



The Actuarial Profession

making financial sense of the future

consultation response

**Consultation paper on the governance
structure of the Financial Reporting Council
(FRC)
Comments from the Actuarial Profession**

May 2007

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Dear Ms McArthur

**Consultation Paper on the Governance Structure of the FRC
Response of the Actuarial Profession**

The Actuarial Profession welcomes the opportunity to comment on the FRC's proposals for changing its governance structures.

Overall Proposal

We are in favour of the FRC moving to a governance structure which is based on a Board which has been appointed on merit and through open competition rather than by patronage or individuals having a representative role. We believe that previously those holding a representative appointment were put in an awkward conflict of interest position: their primary duty in serving on the FRC Board or Council was to uphold the FRC's role and responsibilities and not look after the interests of the body which nominated them for appointment.

Appointed Roles

We understand that the Government will still retain the right to appoint the FRC's Chairman and Deputy Chairman. We believe it is essential that the DTI publicly states its commitment to apply Nolan principles when making such appointments. It might also be valuable to have pre-agreement to a formal process whereby the FRC Board (or its Nominations Committee) may make comments on the final list of candidates before a ministerial decision is made.

Ex Officio Posts

We agree that it is appropriate for the FRC Chief Executive and the Chairmen of the operating bodies automatically to sit on the FRC Board. However, we feel that it is essential that each of these posts is appointed by open competition and that the skill set required is based on the operational need of their operating body (or FRC as whole in respect of the Chief Executive), with the FRC Board responsibility being a secondary consideration. When there are any re-appointments to these posts we recommend that the issue of diversity should be looked at keenly because, as a group, they have a similar profile, making the balancing non-executive Board appointments more difficult. We note that there is also an inherent skew towards an accountancy basis of the operating bodies. In addition, the Chairman of the Oversight Board, covering both the actuarial and accountancy professions has an audit background.

Non-Executive Directors

These appointments will be key in achieving overall balance and thereby credibility in the Board.

The template for selection needs to recognise that there will be a combination of factors, some of which must apply to all candidates (ie integrity, senior level experience) but some others that only some individuals need to have to give the whole Board the benefit of that experience (eg consumer interest). Whilst recognising the importance of diversity in the Board's overall make-up, the main objective should be to select the candidates with the best overall blend of skills and experience. We would expect the FRC to take advice from a suitably qualified selection consultant on the drafting of the template. We would be happy to comment on a draft template in due course.

It is within the non-executive group that we would expect to see at least one individual with experience of the operation of the Actuarial Profession in addition to their business experience.

We do not think that any other members of the operating body boards (other than the ex-officio Chairs) should also sit on the FRC Board.

Nominations Committee

When, following the Morris Review, the Actuarial Profession agreed voluntarily to oversight by the FRC and the creation of an Actuarial Standards Board, the Profession was offered a representative seat on the FRC Board. We have already said that we do not think any member of the FRC Board should represent the Actuarial Profession, but we do believe that at least one non-executive director should have had senior experience of the operation of the Actuarial Profession in addition to their business background.

To give confidence within the Actuarial Profession to the initial selection process, it would be valuable to have an actuary on the Interim Nominations Committee.

Transition

We believe the new arrangements should be in place by 1 January 2008, with transition from now until then.

Existing Council and Board members should be free to apply for new roles but they should not be given priority. Continuity will be provided by the Chairman and Deputy Chairman and the ex-officio posts.

During the transition period it could be helpful if the members of the Interim Nominations Committee not already on Council could attend meetings of the Council and Board as observers to get a feel for the nature of the work.

The FRC Board should have the chairmen of the operating bodies in attendance as observers during the transition period.

Communication

Good communication with all stakeholder communities is vitally important. Certain aspects of this will need formal channels.

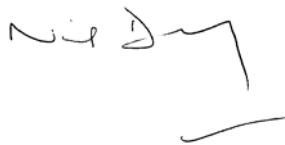
We agree (and indeed requested in a letter to the FRC Chairman of 19 May 2006) that there should be meetings every six months between the Chairman and Chief Executive of FRC and the Presidents of the Faculty and of the Institute of Actuaries together with the Actuarial Profession's Chief Executive. We would suggest this starts during the transition period.

We expect the minutes of FRC Board meetings to be public (except items which relate to confidential matters). These should appear on the FRC's website only once they have been approved at the following meeting. We believe the key stakeholders of the FRC, of which the Actuarial Profession is one, should be sent a confidential copy of the draft minutes shortly after each FRC Board meeting, enabling them to raise items of concern with the FRC's Chief Executive in a timely manner.

Other related issues

The operating body on which the Actuarial Profession focuses most attention is the Board for Actuarial Standards. This is only natural given that it covers an area of activity that until April 2006 was undertaken by the Actuarial Profession and which was voluntarily handed over to an FRC operating body. Although we recognise the importance of demonstrating the independence of BAS from the Profession, this needs to be balanced with members of the profession having confidence in BAS's operation and showing support for its output. The Profession does need to be immediately aware of the Board's work. We consider that during the period during which BAS is developing its conceptual framework and until a new set of BAS produced technical standards have replaced the GNs adopted by BAS from the Profession, we should have an observer (possibly a member of the Profession's staff) at the BAS Board meetings. Observer status has been granted to an actuary from the Groupe Consultatif (the association of actuarial professional bodies in the EU), but we consider that such status is more relevant to the UK Actuarial Profession which, at the moment, is the only body which will ensure that its members follow BAS standards.

Yours sincerely



Nick Dumbreck
President, Institute of Actuaries



Stewart Ritchie
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