# Consultation - Enhanced System V06b.jpg

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| **Consultation:**  Proposals for changes to the Regulatory Framework on Climate Change and Sustainability |
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By Regulatory Board September 2021

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**1. Foreword**

**Neil Buckley, Chair of Regulatory Board**

I am pleased to introduce this consultation from the Institute and Faculty of Actuaries on proposals for changes to the regulatory framework on climate change and sustainability.

It is increasingly obvious that climate change and sustainability will be among the biggest themes for governments and businesses over the next few decades.

The Covid-19 pandemic has reminded us all that we are intimately connected with and influenced by our environment, and has provided a foretaste of the scale of the risks that can crystallise when things go wrong. Actuaries must embrace this challenge, and be seen to be embracing this challenge.

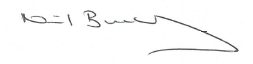
Climate change presents risks that actuaries must be able to handle in their work, opportunities that we can take advantage of, and threats to the profession’s credibility, viability and even its licence to operate.

The IFoA has recognised these needs by signing the Green Finance Education Charter (GFEC) which was announced in the UK’s Green Finance Strategy in 2019. The charter aims to mainstream green finance knowledge and skills throughout the banking, finance and professional services sectors, and commits its signatories to integrate green finance and sustainability into their core curricula, new qualifications, and the continued professional development of their members. More specifically, the charter commits its signatories to reviewing and, if necessary updating or augmenting, professional Codes of Conduct, and related guidance, to reflect green and sustainable finance principles.

This consultation sets out, for feedback, some proposed approaches that we are considering in relation to its charter commitments and our regulatory framework, including the Actuaries’ Code. The aim is that these proposals will benefit our members and support them to ensure they are aware of and equipped to deal with their professional responsibilities related to climate change and sustainability issues.

It is hoped that, with your input and suggestions, this will help us to agree effective and meaningful changes.

I would encourage all of our members, employers, users of actuarial work and others with an interest in this important topic to respond to this consultation.

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# **2. Background and rationale**

**IFoA’s commitment on climate related risk**

* 1. We issued a Risk Alert on climate-related risks on 23 November 2017. This stated that: ‘*Actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate-related risks in any relevant decisions, calculations or advice*.’
  2. This risk alert noted that there is an increasing body of evidence demonstrating that climate-related issues represent a material risk to the future economic stability affecting environmental, societal and governance matters. It further states that all actuaries should consider how climate related risks affect the advice that they are providing.
  3. Following the risk alert, our Sustainability Board developed a number of practical guides to support members and we also became a network supporter of the TCFD and other organisations with similar focus including the UN Principles for Responsible Investment and the UN Principles for Sustainable Insurance.
  4. In September 2020, our Council endorsed the findings of a Climate-Related Risk Taskforce report. This report set out that a core goal for the IFoA is that climate risk is understood and considered by our members, in the same way as other risks such as interest rate and mortality risk.
  5. This report identified six factors that drive the need for us to address climate related risk; financial risk, regulatory expectations, signatory commitments, public interest, new member interest and opportunities. The report recommended in particular, that the Actuaries’ Code, related guidance, and professional standards be reviewed in light of our commitments under the Green Finance Education Charter (as described below).
  6. The Joint Forum on Actuarial Regulation (JFAR) in its 2020/2021 Risk Perspective, which is intended to raise awareness of the risks to high quality actuarial work in mitigating the risks to the public interest, identified climate related risk as a key risk for the actuarial profession.[[1]](#footnote-2)
  7. The Risk Perspective identified climate related risk as potentially the ‘*defining risk of our times*’ and that actuaries have an important role to play in assisting others to consider, address and mitigate the worst effects of climate change.
  8. Our co-regulators, including the UK’s Prudential Regulation Authority (PRA), Financial Conduct Authority and the Pensions Regulator, have all taken steps in this area and are aligned with our climate risk commitments. The PRA published a policy statement 11/19 (PS 11/19) on enhancing banks’ and insurers’ approaches to managing the financial risks from climate change in April 2019. They set out expectations on how firms should incorporate financial risks from climate change into risk management and develop approaches to disclose financial risks from climate change.
  9. In April 2021, the UK Chancellor of the Exchequer wrote to UK regulators requiring them to “have regard” to climate change issues and the UK commitment to Net Zero greenhouse gas emissions. This reflects an ongoing, potentially increasing, focus for policymakers and regulators.
  10. The latest UK HMT response to Call for Evidence for Solvency II[[2]](#footnote-3) refers to “Climate Change” sixteen times. This includes references to consistency with the government’s climate change objectives, the management of risks, the PRA’s regulatory focus, the provision of long-term capital, and disclosures.

**Green Finance Education Charter**

* 1. We became a signatory to the Green Finance Education Charter (the Charter) in July 2020. We were joined in signing the Charter with eleven other professional bodies in the financial sector.[[3]](#footnote-4)
  2. The Charter was developed by the UK Department of Business, Energy and Industrial Strategy (BEIS), HM Treasury and the Green Finance Institute, and was announced in the UK’s Green Finance Strategy[[4]](#footnote-5) in July 2019.
  3. We signed up to the Charter as a tool for focusing collaboration between government and industry and as it is a significant commitment from Chartered and professional bodies in the UK and internationally to integrate green finance and sustainability into their core curricula, new qualifications, and the continued professional development of our members.[[5]](#footnote-6)
  4. Signatories to the charter acknowledge that we recognise the global challenge of climate change as a defining issue of our time and that we have a ‘strategic, commercial and moral imperative to develop clean, resilient and prosperous economies that work for all’.
  5. The Charter includes some specific commitments relevant for our public interest regulatory role. These include a commitment to undertake a review of professional Codes of Conduct and related guidance, and to update or augment these to reflect green and sustainable finance principles, by December 2021.
  6. As a result of the Charter commitments, the IFoA Regulatory Board established a Green Finance Regulatory Task and Finish Group to review and develop proposals for the IFoA’s regulatory framework, including the Actuaries’ Code and/or new standards/guidance.

**What do the proposals aim to achieve?**

* 1. We recognise that this is a significant and crucial area of consideration for all IFoA members that will only grow further in importance. Climate change and sustainability risks are growing systemic risks that are broader than some other traditional ‘actuarial risks’. There is not only the impact of sustainability risks on actuarial work, but also the potential collective impact of actuarial work on these risks.
  2. We further recognise the importance of providing confidence to broader stakeholders that the profession acts in the public interest. This is particularly important in the area of climate change and sustainability risks which is an area of high public concern and policymaker interest where there is a perception that the financial service sector is not sufficiently engaged.
  3. The Task and Finish Group‘s work indicates that there may be a knowledge gap in terms of actuaries’ awareness of climate change and sustainability issues. Given the public interest, this is an important area to address from both a competency perspective and for the profession’s reputation. We are committed to supporting members in their efforts to understand, integrate and articulate these issues. As a practical matter, we seek to increase member awareness of the resources that are available to them and actively support their continued professional and career development.
  4. We are mindful of the need to ensure that regulation is proportionate, consistent, transparent and targeted. As a result, we set standards in a way that is principles-based and outcomes focused, with an emphasis on resolving the actual cause of public interest concern.
  5. We seek to ensure that current and future actuaries have appropriate awareness, knowledge and skills relating to climate and sustainability issues and that this is embedded into their actuarial work, thereby providing more value and benefit to users of actuarial work, who are increasingly demanding these skills.
  6. The aim of the proposals is to also make clear the expectations of members, following on from the 2017 Risk Alert on climate-related issues. This set out a clear expectation that actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate-related risks.
  7. We welcome your views on the proposed options below and the feedback we receive during this consultation will inform any changes in this area to the regulatory framework.

**THE PROPOSED OPTIONS**

* 1. We are considering, for feedback, a number of options to achieve the aims set out above:

**A: Amendment to the Actuaries’ Code**

**B: Alternative amendment to the Actuaries’ Code**

**C: Introduction of specific guidance to accompany the Code**

**D: Introduction of a new Actuarial Profession Standard**

1. **Amendment to the Actuaries’ Code**
   1. The Actuaries’ Code[[6]](#footnote-7) (the Code) is the overarching ethical code of the IFoA which is a fundamental tool in helping to achieve and maintain the professionalism and reputation of members.
   2. A proposal being considered for feedback is to amend the Code requirements under the amplifications of two of the Code’s Principles, namely: Competence and Care, and Communication.

**Competence and Care Principle**

* 1. It is proposed that the following changes to the wording of amplification 2.1 of the Competence and Care Principle are made (changes are set out in bold italics):

*2. Competence and Care*

*2.1 Members must ensure they have an appropriate level of relevant knowledge and skill to carry out a piece of work.* ***This includes relevant knowledge and skill on climate change and sustainability***

**Communication Principle**

* 1. It is proposed that the following changes to the wording of amplification 6.1 of the Communication Principle are made (changes are set out in bold italics):

*6. Communication*

*6.3 Members must take reasonable steps to ensure that any communication for which they are responsible or in which they have significant involvement is accurate, not misleading and contains an appropriate level of information.* ***This includes relevant communications on climate change and sustainability.***

**Rationale**

This additional wording to the Code would, given its importance as the cornerstone of the IFoA’s public interest and regulatory framework, reflect the priority we place in focusing on this issue.

It could be a proportionate and consistent regulatory response to the public interest concern, which would clearly demonstrate our expectation of members to ensure that they have both the appropriate level of knowledge and skill in this area, as well as taking care when communicating on these issues, where relevant.

As mentioned above, this is consistent with and reflects the expectations contained within the 2017 risk alert that actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate-related risks.

While the current wording of the existing principles already include these expectations, where they are relevant, including this additional proposed wording would make the regulatory expectations more transparent in particular to non-members who seek to have confidence in actuarial work and standards.

**B. Alternative Amendment to the Actuaries’ Code**

2.30An alternative proposal being considered, for feedback, is to extend the requirements within the same two principles of the Code, to include ‘new and emerging risks’.

The proposed additional wording to both principles is set out in bold italics below:

**Competence and Care Principle**

*2. Competence and Care*

*2.1 Members must ensure they have an appropriate level of relevant knowledge and skill to carry out a piece of work.* ***This includes relevant knowledge and skill on climate change, sustainability and new and emerging areas.***

**Communication Principle**

*6. Communication*

*6.3 Members must take reasonable steps to ensure that any communication for which they are responsible or in which they have significant involvement is accurate, not misleading and contains an appropriate level of information.* ***This includes relevant communications on climate change, sustainability and new and emerging areas.***

**Rationale**

This proposed wording could help to further address potential knowledge gaps and help members, and the IFoA, to manage future risks posed by new and emerging areas and to support the competency of all members.

The proposed wording at amplification 6.3 in particular would encourage members to carefully consider appropriate communications, when they are involved in or responsible for, communicating on new and emerging areas. This is particularly relevant where users of actuarial work and the public may not be as familiar with the subject matter.

1. **Introduction of specific guidance to accompany the Code** 
   1. A further proposal that we are considering, for feedback, is to produce additional non-mandatory guidance in order to support members in the application of the Code to matters relating to sustainability and climate change. This guidance would be added to the existing accompanying guide to the Code.[[7]](#footnote-8)
   2. This could be in addition to the proposed changes above to the Code itself or be guidance that builds on the existing principles of the Code, clarifying how those are expected to apply in sustainability and climate change matters.
   3. An illustrative example of guidance is provided in **Appendix A**. The aim of non-mandatory guidance is to support members with suggestions on further considerations which may be helpful for their work, as well as direct them to additional IFoA resources on sustainability, such as practical guides to help develop their understanding of these issues. Following this guidance would also help members demonstrate that they have complied with the principles outlined in the Code.
2. **Introduction of a new Actuarial Professional Standard**
   1. We are considering the possibility of developing a new specific Actuarial Professional Standards (APS) on climate change and sustainability. An APS would be a mandatory, cross-practice standard for all our members which imposes specific mandatory ethical professional requirements in relation to considerations around climate change and sustainability, which build on the high level principles of the Code.
   2. A possible APS could sit alongside any potential updates to the UK’s Financial Reporting Council (FRC) Technical Actuarial Standards (TASs) which are currently under review by the FRC. The possibility of any new APS will be considered once this review is complete and will also take into account all of the feedback from this consultation.
   3. This consultation also asks for members’ views on further regulatory support they would like to see, either in the guidance or more generally.

**3. Regulatory Impact Assessment**

* 1. All of the proposed options being considered for feedback would impact all members of the IFoA, as it is a cross-practice, international issue.
  2. The aim of the proposals is to ensure that current and future IFoA members have appropriate awareness, knowledge and skills relating to climate and sustainability issues and that this is embedded into their actuarial work, thereby providing more value and benefit to users of actuarial work.
  3. The aim is to ensure proportionate, consistent, transparent and targeted regulation, in a way that is principles-based and outcomes focused.
  4. The proposals also aim to provide more value to members by directing them to more relevant learning tools and Continued Professional Development material in this area which will be valuable to their professional and career development.
  5. **A: Amendment to the Actuaries’ Code**

The proposals within Option A provide a clear and transparent expectation that actuaries should ensure that they understand, and are clear in communicating, the extent to which they have taken account of climate change and sustainability-related issues. The proposed wording would not make a material difference to the regulatory expectations already set for members within the existing wording of the Code.

* 1. **B: Alternative amendment to the Actuaries’ Code**

This proposal helps to further address potential knowledge gaps and helps members, and the profession, to manage the future risks posed by new and emerging areas (such as climate change and sustainability), which supports the competency of all members. This would be a significant change and addition to the Code, with these requirements applying to all new and emerging risks that may exist, or arise, from time to time, without specifically identifying them. It is a reasonable expectation this would have a material impact on all members.

* 1. **C: Introduction of specific guidance to accompany the Code**

Additional non-mandatory guidance will provide suggestions for members on further considerations which may be helpful for their work, as well as directing them to further helpful IFoA resources on sustainability, as well as practical guides to help develop their understanding of these issues. The expectation is that this would have little direct impact on members, as guidance is non-mandatory. However, it would provide a useful resource tool for members as well as guidance on ways to comply with the code.

* 1. **D: Introduction of a new Actuarial Profession Standard**

A new cross-practice APS on climate change and sustainability professional responsibilities would place an additional mandatory standard on all members.

If we were to consider this option in future, a consultation would be issued on a draft APS as well as further detail on the overall regulatory impact.

**4. Support for members**

4.1 We are committed to reviewing our regulatory framework to ensure it appropriately reflects climate change and sustainability issues. We hope that the proposals described above will help to recognise the importance of these issues both internally to our members and externally to those who rely on actuarial work.

4.2 We recognise that climate change and sustainability issues are a rapidly evolving area and there are a range of other IFoA initiatives and work being carried out to support our members as the understanding, tools and techniques develop.

4.3 There are a range of resources that have already been developed for members within the IFoA to further support them on this journey (outlined inSection 8). This includes the ‘climate change curated library’[[8]](#footnote-9) as well as tools to support member’s reflective practice discussions as part of their CPD and additions to the lifelong learning offering.

4.4 We are also interested in understanding what further resources or regulatory support members would like to receive. We look forward to hearing feedback from members as part of this consultation.

**5. How to respond to this**

**consultation**

The deadline for responses is **2 December 2021**.

Responses should be provided through the online questionnaire found on the IFoA’s website at <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>.

We would strongly encourage responses via the online questionnaire. However, if there are reasons that you cannot complete it online you can provide a response to [regulation@actuaries.org.uk](mailto:regulation@actuaries.org.uk).

Please mark any emails with the clear reference **‘Climate Change Consultation’**. Please also try to answer the questions as set out in the online questionnaire.

Please also indicate whether you wish any of the information you supply in your response to be treated confidentially. Unless you so indicate, we may make responses to this consultation paper available on our website at [www.actuaries.org.uk](http://www.actuaries.org.uk).

Once the consultation has closed, the IFoA will reflect upon the feedback and publish more specific details of any changes. There will also be a period allowed before the changes come into effect so that those affected can take steps to ensure they are able to comply with the new requirements.

**6. 6. Consultation**

1. To what extent do you agree that the IFoA should explicitly reference climate change and sustainability in its regulatory and professional requirements?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

Please provide any reasons or further explanation for your response here:

|  |
| --- |
|  |

1. **Option A: Amendment to the Actuaries’ Code**

To what extent to you agree with **option A** that amplification 2.1 (competence and care principle) of the Actuaries’ Code should be amended to include *‘climate change and sustainability’,*as outlined above?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

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|  |

1. To what extent do you agree with **option A** that amplification 6.3 (communication principle) of the Actuaries’ Code should be amended to include *‘climate change and sustainability’,*as outlined above?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

|  |
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1. **Option B: Alternative amendment to the Actuaries’ Code**

To what extent do you agree with **option B** that amplification 2.1 (competence and care principle) of the Actuaries’ Code should also be amended to include *‘new and emerging risks”*, as outlined above?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

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| --- |
|  |

1. To what extent do you agree with **option B** that amplification 6.3 (communication principle) of the Actuaries’ Code should be amended to include *‘new and emerging”*, as outlined above?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

Please provide any reasons or further explanation for your response here, in particular if you have responded disagree or strongly disagree please explain why:

|  |
| --- |
|  |

1. **Option C: Introduction of specific guidance to accompany the Code**

To what extent do you agree with **Option C** and the IFoA issuing specific non-mandatory guidance on climate change and sustainability issues, that highlights the resources available and illustrates ways to fulfil the requirements of the Code?

|  |  |  |  |
| --- | --- | --- | --- |
| Strongly Agree |  | Disagree |  |
| Agree |  | Strongly Disagree |  |

**7**. If you Strongly Agree or Agree with question 6, do you think that such guidance should be

|  |  |
| --- | --- |
| In addition to changes to the Actuaries’ Code |  |
| Instead of changes to the Actuaries’ Code |  |

Please provide any reasons or further explanation for your response here:

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| --- |
|  |

8. Are there additional areas of non-mandatory guidance you would like to see on climate change and sustainability?

|  |
| --- |
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1. What, if any, impact do you think the proposals (either in Options A, B, C or D, please specify) would have on users of actuarial work and public confidence in actuarial standards?

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1. What are your views on the extent to which these proposals, as a whole, would demonstrate the IFoA’s commitment to promoting the public interest in its regulatory role? Are there any aspects that you think have been overlooked? (please specify)

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|  |

1. Is there any further support on climate change and sustainability that you would request for Members?

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1. If you wish to provide any other feedback not already covered then please do so here:

|  |
| --- |
|  |

# **7. Questionnaire**

1. Personal information

|  |  |
| --- | --- |
| Name: |  |
| Position: |  |

2. Region

|  |  |  |  |
| --- | --- | --- | --- |
| UK |  | India |  |
| Republic of Ireland |  | Asia - other |  |
| Rest of Europe |  | Canada |  |
| South Africa |  | USA |  |
| Africa - other |  | South or Central America |  |
| South East Asia |  | Australia |  |
| Hong Kong |  | Oceania - other |  |
| China |  |  |  |

3. Are you a Member of the IFoA?

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | No |  |

4. If yes, which category of Membership do you hold?

|  |  |  |  |
| --- | --- | --- | --- |
| Affiliate |  | Honorary Fellow |  |
| Associate |  | Retired |  |
| Certified Actuarial Analyst |  | Student |  |
| Fellow |  | Student Actuarial Analyst |  |

5. If you are an actuary, what is your main practice area? (Answer one option only)

|  |  |  |  |
| --- | --- | --- | --- |
| Life Assurance |  | Enterprise Risk Management |  |
| General Insurance |  | Health and Care |  |
| Pensions |  | Resource and Environment |  |
| Finance and Investment |  | Other |  |

6. Do you want your name to remain confidential?

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | No |  |

7. Do you want your comments to remain confidential?

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | No |  |

8. About your organisation (if applicable)

|  |  |
| --- | --- |
| Name: |  |

9. Type of organisation (Answer one option only)

|  |  |  |  |
| --- | --- | --- | --- |
| Actuarial consultancy |  | Public body or Regulator |  |
| Insurance company or reinsurer |  | Educational Establishment |  |
| Bank or Building Society |  | Not applicable |  |
| Investment Firm |  | Other |  |

If other, please comment:

|  |
| --- |
|  |

10. How many IFoA members (if any) does your organisation employ?

|  |  |  |  |
| --- | --- | --- | --- |
| None |  | 101+ members |  |
| 2-10 |  | Sole practitioner |  |
| 11-50 |  | Don’t know |  |
| 51-100 |  | Not applicable |  |

1. Do you want the name of your organisation to remain confidential?

|  |  |  |  |
| --- | --- | --- | --- |
| Yes |  | No |  |

12. Do these comments represent your own personal views or your organisation’s views?

|  |  |  |  |
| --- | --- | --- | --- |
| Personal views |  | Organisation’s views |  |
| Both personal views and organisation’s views | | |  |



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1. https://www.frc.org.uk/getattachment/68762d12-5547-4d9b-a6a4-dbe4a1aacc4a/JFAR-Risk-Perspective-2021.pdf [↑](#footnote-ref-2)
2. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/998396/Solvency\_II\_Call\_for\_Evidence\_Response.pdf [↑](#footnote-ref-3)
3. <https://www.actuaries.org.uk/news-and-insights/news/ifoa-signs-green-finance-education-charter> [↑](#footnote-ref-4)
4. <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf> [↑](#footnote-ref-5)
5. <https://www.actuaries.org.uk/news-and-insights/news/ifoa-signs-green-finance-education-charter> [↑](#footnote-ref-6)
6. <https://www.actuaries.org.uk/system/files/field/document/Revised%20Actuaries%27%20Code%20FINAL.pdf> [↑](#footnote-ref-7)
7. https://www.actuaries.org.uk/system/files/field/document/2019\_04\_05%20Guidance%20FINAL\_0.pdf [↑](#footnote-ref-8)
8. https://www.actuaries.org.uk/learn-and-develop/lifelong-learning/sustainability-and-lifelong-learning/climate-change-curated-library [↑](#footnote-ref-9)