevant to the remit of the FRC 'through the lens of the proposed TAC' and that the working party would report back to the Council on the issues in due course. NR offered to be the point of contact at the FRC for this.

IFoA Annual Report to the FRC Conduct Committee

- 4.5 The Council noted a draft of the IFoA Annual Report to the Conduct Committee.

5. Team report

- 5.1 The Council noted a report that provided an update on activities relevant to the Actuarial Council's remit, not covered elsewhere on the agenda, since the last meeting on 6 May 2014. The Council noted that a letter from the Chair of the FRC's Conduct Committee to the Chair of the IFoA's Regulation Board would supplement the text included in the FRC's Annual Report in relation to actuarial oversight and regulation.

- 5.2 Melanie McLaren (MM) reported on meetings she and Stephen Haddrill, and separately RI and Faye Dyce had attended with HMT in May to explore areas of common interest arising from the work HMT is undertaking in relation to the recent budget announcement and in particular, the financial guidance guarantee. MM reported that HMT was gathering feedback from a wide range of sources and that a report from FCA on how the financial guidance guarantee would be provided could be expected at the end of July.

- 5.3 The Council also noted the quarterly Codes & Standards report to the FRC Board, the April Executive Director's report to the Codes & Standards Committee, and draft minutes of the April Codes & Standards Committee meeting.

6. Minutes of the previous meeting and rolling actions

- 6.1 The minutes of the Council meeting held on 6 May were approved as an accurate record of the meeting.

- 6.2 The rolling action log was noted.

7. Actuarial Council Working Groups review

- 7.1 The Council noted that the memberships of the Actuarial Council working groups remained unchanged from the previous meeting and that the Chair was considering whether or not, at a later date, the AS TM1 working group should be subsumed into a broader pensions working group.

8. Council Effectiveness

- 8.1 The Council noted a report that provided an update on the steps that had been taken to improve member engagement with the FRC Board and Codes & Standards Committee

in response to the findings of the Council Effectiveness review. Council Members were reminded that an FRC governance event was scheduled for the 1 July 2014 and that all Members were invited to attend.

9. Forward Agenda

9.1 The forward agenda was noted.

10. AOB

10.1 The Chair asked the Council to hold the afternoon of the 15 July 2014 for an additional Council meeting.