

December 2016

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# Feedback Statement

## Consultation: Revised Specific TASs

### Analysis of responses to the May 2016 consultation



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# 1 Introduction

## Background

1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. It issues and maintains Technical Actuarial Standards (TASs) for technical actuarial work in the UK. The Institute and Faculty of Actuaries (IFoA) requires its members to comply with the TASs for technical actuarial work within their scope.

## Consultation and responses

1.2 On 5 May 2016 the FRC published a consultation paper: *Revised Specific TASs*. This followed an earlier consultation *A new framework for Technical Actuarial Standards*<sup>1</sup> issued in November 2014 which included proposals to:

- replace the existing Generic TASs by a single Generic TAS (TAS 100: *Principles for technical actuarial work*) applicable to all technical actuarial work;
- implement a risk assessment process, building on the feedback we received on the discussion paper *Joint Forum on Actuarial Regulation: A risk perspective*, to inform decisions to make work subject to the Specific TASs; and
- carry out a review of the Specific TASs including a restructuring which would see principles in the Transformations TAS transferred to the revised Specific TASs.

1.3 In May 2016 we published the feedback statement on this consultation and, at the same time, published review drafts of the *Framework for FRC technical actuarial standards* (Framework) and TAS 100: *Principles for Technical Actuarial Work* (TAS 100). We did not seek specific feedback on the review drafts but stated that we would consider any comments on them.

1.4 The purpose of the consultation *Revised Specific TASs* was to seek views on:

- the risk assessment process we developed to inform decisions on the scope of the Specific TASs; and
- the output of that risk assessment process which had been used to develop proposals for revisions to both the scope and requirements of the Specific TASs.

1.5 The consultation included exposure drafts of TAS 200: *Insurance* (TAS 200), TAS 300: *Pensions* (TAS 300), TAS 400: *Funeral plan trusts* (TAS 400) and the *Glossary of defined terms used in FRC technical actuarial standards* (Glossary).

1.6 We received a total of 40 responses with 16, 20 and 4 responses in respect of TAS 200, TAS 300 and TAS 400 respectively. Respondents included practitioners, regulators, industry bodies and the IFoA. A list of respondents is included in the annexes and the responses can be found [here](#).

## This document

1.7 This document and the annexes set out our responses to the points raised in the consultation on the revised Specific TASs. The numbering of the paragraphs refers to

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<sup>1</sup> <https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Actuarial-Policy/Past-Consultations/A-new-framework-for-Technical-Actuarial-Standards.aspx>

the numbering of the paragraphs in the documents issued in May 2016, other than new paragraphs.

- 1.8 We have published final versions of the revised Specific TASs on insurance, pensions and funeral plan trusts. In developing the final versions we have taken account of the comments we received in response to the consultation exposure drafts, as well as other comments that have been made to us in meetings.
- 1.9 Respondents were generally supportive of the risk assessment used to determine the scope of the Specific TASs and the proposed changes which simplify the existing TAS framework and focus the scope of the Specific TASs on technical actuarial work where there is a high degree of risk to the public interest.
- 1.10 Section 2 summarises the comments that we received in answer to the questions that were posed in the covering consultation paper and our reaction to them. Section 3 explains the changes that we have made to the Glossary.
- 1.11 The analyses of responses to questions in the annexes of the consultation are set out at:
  - [TAS 200: Insurance](#)
  - [TAS 300: Pensions](#)
  - [TAS 400: Funeral plan trusts](#)

### **Next steps**

- 1.12 We have published final versions of the new *Framework for FRC technical actuarial standards*, TAS 100 and the three revised Specific TASs. All documents will be effective from 1 July 2017. The current TASs will cease to apply to work completed on or after 1 July 2017 subject to transitional arrangements (see paragraphs 2.16 and 2.16).

## 2 Responses to questions in the covering consultation paper

2.1 In this section we summarise the points raised in the responses to questions in the covering consultation paper and our reaction to them.

### Overview

2.2 Respondents were supportive of the risk assessment process used to determine the scope of the Specific TASs, the design principles for these TASs and their proposed style and structure. We have updated the output from the risk assessment process (shown in Appendix A) taking account of the feedback we received.

2.3 There were various comments on the Glossary. We have set out changes which we have made to the Glossary in Section 3.

### Analysis of responses

2.4 The questions in the covering consultation paper are repeated below with a summary of points made in the responses and our reactions to those responses.

### Risk assessment

**C.2.1 Do you have any comments on the risk assessment process described in paragraphs 2.2 to 2.15?**

**C.2.2 Do you have any comments on our proposed approach to risk monitoring (paragraphs 2.16 to 2.21)?**

2.5 Respondents were supportive of the risk assessment process.

2.6 Several respondents asked how the risk assessment process would capture new areas of work on matters where there is a risk to the public interest and reflect changes in the probability and impact of risks crystallising. The Joint Forum on Actuarial Regulation (JFAR) maintains *A risk perspective*<sup>2</sup> which sets out key risks where actuarial work is relevant. JFAR monitors *A risk perspective* and updates it regularly. One of the inputs is the IFoA's Risk Outlook<sup>3</sup> which also identifies risks. In addition the FRC and JFAR carry out regular horizon scanning. Finally technical actuarial work in new areas will be subject to TAS 100 providing a level of assurance of the quality of that work.

2.7 Several respondents asked how public interest is defined for the risk assessment. In our feedback published in July 2015 to the discussion document *A risk perspective* we said that we take a broad view of the public interest. We consider that there is a risk to the public interest if its crystallisation would have a significant impact on a substantial group of individuals, on the financial system or on the community as a whole. In addressing the impact of technical actuarial work on the public interest, we consider both how actuarial work may contribute to risks to the public interest if done without sufficient care or appreciation of the full context and how technical actuarial work can be used to mitigate those risks.

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<sup>2</sup> [https://frc.org.uk/Our-Work/Corporate-Governance-Reporting/Actuarial-Policy/Joint-Forum-on-Actuarial-Regulation-\(JFAR\).aspx](https://frc.org.uk/Our-Work/Corporate-Governance-Reporting/Actuarial-Policy/Joint-Forum-on-Actuarial-Regulation-(JFAR).aspx)

<sup>3</sup> <https://www.actuaries.org.uk/news-and-insights/news/risk-outlook-paper-published-ifoas-regulation-board>

2.8 We have updated the output of the risk assessment following our analysis of, and reactions to, the responses to the consultation. The updated output is in Appendix A. It includes the following changes to the analysis for pensions:

- Private sector Scheme Funding – employer work has been moved to medium-high likelihood/high impact.
- Section 75 debt on employer calculations has been moved to medium-high likelihood/medium-high impact.
- Clarification that the work assessed for scheme modifications, bulk transfers and incentive exercises includes work for trustees and employers.

### **Content of the revised Specific TASs**

**C.3.1 Do you agree that the design principles described in paragraph 3.3 will help to ensure that the Specific TASs form a coherent and risk-focussed set of requirements that apply alongside TAS 100?**

2.9 Respondents agreed and made a small number of comments including suggestions that there should be a design principle that the TASs are short, clear and outcome-focused and that Specific TASs are consistent in format and style with each other as well as with TAS 100. We will consider the feedback when we next review the design principles.

**C.3.2 Do you agree with the proposed style and structure of the revised Specific TASs outlined in paragraphs 3.8 to 3.15?**

2.10 All respondents who answered the question agreed with the style and structure. However one respondent suggested that further consideration should be given to Appendix A of TAS 300 (Information to be included in the Scheme Funding report) which is more detailed and directional than the rest of TAS 300. We discuss this further in Annex 2.

2.11 Two respondents commented that the numbering system of the Specific TASs is unlikely to make sense to users. To avoid confusion practitioners may choose to refer to these standards by the subject rather than the number.

**C.3.3 Do you have any comments on the draft *Glossary of defined terms used in FRC technical actuarial standards*?**

2.12 Respondents made various comments on the terms used in the *Glossary of defined terms used in FRC technical actuarial standards*. Having considered this feedback we have made some changes to the text in the exposure draft of the Glossary. These changes are set out in Section 3.

2.13 Some respondents suggested that the term “incentive exercise” used in TAS 300 and defined in the *Glossary of defined terms used in FRC technical actuarial standards* is misleading as it includes exercises, such as pension increase exercises, where there may be no incentive. We considered this feedback but have decided to retain the term as it is commonly used and is in the industry code of practice for incentive exercises.



## ***Implementation***

### **C.6.1 Do you have any comments on proposed implementation of the revised Specific TASs?**

- 2.14 Several pensions practitioners asked for early adoption of the Specific TASs to be permitted as there may be some work where it is not clear at the outset when it will be completed. We agree that early adoption would ease transition and have decided to permit early adoption of the revised Specific TASs and TAS 100 for work completed on or after 1 April 2017.
- 2.15 Some respondents (all pensions practitioners) asked for transitional arrangements to permit compliance with the existing TASs for a period after the revised TASs come into effect; in particular for Scheme Funding exercises where the work could have been started before TAS 300 is published but completed after 1 July 2017. For this work the practitioner might not know when the work will be completed as it is dependent on trustees and employers reaching agreement.
- 2.16 Having considered the feedback we have decided to permit compliance with the Pensions TAS and existing Generic TASs instead of TAS 300 and TAS 100 for Scheme Funding exercises with an effective date of calculations on or before 1 October 2016.
- 2.17 A statement explaining the transitional arrangements is available [here](#):

### 3 Changes to the Glossary of defined terms

#### 3.1 We have made the following changes to the Glossary:

- removed the definition of **beneficiaries** as it is not used in the Specific TASs;
- inserted a definition of **bulk transfer** – “a connected transfer of the benefits of two or more members of the same **pension scheme** or **insurer**. The transfer may be with or without the consent of the transferring members”;
- we have removed the definition of **fund** as it is not used in the TASs;
- amended insurance company to **insurer** and included **funeral plan trust** in the definition of **entity**;
- amended the definition of **governing body** to include the scheme manager and/or responsible authority for schemes subject to the Public Service Pensions Act 2013 as this will capture the work for the Home Office for the Police and Firefighters schemes and work for the Department for Communities and Local Government for the Local Government Pension Scheme;
- inserted text in the definition of **implementation** – “a reproducible **implementation** is one that produces the same outputs from identical inputs”;
- amended the definition of **insurer** to include groups of **insurers**;
- amended the sentence which follows the definition of material as follows: “Assessing whether a matter is materiality is a matter for judgement which requires consideration of the **users** and the context in which the work is performed and reported”;
- inserted a definition of **pricing framework** – “the set of product pricing principles and the **measures, methods, assumptions and models** implementing those pricing principles that support an **insurer’s** premium rates or product charges”;
- we have removed “audit” from the definition of **professional scepticism** so the term can be applied more widely than just to audit;
- inserted text in the definition of **realisation** – “a reproducible **realisation** is one that produces the same outputs each time it is run”;
- inserted a definition of **recovery plan** instead of **recovery period** – “the plan to eliminate a deficit under section 226 of the Pensions Act 2004”;
- removed the definitions of **reinsurance business** and **reinsurer** and amended the definitions of **insurer** to include reinsurance and **insurance business** to include reinsurance business;
- amended, for presentation purposes, the definition of **solvency position**; and
- inserted text to clarify that references to law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland.

## **4 Framework for FRC technical actuarial standards and TAS 100**

### **Introduction**

4.1 On 5 May 2016 we published our feedback statement on the consultation *A new framework for Technical Actuarial Standards* and review drafts of the Framework and TAS 100. In the feedback statement we said we were not formally consulting on the review drafts but we would accept any comments on them. We received four letters with comments on the review drafts. We also received feedback on TAS 100 at various outreach events.

### **Scope of TAS 100**

4.2 The main concern raised was about the extension of the scope of FRC technical actuarial standards to all technical actuarial work. We addressed this concern in paragraphs 2.19 to 2.24 of the Framework consultation feedback statement published in May 2016.

4.3 It was suggested that an opt-out of the standards be permitted for work for affiliated parties (e.g. the work of an in-house pensions actuary for the directors of their company). We have decided not to permit an opt-out as we consider that compliance with TAS 100 should not result in disproportionate work. Furthermore an actuary complying with TAS 100 should ensure that their communications are suited to the user (provision 5.2) and therefore might be shorter for an informed in-house user than they would be for a third party.

### **Framework for FRC technical actuarial standards - guidance**

4.4 We included text in paragraphs 5.9 and 5.10 the review draft of the Framework which explains how to apply proportionality when complying with the TASs. The text was inserted after considering concerns raised in response to the November 2014 consultation about the extension of scope to all technical actuarial work and in particular the suggestion that having to comply with TAS 100 could result in unnecessary work being performed.

4.5 Some concern was expressed about using the Framework as a vehicle for guidance and the elaboration on the meaning of the TASs. We understand the concern and have removed paragraphs 5.9 and 5.10.

4.6 The IFoA has established a TAS 100 guidance working group with FRC oversight to consider the support which it might provide to its members on TAS 100. The guidance will include the application of the TASs in respect of materiality and proportionality.

### **Definition of material**

4.7 Some respondents to the Specific TAS consultation raised concerns about the consistency of definitions in the TASs and the Framework and the use of the terms “material” and “materiality”. It was also suggested that including user decisions in both the TAS text and the Glossary definition could be confusing.

4.8 We have considered the points raised and have amended the text in the Framework as follows:

~~To the extent that d~~ Departures from provisions concerning **communications to users** are permitted if they are considered unlikely to have a **material** effect on the decisions of the ~~users of the technical actuarial work~~ in question, and they need not be considered as departures and they need not be disclosed. Assessing whether a matter is **material** is a matter for judgement which requires consideration of the **users** and the context in which the work is performed and reported.

4.9 We have also amended the definition of material in the Glossary to:

Matters are **material** if they could, individually or collectively, influence the decisions to be taken by **users** of the related **actuarial information**. Assessing whether a matter is **material** **materiality** is a matter for judgement which requires consideration of the **users** and the context in which the work is performed and reported.

4.10 With these changes the definitions are aligned and there is no reference to materiality in any of the TAS documents.

4.11 In addition we have removed the sub-heading “materiality” and “proportionality” from Section 5 of the Framework and the sub-headings “materiality” and “proportionality” and “disclosure” from the TASs. These sub-headings are not needed and their removal means that the TAS documents consistently refer to “material” rather than “materiality”.

## Compliance statements

4.12 Each of the TASs require a compliance statement to be provided. The TASs also state that departures from the provisions in the TASs concerning communications to users are permitted if they are unlikely to have a material effect on the decisions of users. The compliance statement requirement is not a provision and therefore a compliance statement cannot be omitted on the grounds that it is not material to the decisions of a user. However it had been suggested to us that this was not clear. Therefore to provide clarity we have inserted a new paragraph 5.10, in the Framework.

For avoidance of doubt the requirement for a statement of compliance in a TAS is not a provision and therefore a statement cannot be omitted on the grounds that it does not have a **material** effect on the decisions of the **user**.

## Framework – other changes

4.13 It was suggested that paragraph 5.12 (to be guided by the Reliability Objective and the spirit and reasoning behind the TASs) would sit better under the sub-heading “Purpose” rather than “Compliance”. We have therefore moved this paragraph.

4.14 We have amended the term “legal practices” to “legal processes” which we consider to be more accurate.

## 5 Next steps

### Introduction

5.1 In this section we set out the next steps in our revision of our Framework and standards.

### Revised Framework

5.2 The *Framework for FRC technical actuarial standards* will come into effect on 1 July 2017 although early adoption of the new TAS framework is permitted. At the same time the Scope and Authority of Technical Actuarial Standards and the existing TASs will be withdrawn.

### TAS 100: *Principles for Technical Actuarial Work*

5.3 TAS 100: *Principles for Technical Actuarial Work* will come into effect for all technical actuarial work completed on or after 1 July 2017.

### Specific TASs

5.4 The revised Specific TASs will be effective for technical actuarial work in their scope which is completed on or after 1 July 2017.

### Transition

5.5 Early adoption of the revised TASs, in place of the existing TASs where relevant, will be permitted from 1 April 2017.

5.6 For Scheme Funding exercises with an effective date of calculations on or before 1 October 2016, compliance with the Pensions TAS and the Generic TASs will be permitted for work completed after 1 July 2017.

### Glossary

5.7 Defined terms used in the revised TASs are set out in the new *Glossary of defined terms used in FRC technical actuarial standards*.

## Appendix A: Output of the risk assessment process

In the tables below we set out the output from our risk assessment of work in insurance and pensions. We have included the work in the four shaded boxes (medium-high or high impact and medium-high or high likelihood) in the scope of the revised Specific TASs. This is work on matters which we consider to be of a high degree of risk to the public interest and having been rated to have a medium to high impact and medium to high likelihood. These ratings are net of existing mitigations such as legislation or other material issued by sectoral regulators.

We have not included the output for funeral plans as this TAS covers one area of work only which was rated medium to high impact and medium to high likelihood.

In the tables, work which is in the scope of an existing Specific TAS is shown in bold, C in brackets indicates that we consider that actuarial work is central to the output.

## Pensions

		Likelihood			
		Low	Medium-low	Medium-high	High
Impact	High			<ul style="list-style-type: none"> <li>• Transfer value advice and assumptions (C)</li> <li>• Private sector Scheme Funding – trustee work (C)</li> <li>• Private sector Scheme Funding – employer work (C)</li> <li>• Incentive exercises (employer and trustee work)</li> </ul>	<ul style="list-style-type: none"> <li>• Public sector funded schemes (C)</li> <li>• Public sector financing – unfunded schemes (C)</li> <li>• Commutation factor assumptions (C)</li> </ul>
	Medium-high	<ul style="list-style-type: none"> <li>• Benefit design</li> <li>• Benefit calculations</li> </ul>	<ul style="list-style-type: none"> <li>• Buy outs – transactional</li> </ul>	<ul style="list-style-type: none"> <li>• Public to private sector transfers (C)</li> <li>• Actuarial factors for individual calculations other than transfer values and commutation (C)</li> <li>• Scheme modifications including buy-outs – employer and trustee work (C)</li> <li>• Bulk transfers without consent – employer and trustee work (C)</li> <li>• Section 75 debt on employer calculations (C)</li> </ul>	
	Medium-Low	<ul style="list-style-type: none"> <li>• Audit of pensions information in financial statements</li> <li>• Financial statements – assumptions (C)</li> </ul>	<ul style="list-style-type: none"> <li>• Buy-ins</li> <li>• Asset-backed contributions</li> <li>• Strategic investment advice (e.g. LDI)</li> <li>• Longevity swaps (C)</li> <li>• PPF transition (C)</li> <li>• Financial statements – calculations (C)</li> <li>• DC projection assumptions</li> <li>• Summary funding statements (C)</li> </ul>	<ul style="list-style-type: none"> <li>• Asset liability modelling</li> </ul>	
	Low	<ul style="list-style-type: none"> <li>• Annual reports – directors’ pensions disclosures</li> <li>• PPF levy valuation (C)</li> </ul>	<ul style="list-style-type: none"> <li>• DC projection calculations</li> </ul>		<ul style="list-style-type: none"> <li>• M&amp;A advice (C)</li> </ul>

# Insurance

		Likelihood			
		Low	Medium-low	Medium-high	High
Impact	High			<ul style="list-style-type: none"> <li>Work to support estimating capital requirements using the Solvency II standard model</li> </ul>	<ul style="list-style-type: none"> <li>Work to support estimating insurance contract liabilities for regulatory purposes (C)</li> <li>Work to support estimating insurance liabilities for a general insurer's financial statements (C)</li> <li>Work to support internal/partial internal risk modelling for the purpose of estimating regulatory capital requirements (C)</li> <li>Preparation of material for ORSA (C)</li> <li>Pricing frameworks including development of pricing models, advice on assumptions for use in these models, and pricing/profitability analysis (C)</li> </ul>
	Medium-high	<ul style="list-style-type: none"> <li>Work required to support a Part VII transfer of insurance obligations (C)</li> </ul>	<ul style="list-style-type: none"> <li>Work to support the auditor in providing an opinion on an insurer's regulatory and financial statements (C)</li> <li>Work to support the exercise of discretion by a with-profits life insurer including advice on the distribution of surplus (C)</li> <li>Work supporting schemes of arrangement (C)</li> <li>Work for a policyholder advocate in an inherited estate reattribution (C)</li> <li>Work relating to changes in the principles contained in the Principles and Practices of Financial Management (C)</li> <li>General Insurance tax (C)</li> <li>Actuarial reporting on policyholder benefit reductions under section 113 (Part VII transfers) and section 376 (Liquidation of long term insurance companies) of the FSMA 2000 (C)</li> <li>Work to support asset valuations (e.g. equity release loans, mortality swaps, value of in force business (VIF), deferred acquisition costs recoverability) for regulatory purposes</li> </ul>	<ul style="list-style-type: none"> <li>Work to support estimating insurance liabilities for a life insurer's financial statements (C)</li> <li>Lloyd's SAO (C)</li> </ul>	
	Medium-low	<ul style="list-style-type: none"> <li>Opinion on reinsurance arrangements (C)</li> <li>Skilled persons reports prepared under FSMA s.166 and other ad hoc information for regulators</li> <li>Asset allocation advice</li> <li>Strategic advice</li> <li>Other risk management work e.g. risk appetite work, reinsurance evaluation, non-actuarial ORSA</li> </ul>	<ul style="list-style-type: none"> <li>Opinion on underwriting policy (C)</li> <li>M&amp;A work (C)</li> <li>Work to support repricing of reviewable rate products (C)</li> </ul>	<ul style="list-style-type: none"> <li>Financial reporting non-GAAP measures including embedded values, value of new business (C)</li> </ul>	
	Low	<ul style="list-style-type: none"> <li>Compliance / Internal Audit work</li> </ul>	<ul style="list-style-type: none"> <li>Individual risk pricing</li> <li>Business planning – financial projections</li> </ul>	<ul style="list-style-type: none"> <li>Lloyd's reinsurance to close (C)</li> </ul>	



