



**Minutes of a meeting of the Actuarial Council held on
26 November 2012 at Aldwych House, London WC2**

PRESENT

Olivia Dickson	Chair
Keith Barton	
Martin Bradley	
Angela Darlington	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	
Oonagh McDonald	
Martin Miles	

Observers

Jon-Paul Brett	DWP
Seamus Creedon	Groupe Consultatif
Paulo Cadoni	FSA
Amit Kamal	HMT
Sir Philip Mawer	Actuarial Profession
Nigel Peuple	The Pensions Regulator

In Attendance

Anna Colban	Codes & Standards Project Manager (items 1 and 2 only)
Peter Dingwall	Council Secretary
Faye Dyce	Project Manager, Actuarial Policy Team
Stephen Haddrill	CEO
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Project Director, Actuarial Policy Team
Paul Kennedy	Director, Actuarial Policy
Melanie McLaren	Executive Director, Codes & Standards (item 5 onwards)

1 APOLOGIES

There had been no apologies.

2 FEEDBACK FROM 1 NOVEMBER FRC BOARD MEETING AND COUNCIL'S ADVICES

Morris 7 years on

- 2.1 The Council noted its advice to the FRC Board for its meeting on 1 November, and the Chair summarised the key messages from the Board discussion.
- 2.2 The Council noted that:
 - a. The Board had agreed that it would be appropriate to take a fresh look at how it discharged its actuarial responsibilities and whether those responsibilities were being fulfilled in the context of the current environment. The Board had asked that a progress report be given at its 30 January 2013 meeting; and
 - b. The FRC executive, in liaison with the Chair of the Actuarial Council and other non-executives, had established "Project Capri" to take forward this mandate from the Board with a view to reporting on progress and the agreed programme for actuarial regulation in the FRC's annual report to the Secretary of State in the Summer of 2013.
- 2.3 In respect of Project Capri, the Council noted that:
 - a. From an FRC perspective, the project would cover both the conduct and codes & standards agendas;
 - b. The project will be taken forward in partnership with the IFoA. The Council noted a letter from the FRC CEO to the IFoA President seeking the IFoA's support;
 - c. A steering group would direct and oversee the project. The steering group would be strategic in its approach and clear in its conclusions about where responsibility lay for pursuing each proposed outcome, recognising the distinctive roles of the FRC and the IFoA, as well as the opportunities for partnership;
 - d. The steering group would comprise:
 - From the FRC - Stephen Haddrill (chair), Melanie McLaren, Paul George, Paul Kennedy, Olivia Dickson, Ashok Gupta, a member of the Conduct Committee and a member of the Actuarial User Group; and
 - From the IFoA – Sir Philip Mawer and a senior member of its Council;
 - e. It was envisaged that the Treasury, DWP, FSA and successor bodies and tPR would be invited to participate in the project as appropriate;
 - f. Terms of reference for the steering group had been drafted (the Council noted the proposed TOR);
 - g. The first meeting of the steering group would be before Christmas 2012 and the Council noted the proposed agenda; and
 - h. Work-streams were proposed addressing the six key themes identified by the Council in its advice to the Board with potential sponsors and work-stream leaders noted.

- 2.4 The FRC CEO introduced Anna Colban who would be the project manager and commented that the inclusion of Actuarial Council members on the steering group would ensure continuing Council engagement with the project.
- 2.5 The Chair hoped that Council members not on the steering group would support relevant project work-streams.
- 2.6 The IFoA observer commented that the IFoA was pleased with developments and would be an active partner in the project.
- 2.7 The Council accepted the planned way forward.
- 2.8 There followed a discussion on the Conduct Committee's input to the Board discussion and the subsequent exchange of letters between the Chair of the Conduct Committee and the Chair of the IFoA's Professional Regulation Executive Committee. The FRC CEO commented that, in general, non-confidential correspondence related to conduct matters could be shared with the Council, provided that no Council member or observer would be placed in a difficult position as a result.

AS TM1

- 2.9 The Council noted its advice to the FRC Board for its meeting on 1 November, and the Chair summarised the Board discussion.
- 2.10 The Council further noted that:
 - a. The Board had approved the publication of an exposure draft of version 3.0 of AS TM1. The exposure draft and a feedback statement had been published on 15 November. The exposure draft had a four-week consultation period ending on 12 December 2012;
 - b. The Board had accepted the Council's advice and the Executive's recommendation to remove the maximum rate for the accumulation assumption;
 - c. In line with the Council's suggestion, the Board had also agreed that, as well as documenting the rationale for the accumulation rate assumption, providers should make the rationale available to members on request. This should enhance the likelihood of providers being robust in their decisions on the accumulation rate assumption. The feedback statement stated that the FRC would monitor the accumulation rates used by providers and the underlying rationale; if evidence suggested that providers were using unjustifiable rates, the FRC would consider reintroducing a maximum rate; and
 - d. There had been limited but positive media coverage of the planned changes.
- 2.11 The Council considered the matter of reverting to the Board with final advice, bearing in mind that the Board would meet on 13 December, the day after the consultation on the exposure draft ended. The FRC CEO thought that, if significant new concerns were raised, the decision might need to be deferred and taken by the FRC Board by email. The Chair considered that it was important not to rush through important matters and that Council advice to the Board, if required, should always be in writing.

Pensions TAS

- 2.12 The Council noted its advice to the FRC Board for its meeting on 1 November, and the Chair summarised the Board discussion.
- 2.13 The Council noted that the Board had accepted the Council's advice and the Executive's recommendation to bring actuarial work concerning incentive exercises into the scope of the Pensions TAS. It had also accepted Council's advice not to include any additional principles relating to this work at this stage but to reconsider the position at the first full review of the TASs. On 14 November the FRC had published the revised version (2.0) of the Pensions TAS with a feedback statement on the consultation, and a revised Significant Considerations document. The changes to the TAS would be effective from 1 January 2013.
- 2.14 The DWP observer advised that the Pensions Minister had been grateful for the FRC's intervention in this matter of public interest.

3 DIRECTOR'S REPORT

Introduction

- 3.1 The Director presented his report. Council's input was being sought on four issues:
- a. The plan for monitoring accumulation rates used by providers under version 3.0 of AS TM1;
 - b. Preliminary comments on GCASP 2 that might be included in the FRC response;
 - c. A suggested lacuna in the scope of the Insurance TAS for actuaries supporting the audit of insurers; and
 - d. The IFoA's revised draft discount rate framework statement.
- 3.2 The Council noted that the remaining items in the Director's report were for information only.

Codes & standards and related guidance programme

- 3.3 The Council noted the scope and objectives of the programme and a summary of recent activity. Matters discussed are detailed below.

Monitoring accumulation rates used by providers under AS TM1

- 3.4 The Council noted that:
- a. In early 2013 the FRC would collate information on who issues SMPIs and in what volume. The FRC would contact insurance companies and pension consultants as well as contacts at the ABI and FSA; and
 - b. In June/July 2013 the FRC intended to contact providers and collect information on the accumulation rate assumptions used for statements produced after April 2013. The survey would cover the rates used for different asset classes and investment strategies (possibly including lifestyle strategies) and the approach used to determine the rates used.
- 3.5 Points made in discussion included:
- a. When will the results of the exercise be reported to the Council and what will they cover?

- b. The FRC Executive will draft a letter to providers to advise them of the detail of the monitoring exercise – this will indicate the scope of the report to the Council. Preliminary results are likely to be available in September 2013.
- 3.6 The Chair asked that the draft letter to providers be circulated to Council members for comment.

Funeral Plans

- 3.7 The Council noted that a meeting had been held on 22 November between the FRC, the IFoA, the FSA and the Funeral Planning Authority (FPA). The FRC had proposed that the FPA collect information on providers' obligations to provide funerals and had suggested that the IFoA encourage providers to register with the FPA if they had not already done so. The FPA had agreed to develop a framework for any necessary action.
- 3.8 The Chair requested that the note of the meeting be circulated to Council members for information and that the Executive report back to the Council on whether any further action by the FRC was appropriate.

Influencing international standards and regulation programme

- 3.9 The Council noted the scope and objectives of the programme and a summary of recent activity. Matters discussed are detailed below.

GCASP 2

- 3.10 The Council noted that:
- a. The Groupe Consultatif (GC) was consulting on a model 'Actuarial Standard of Practice' (GCASP 2) concerning the structure and content of the actuarial function's annual report to an insurer's governing body that would be required by Solvency II;
 - b. The GC had provided the FRC with a preliminary draft of an exposure draft (ED) in September 2012. The FRC had responded that, given the delays in Solvency II, the model standard was premature; the first reports to which the standard was likely to apply might not be prepared until 2017. The FRC had suggested that the GC would be better engaged in consulting with stakeholders to find out what were the real needs of users and practitioners. The response to those needs might be the production of a mix of educational material, guidance and standards. If standards were considered a proportionate response, such a consultation should provide the GC with feedback enabling it to focus on those issues where there was material risk of detriment resulting from a shortfall in actuarial quality. Other points made had included the need for an impact assessment, the prescriptive nature of the proposal, and the extension of regulation;
 - c. The final ED had been issued by the GC and had been circulated to Council members; and
 - d. The consultation deadline was 1 March 2013 and the FRC would respond. The Council would be invited to comment on a draft response at its meeting on 15 January 2013.

- 3.11 The Council was invited to provide preliminary input to the FRC's draft response.
- 3.12 In discussion it was agreed that the FRC's response should focus on the substantive issues rather than the timing of the model standard in relation to the Solvency II timetable, for which the official date of implementation was still 1 January 2014, notwithstanding the uncertainty surrounding this date.

Monitoring, Oversight and Research

- 3.13 The Council noted the scope and objectives of the programme and a summary of recent activity. Matters discussed are detailed below.

Scope of Insurance TAS for actuaries supporting the audit of insurers

- 3.14 The Council noted that:
- a. The FRC had held roundtables for actuaries involved in the audit of general insurance, life insurance and pension disclosures. (The Council noted a summary of findings in each of the main sectors);
 - b. The discussions with the insurance actuaries had suggested a possible gap in the scope of the Insurance TAS. Paragraph C1.11 of the TAS referred to actuarial work concerning insurance business performed by an auditor's expert, whereas a number of actuaries performing this work classified themselves as audit specialists which was a separate classification for the purposes of the requirements of auditing standards;
 - c. The uncertainty about the classification of experts and specialists was being raised by the FRC's Audit and Assurance team with the International Audit and Assurance Standards Board (IAASB);
 - d. Roundtable participants had indicated that they complied with the TASs even if they regarded themselves as acting as an audit specialist, because their work was in substance that of an expert, but there was a risk that some might not comply; and
 - e. The FRC Executive planned to await the outcome of discussions with the IAASB and the future review of the TASs before seeking to respond to the gap.
- 3.15 The Council was content with the proposed approach.

IFoA's discount rate framework

- 3.16 The Council noted:
- a. The IFoA's paper on a discount rate framework;
 - b. That the BAS had discussed earlier versions of the paper and fed back comments and concerns to the Profession – these had included concerns about:
 - the accessibility of the report to non-actuaries, even those who had more of a technical background;
 - the IFoA straying into the realm of standard-setting; and
 - the lack of references to the TASs.
 - c. The FRC Executive's view that the final paper was much better written and much clearer than before. The paper did not purport to challenge the

FRC's role in setting standards. Nevertheless, it appeared in some places to express general support for an approach to setting discount rates, and it suggested certain matters to be included in a report. It still made no explicit reference to the obligations under the TASs of an actuary adopting the discount rate framework; and

- d. The FRC proposed to consider discount rates within the Project Capri skills and methods workstream ahead of the FRC's planned review of the TASs in 2014.

3.17 The IFoA observer commented that the IFoA had decided to publish the paper, notwithstanding the issues highlighted, in order to do justice to the in-depth research and allow the authors to contribute some thought leadership in this important area.

3.18 The Council agreed that the FRC should move on from discussion of the IFoA's paper and focus on the Project Capri skills and methods workstream.

FRC Reform and efficient operations

3.19 The Council noted the scope and objectives of the programme and a summary of recent activity.

4 FAIRNESS

4.1 The Council noted that:

- a. Actuaries are frequently asked to advise on the fair treatment of insurance policyholders, and sometimes also on matters which have implications for the fair treatment of pension scheme members and other participants in long-term pooled investment arrangements. The Equitable case was found to have involved an incorrect approach to the treatment of different classes of with-profits policyholders;
- b. Actuarial work concerning fairness is relevant to the FRC's activities in relation to the ongoing governance and reporting of investors' rights in insurance and pensions – in this case policyholders and scheme members - and in circumstances where these rights are modified, as covered for example by advice within the scope of the Transformations TAS or where beneficiaries are offered incentives to modify their rights;
- c. A research project had previously been approved by the BAS and the POB with the aims of achieving a better understanding of:
 - the criteria and principles for assessing fairness in actuarial work;
 - the training, skills and external support which actuaries are given to support them in advising on fairness; and
 - the work which actuaries actually undertake in order to advise on fairness, and to meet the expectations of users and regulators.
- d. The view of the BAS and the POB was that these issues were:
 - important for the FRC and its stakeholders;
 - researchable; and
 - capable of producing useful outputs and outcomes.

- 4.2 The Council noted examples, identified by the FRC Executive, of fairness issues in insurance and pensions which relied on actuarial methods and professionalism. There could be other areas, not yet identified, where users looked to actuaries to provide information which might influence the fair treatment of policyholders, scheme members and other stakeholders.
- 4.3 The Council noted that:
- a. The Executive had identified analysis and surveys/discussions with practitioners, users and regulators as possible sources of information. However, there might be other sources of useful information; and it might be appropriate to seek legal advice;
 - b. The main output of the project as originally envisaged by the BAS and the POB was a report on the FRC's findings on the adequacy of actuarial methods, training and professionalism in dealing with issues of fairness, together with any relevant recommendations;
 - c. The findings would be an important input to the planned reviews of the Transformations TAS (preliminary in 2013, full in 2015) and possibly also to the reviews of the generic TASs; and
 - d. A possible output of the project was a new set of substantive principles to be adopted in undertaking actuarial work on questions of fairness.
- 4.4 The Council was invited to consider:
- a. Continuance of the project;
 - b. Future governance and timescale of the project;
 - c. The formation of a Council sub-group; and
 - d. Reporting to the Codes & Standards and Conduct Committees and involvement of the FRC's stakeholders.
- 4.5 Points made in discussion included:
- a. The proposed project seems focused and robust. The project should look at a wide range of individual cases in which actuaries have exercised judgement and why they thought that, in the circumstances, they had been 'fair'; the results might have a bearing on the review of the TASs;
 - b. The paper meets the BAS requirement of making the project better related to real work;
 - c. Pensions actuaries and life actuaries differ in the extent to which they consider issues of fairness. With the increased number of closed schemes, fairness may become more of an issue for pensions actuaries. Some members of the Council thought that it would be helpful to explore further the different ways in which life and pension actuaries consider fairness issues;
 - d. How wide should the project's scope be? Considerable work in the area of fairness is being undertaken in academia and the legal world, and it would be a shame not to draw on that work, albeit that this would risk taking the project out of the real world;

- e. Actuaries do not work in a vacuum; they work with others in the context of risk management, with-profit committees etc. The scope of the project should not be drawn too narrowly;
- f. Pensions actuaries are more concerned with the application of regulation and scheme rules – this is not the same as considering fairness;
- g. Considerations of fairness are related to the actuaries' ethical model – for example in the situation of considering the interests of one set of stakeholders against those of another;
- h. The FRC has not been asked by the IFoA to address this issue; the project arises from the FRC's standard-setting role – examples cited relate to the Transformations TAS – and its role in overseeing the IFoA in the regulation of its members;
- i. The project seems to present an interesting and important opportunity. However, if it is to continue, it requires a greater degree of consensus around the need for it and a greater degree of clarity about its purpose and deliverables; there are three ways in which the work could be positioned:
 - Pure research – actuaries are required under FRC actuarial standards and other standards to give an assurance of fairness related to their work; the research would consider the most obvious examples of that type of work, how are actuaries satisfying themselves on the fairness judgement, is their rationale understandable and credible, and are there any issues of concern for the FRC;
 - Related to the skills and methods of actuaries in the area of fairness – what the necessary skills and methods are, whether actuaries are being appropriately trained to exercise judgement in this area; this would require the underlying research but would be a more aggressive positioning, because it would imply that there was a known issue/problem that needed to be addressed;
 - In the project Capri work-stream 'communication with users and appropriately informing the decision-making of users' in the sense that this was not working as well as the FRC would wish and what the FRC could do to improve the quality of information / advice and decision-making process; topics which might be covered include fairness, prudence, certainty, sensitivity, and sustainability; the desired outcome would be better-informed judgements on fairness;
- j. The project should have deliverables aligned to ways of working rather than a report;
- k. It is unlikely that a report will be the solution to the issue or that the issue will be amenable to being addressed solely through standards. The solution is more likely to be around impacting ways of working;
- l. There are many issues to address in project Capri and there are questions around priorities and limited resources. In the conflicts of interest implementation context, the IFoA has produced case studies, whereby actuaries have been encouraged to think their way through relevant issues; a similar approach could be adopted in respect of

fairness, whereby the FRC Executive would write up its thoughts, for example on principles for assessment, and there would then be a conversation with the IFoA, in particular with the people responsible for professionalism and CPD, with a view to developing focused seminars etc; this approach might impose a lesser burden on the FRC Executive; thus, the project would be less about the philosophical aspects of fairness, and more about embedding appropriate practical thought-processes into the work patterns of the actuarial profession;

- m. Fairness is either an important or a meaningless concept; if it is the former, why is it not comprehensively covered in the FRC's actuarial standards? Was it because there is essentially little difference between pursuing fairness and acting ethically, and ethical issues fall within the remit of the IFoA?
- n. Fairness is not wholly an ethical issue, albeit that the ethical dimension is important and the FRC needs to be alert to areas where unethical behaviour is occurring. Indeed, the failure to treat policyholders fairly in the Equitable case is where the debate over actuarial regulation started. The Transformations TAS covers fairness in some depth, focusing mainly on communication between the actuary and the decision-maker. The degree to which fairness is covered in the TASs might have been limited by time or the BAS's vision at the time about what could be included in the TAS; however, the BAS was trying to get at some of the methodologies, developed by the actuarial profession, mainly in life insurance, so the issue is not entirely ethical. Whereas pensions actuaries tend to follow the maxim that equity follows the law and tend, therefore, to simply follow the rules related to their work, methodologies such as asset shares have been developed in life insurance to address concerns about fairness;
- o. The differences between the approaches in the life and pensions areas need to be more clearly articulated so that potential read-across can be debated;
- p. Any debate needs to be informed by the sort of work proposed in the project; and the debate will be about how actuaries perceive the concept of fairness and how this might differ from the public policy view of fairness, how actuaries perceive their role in exercising judgement when advising on fairness, and what role the FRC and the IFoA have in this area;
- q. Once the purpose of the project has been clarified and the positioning of the project agreed, the challenge will be to scope the output that will inform the debate between the FRC and the IFoA;
- r. The FRC has a legitimate locus in considering fairness in relation to actuarial work where advice or opinions on fairness are required, but care should be taken not to allow the project to stray into other areas of ethics or morals, such as advice to employers on fairness in staff termination cases;
- s. Is this issue a priority for the FRC, or is it for the IFoA to undertake more work on underpinning its ethical code?

- t. The IFoA could develop case studies on fairness as part of the training of actuaries; and
 - u. Fairness is just one area where actuaries need to exercise judgement; there are other issues related to judgement which should be considered.
- 4.6 The Chair concluded that the matter should be discussed again at the March 2013 meeting of the Council based on further work undertaken with the IFoA, to establish whether there would be an adequate consensus around the need for a project on fairness, having particular regard for its positioning within the FRC's agenda and its deliverables. **Action: John Instance.**

5 INTERNATIONAL ACTUARIAL STANDARDS

UK approach to implementation

- 5.1 The Council considered a paper from the FRC Executive and noted that:
- a. The IAA and the GC had agreed to issue model actuarial standards for consideration by their member associations, such as the IFoA, and by other standard-setting bodies, such as the FRC;
 - b. The IAA would shortly publish its first model standard (ISAP1 – see minute [5.16]), and the GC had issued for consultation an exposure draft of its first model standard (GCASP 2 – see minute [3.9]).
 - c. The IAA would invite its member associations and national standard-setters to consider (using the IAA's terminology):
 - adopting ISAP1 as a standard with appropriate modification, where items covered in the ISAP are not currently contained in existing actuarial standards, or where such portions of existing actuarial standards are to be withdrawn;
 - endorsing the ISAP as a standard as an alternative to existing standards;
 - modifying existing standards to obtain 'substantial consistency' with this ISAP; or
 - confirming that existing standards are already 'substantially consistent' with this ISAP.
 - d. The GC was proposing to invite its members and European actuarial standards-setters to consider (using the GC's terminology):
 - adopting each GCASP as a standard with or without modification,
 - endorsing the GCASP as a standard, or
 - adapting one or more existing standards to 'embody the principles' of the GCASP.
- 5.2 The Council noted the FRC Executive's proposed arrangements for implementing model international actuarial standards. Before the Codes & Standards Committee was invited to approve these arrangements, account might need to be taken of initial output from the project Capri international work-stream which would need to consider the proposed arrangements.
- 5.3 The FRC Executive considered that, in the case of any model standard or exposure draft concerning technical aspects of actuarial work in the UK, the

Actuarial Council should be invited to consider and give its opinion on whether existing UK technical actuarial standards were substantially consistent with the model standard. If, in the Council's opinion, existing UK technical actuarial standards were not substantially consistent, it should, in accordance with its procedures, advise the Board on whether or not amendments should be made to those standards to make them substantially consistent. In giving this advice, the Council should consider best regulatory practice which requires standards to be proportionate and targeted only at actuarial work where there is a risk to the FRC's Reliability Objective.

5.4 Furthermore, the Executive considered that:

- a. The FRC should normally only consider adopting or endorsing model standards in cases where the Council was satisfied that one or more of the following applied:
 - The process adopted in developing and approving the model standard was or had been sufficiently independent of the profession and other vested interests;
 - The model standard was compatible with the existing UK regulatory framework and the objectives for FRC standards or could be readily and beneficially modified or clarified in order to achieve compatibility with the existing UK framework; and
 - The subject-matter of the model standard could not be covered more beneficially through FRC standards or the standards of other UK bodies..
- b. Before reaching its view, the Council should consider feedback from stakeholders including the IFoA and the UK Forum on International Actuarial Standards.
- c. The Council's opinion on substantial consistency and its advice on amendments should be published.

5.5 General points made in discussion included:

- a. The IFoA discusses these issues with the FRC, eg on GCASP2, and this liaison is much appreciated and valued by the IFoA. It seems that the FRC and the IFoA are approaching the issues from a similar perspective. However, the FRC Executive paper seems rather defensive of the UK position, ie the UK approach to actuarial standard-setting is appropriate and sets the benchmark for assessing other approaches. This is of course a relevant dimension, but there needs to be awareness that the internationalisation of actuarial regulation is seen in some quarters as the way forward. There may be aspects of the development of international actuarial standards from which the UK can learn. The paper also seemed defensive in the area of judging what the UK's response should be to the publication of international/European actuarial standards. Because some model international actuarial standards will cover both technical and ethical matters, the FRC and the IFoA should be prepared to reach such judgements together, on the basis that each party is sovereign in relation to relevant elements of the model standard, albeit that the FRC is able to comment on or dissent from the IFoA's approach, publicly if necessary.

- b. The content of the paper is fine, but the tone is defensive. From a practitioner perspective the model standards seem to be well-meaning and well written but the practitioner will need to understand the hierarchy of and relationship between the various pieces of regulation to which the practitioner must have regard. The insurance industry is more global in nature and lends itself to international standards, whereas for pensions a more country-by-country approach is warranted; and
 - c. The FRC should learn from its experience in dealing with international regulation in the corporate reporting and audit & assurance areas, understanding where there are commonalities and where there are justifiable differences with international actuarial standards.
- 5.6 It was agreed that the FRC Executive would consider all the above points and revert to the Council for a discussion on 'preliminary position' prior to a paper on overall approach being presented to the Codes and Standards Committee. The precise timing would be clarified following work on the forward agenda.

How wide any consultation (of the UK's approach) needs to be (possible options including a wide consultation with all FRC stakeholders and a narrower consultation with the UK Forum on International Actuarial Standards):

- 5.7 Points made in discussion included:
- a. The practice in the corporate reporting area has been of wide and public consultation, but this is against the background of the EU enshrining standards in EU legislation. The practice in audit & assurance has also been of wide and public consultation, although the adoption of international auditing standards is voluntary. There is an evident advantage, related to consistency of data and comparability of how that data is audited, in the adoption of international standards in corporate reporting and auditing. The FRC's attitude towards international actuarial standards should be based on what it sees as the benefits of such standards. The paper is not clear on what such benefits would be in the eyes of the FRC's stakeholders;
 - b. Timing is also a consideration: in the corporate reporting area, the FRC was a prime mover and international standards largely followed UK standards; as a result, the UK generally adopted international standards. Countries which came to the international accounting standards scene later had a 'second mover advantage' by adopting only those aspects of the standards that suited their purposes. So the considerations for the FRC are: the quality of the model international actuarial standards; what the FRC has to contribute; and how can the FRC best influence outcomes;
 - c. The FRC's actuarial standards have only recently been issued and practitioners are still getting used to complying with them. The FRC should, therefore, be very wary about confusing practitioners with another set of standards. Therefore, for a while, the FRC should engage proactively with the development of international actuarial standards and seek to identify where these are better than the FRC's standards and take advantage of them. However, to avoid confusion UK technical actuarial standards should retain the FRC wrapper, until such time as there is a legislative imperative to adopt a different branding or that there

is universal acceptance of the international branding which suggests that the UK should adopt it;

- d. Because of the potential confusion (see minute [5.6c]), UK practitioners should be consulted, or at least alerted to developments;
- e. The benefit of a wide consultation on the approach itself is not obvious, there will be more interest in the practical impact;
- f. The UK Forum on International Actuarial Standards seems to represent the right group to consult;
- g. A commercial view would be beneficial; there is no commercial input to the UK Forum on International Actuarial Standards; the ACA, for example, may be an appropriate organisation to fill the gap;
- h. The IFoA is invited to bring practitioners to meetings of the UK Forum on International Actuarial Standards;
- i. There is unlikely to be appetite from firms to engage in a consultation prior to the major review of the TASs planned for 2014;
- j. A wider consultation would establish the views of firms rather than their views being assumed; and
- k. Much of the cost of a consultation relates to responding rather than consulting.

- 5.8 The Chair concluded that there was no clear consensus on the matter of consultation as to overall approach, but the balance of the discussion indicated a fairly narrow consultation.

Whether the FRC should generally look to confirm substantial consistency (or otherwise in which case if appropriate it should consider any modifications to UK standards in order to achieve substantial consistency) rather than adopt or endorse model international actuarial standards

- 5.9 The Council agreed that, in principle, the FRC should at this stage generally look to confirm substantial consistency rather than adopt the model standard. This was subject to clarification about the extent to which compliance with such confirmed local standards would be treated as equivalent to compliance with an ISAP. For example, in the case of the upcoming social security ISAP, there seemed to be a recognition on the part of the IAA that, if a practitioner certified compliance with the social security ISAP, then they would be expected to comply either with ISAP 1 or with an equivalent local standard which the local standard-setter had confirmed to be substantially consistent with ISAP 1. This was an issue that the FRC Executive would pursue with the IAA.

How a judgement should be made on substantial consistency: should substantial consistency be judged at an aggregate level or at more granular level?

- 5.10 The Director commented that the IAA had given no direction on how substantial consistency was to be judged and was leaving the matter to local standard-setters. A line-by-line comparison of a model standard with a local standard (as had been done in the case of ISAP 1 – see minute [5.16] below) would give greater confidence in confirming substantial consistency or otherwise, but precise conformity was not essential. It seemed that other major standard

setters within the Standard Setters Round Table were planning a line-by-line approach.

5.11 Points made in discussion included:

- a. If a line-by-line review indicates that there are differences at a micro level which would be material to the user of actuarial work, then it will be difficult to confirm substantial consistency; thus it will be necessary to judge the impact of each difference;
- b. The FRC's experience in the area of accounting standards is useful here; the Board has agreed that the FRC should promote the convergence of high quality, timely financial reporting standards that are principles-based and evidence-based and enable practical solutions to financial reporting issues;
- c. Clarity for practitioners on which standards apply to their work will be essential. A practitioner complying with an FRC standard should be able to assert compliance with an equivalent international standard;
- d. Irrespective of any perceived hierarchy of standards, any line-by-line compare and contrast exercise should be on a neutral basis; and
- e. There will be a difference between the locus of model ISAPs and GCASPs, compliance with which will be at the discretion of the national standard-setter, and actuarial standards set by EIOPA or other formal standard-setters;

5.12 It was agreed that assessments of materiality of differences would be supported by a line by line analysis on a neutral basis.

Whether the FRC should limit its role to providing an opinion on consistency of technical matters or should it be prepared to provide an overall opinion on the consistency of UK provisions as a whole

5.13 It was agreed that, where possible, the FRC and the IFoA should work together to agree the thrust of separate responses to the IAA/Groupe Consultatif, with each body giving an overall opinion but focusing on those elements of a model ISAP/GCASP that relate to its primary responsibility.

Whether the FRC should comment on overseas actuarial work

5.14 The Council agreed that the FRC should take into account but not comment on overseas actuarial work.

What should the FRC do if it is considered that UK standards are not substantially consistent with a model standard?

5.15 The FRC CEO commented that the FRC Board's responsibility is to Parliament, which has given it authority. The Board will not wish to endorse an international standard which is not of the same quality as the equivalent FRC's standard. Therefore, the Board's interest is in whether a model ISAP/GCASP is substantially consistent with the FRC standard, not the other way around. The FRC should not get into a mind-set that substantial consistency is the goal and that it has to adjust to model ISAPs. If, on the basis of a neutral analysis by the FRC Executive, a material inconsistency is identified between an FRC actuarial standard and a model ISAP/GCASP, then it will be for the FRC to decide

whether it has anything to learn from that inconsistency and whether or not a consequent modification would be beneficial.

- 5.16 On the basis of further discussion the Chair concluded that the FRC should adopt a flexible response to narrowing gaps identified by neutral analyses, with a principles and evidence-based approach to guide the FRC's thinking to ensure consistency of approach.

Consistency of UK standards with ISAP1

- 5.17 Having considered the general issue of implementing model international actuarial standards in the UK, the Council considered the specific issue of responding to the IAA's publication of ISAP 1 – a model standard for general actuarial practice – bearing in mind the IAA's expectations in respect of model standards (see minute [5.1c]). The Council noted that:

- a. ISAP1 is relevant to members of the IFoA, in particular to those operating within the geographic scope of the FRC's technical actuarial standards; and
- b. The model standard covers both professional conduct and technical matters. In the UK, the relevant actuarial standard-setting bodies are the IFoA in respect of professional conduct standards, and the FRC in terms of technical actuarial matters.

- 5.18 The Council noted an FRC Executive review of ISAP 1, including a mapping of the requirements of the model standard against the current regulation of actuarial work in the UK. The mapping included a commentary on each paragraph of ISAP, categorised as follows:

- a. UK actuarial regulation sets higher standards than ISAP 1;
- b. UK actuarial regulation is substantially consistent with ISAP 1;
- c. UK actuarial regulation covers the matter but is generally less prescriptive and may need extending to comply with ISAP 1;
- d. UK actuarial regulation is likely to need extending in order to comply with ISAP 1; and
- e. An IFoA/FRC professional conduct or technical matter.

- 5.19 In summary, the mapping indicated that:

- a. ISAP 1 might be considered as substantially consistent with the Actuaries' Code and the TASs in most areas. There were a number of areas in which the ISAP was more prescriptive, but it could be argued that the more principles-based UK approach is sufficient given the sophistication of the market for actuarial services.
- b. There are four areas where current UK regulation might be inconsistent with ISAP1:
 - Scope: the ISAP applies to all actuarial work carried out by actuaries. The TASs only apply to certain work in a specific defined context (work which is reserved, covered by a Specific TAS or presented as complying with TASs). However, there is an argument that scope only matters in cases where compliance with standards is actually being asserted, and a review of scope is planned to commence in 2013;

- Departures: all departures from ISAP 1 have to be disclosed. The TASs only require disclosure where the departure is material. However, it is arguable that permitting immaterial departures would not affect substantial consistency;
- Peer review: the ISAP requires peer review to be considered to ensure quality of the report. Peer review is only a UK requirement for certain work of the Scheme Actuary. However, the IFoA has informed the FRC that it is considering extending its Professional Conduct requirements to require actuaries to consider the need to have reports peer reviewed.
- Reports: the ISAP requires that reports should present all information with sufficient detail that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work. This is not required by the TASs, except as a documentation requirement, or the Actuaries' Code; indeed a similar requirement in the old GN12 applying to reports in General Insurance was deliberately removed. On the other hand, TAS R does require disclosure of the rationale for assumptions, measures and methods.

5.20 General points made in discussion included:

- a. In the light of the discussion under the previous item, the analysis does not seem to be wholly neutral. For example, the use of red text might suggest that the FRC prefers its own approach to that of the IAA;
- b. The Director explained that red text had been used simply to highlight potential gaps between UK standards and the ISAP, which would require further consideration before the Council could confirm substantial consistency; and
- c. It would be helpful if the analysis could be reviewed with a view to ensuring that gaps in consistency are identified and implications considered in a neutral way.

5.21 Points made in discussion of the summary of gaps included:

Scope

- a. The scope gap is the biggest issue in terms of confirming substantial consistency;
- b. It could be argued that the TASs cover all actuarial work that is material to UK users;
- c. There is work that pensions actuaries undertake that is material to UK users but is not covered by the TASs;
- d. A detailed list of work not covered by the TASs is needed to make a more informed assessment of the scope gap; and
- e. This issue should be considered within the scope of standards work-stream of project Capri.

Departures

- f. There was agreement that the gap was small.

Peer review

- g. It was agreed that this was a matter for the IFoA to address in the first instance.

Reports

- h. It was agreed that, in this area, the TASs were more appropriate for UK users than ISAP 1.

5.22 The Chair summarised the discussion as follows:

- a. The Council has not yet reached a view on whether or not UK actuarial standards are substantially consistent with ISAP1;
- b. The Council will rely on the FRC Executive to identify all inconsistencies, having liaised with the IFoA;
- c. The scope gap needs to be articulated in more detail;
- d. The Executive should recommend whether identified gaps can be lived with or are sufficiently material that consideration should be given to closing them;
- e. The Executive should present to the Council the proposed text of the response to the IAA; and
- f. The Executive should advise the Council on the need for Codes and Standards Committee involvement and plan such involvement on the forward agenda.

6 STAKEHOLDER ENGAGEMENT

- 6.1 Written reports from the DWP, the Groupe Consultatif, HMT, the IFoA, and the Pensions Regulator were noted.
- 6.2 There was a discussion of a matter covered in the DWP report: whether the current scheme funding framework provides sufficient flexibility in practice to cope with current difficult economic circumstances. It was agreed that the FRC should be involved in relevant discussions and the DWP observer agreed to report back to the DWP on this view.
- 6.3 The Council noted an FRC report of recent actuarial stakeholder engagement activities.

7 MINUTES AND ACTIONS

The minutes of the Actuarial Council meeting held on 25 October 2012 were agreed, and progress on actions arising from the meeting was noted.

8 COUNCIL EFFECTIVENESS - REVIEW AND PLAN

- 8.1 The Council noted its forward agenda for 2013. It was noted that further work was planned to populate the document in conjunction with the forward agendas for the FRC Board, the Codes & Standards Committee and the Conduct Committee.
- 8.2 The Chair commented on the process for producing Actuarial Council advice/input. She considered that Council's advice/input should always be articulated in a discrete document, signed by the Chair and sub-group Chair. However, the content of the document should then be integrated with the relevant Executive report to the Board/Committee rather than being attached as an Annex which could create duplication and confusion for the reader.

Experience had shown that firming up the Council's advice was a non-trivial matter, and the Director would therefore bring the final draft text of the Council's advice to the relevant meeting of the Council so that all Council members were fully consulted.

- 8.3 The Council reviewed its sub-groups. The sub-groups related to AS TM1, Morris Seven Years On, Pensions TAS (Incentives), and Funeral Plans TAS, were now dormant, the sub-group on the FRC Plan would convene after the January Council meeting and potential sub-groups on Fairness and GC ASP2 would not be established until the forward agenda had been clarified.

9 **AOB**

There was no other business.