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Dear Des

Thank you for your letter of 10 August 2015 in which you describe the progress made by the Institute and Faculty of Actuaries (IFoA) over the last year and the IFoA's work plan for the next three years. We will publish both your letter and this one as soon as is practical. As you know, the FRC's annual report to the Secretary of State for 2014-15 has also recently been published. Going forward, we are considering whether there is a better way for the IFoA to report on its progress and for the FRC to communicate priorities to the IFoA.

1. The FRC's Oversight of the IFoA

Our role is to oversee the way the IFoA regulates its members acting in a professional actuarial capacity in the UK. Now that ten years have elapsed since the Morris Review, we are reflecting upon our approach to actuarial oversight and exploring whether it remains appropriate and proportionate. Over the next year we will explore with the IFoA and others the scope for changes to be made so that the effectiveness of our oversight role, to maintain and improve actuarial quality in the public interest, is maximised.

Whilst we recognise the progress that the IFoA, in its regulatory role, continued to make in 2014/15, it is important that the IFoA is proactive on regulatory matters. We are discussing how our processes could be refined to facilitate the timeliness of the IFoA's response to matters arising from our oversight.

We consider that the IFoA has a constructive relationship with the FRC in relation both to oversight activities and technical standard setting, including on international actuarial groups.

2. Joint Forum on Actuarial Regulation (JFAR)

We acknowledge the IFoA's continuing active participation in the JFAR, which includes the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Pensions Regulator (tPR), as well as the FRC and the IFoA. The JFAR has in 2014/15:

- refined its initial list of risks to the public interest relating to actuaries and actuarial work on which we also consulted in 2014/15;
- reviewed again how the monitoring activities of each regulator address actuarial quality; and
- developed project specifications for thematic reviews into three public interest risks.

We look to the IFoA to develop and maintain a risk outlook to include the public interest risks arising from actuarial work and to maintain its active engagement with the JFAR for analysis and coordinated mitigation of these risks. We note the IFoA's work in this regard, building on its 'horizon scanning' programme. We would continue to encourage the IFoA, like the FRC, to reflect and embed the risks and associated mitigations identified through the JFAR into its own regulatory strategy, and to take account of gaps in the existing monitoring arrangements when considering the information to request from firms that become accredited under the Quality Assurance Scheme (QAS).

3. Progress during 2014-15 and work plan for 2015-18

As in previous years, we have assessed the IFoA's progress and priorities against our previous recommendations and the drivers of actuarial quality in the FRC's Actuarial Quality Framework (AQF).

We would encourage the IFoA to continue to focus on the public interest outcomes it is trying to achieve, and the quality of its regulatory processes for achieving them.

Our assessment, based on three key drivers of actuarial quality, is set out below.

3.1 Ethics and professionalism of actuaries

Last year we welcomed the inclusion of the 2015/16 review of the Actuaries' Code in the IFoA's three year work plan for 2014/17 and we are now looking forward to the detailed project plan for this substantive review which will include outputs both from the IFoA's Standards Framework Review and from wider consultation.

We acknowledge the IFoA's continuing development of professional skills CPD material. We would encourage the IFoA to survey its members and their employers (who may use the material to run in-house sessions) in order to monitor whether the key messages actually taken away from the professionalism case studies by participants are aligned with the IFoA's intended outcome.

We look forward to the IFoA's proposal for clearer and more granular information that it could capture from its individual membership in order to be informed about the nature and risk profile of the various roles that actuaries perform. Distinct from this, we recognise that the IFoA will need longer to implement these changes to the membership data that it holds, owing to other IT projects that are currently in progress.

The IFoA has now implemented its cross-practice standard, APS X2: *Review of actuarial work* which is discussed further in the next section.

We recommend that the IFoA's planned refinement of its conflicts of interest guidance in 2016, in light of the Scheme Actuary monitoring exercise, should also take on board lessons learned from the Rover case although this case concerned accountants rather than actuaries.

3.2 Working environment for actuaries

We are pleased that the IFoA's Quality Assurance Scheme (QAS) for firms will be fully implemented in 2015. This Scheme will make the processes that firms put in place to support good quality actuarial work transparent to the IFoA and will provide information of what constitutes good practice that others could emulate. The IFoA began to develop the

QAS in 2013, in response to recommendations we had made in 2009 following our review of monitoring and scrutiny of actuarial work.

The QAS has the capacity to provide additional public assurance on quality controls in actuarial firms to support the quality of actuarial work. It will be important that IFoA assesses the effectiveness of the implementation of the standard and the extent to which accreditation under the QAS provides appropriate endorsement.

We support the IFoA's implementation of its cross-practice standard, APS X2: *Review of actuarial work*. Whilst we note the IFoA's efforts to provide a considerable number of training events we question whether sufficient specific training has been provided to Scheme Actuaries advising pension schemes on the transition to the principles-based APS X2 from the more prescriptive standard, APS P2: *Compliance review: pensions*. This standard was withdrawn at the time APS X2 was implemented and our concern is that the withdrawal of APS P2 should not be detrimental to the public interest.

We now expect the IFoA to commence an evidence-based post-implementation review of APS X2, focusing on public interest outcomes and, in particular, on the way in which APS X2 has been applied to work in the public interest which was formerly covered by APS P2. We consider that effective peer review must be a robust challenge that is both objective and independent.

The IFoA's standards on quality assurance (APS Q1) and work review (APS X2) require definitions for actuarial work. As we noted last year, it is important that these definitions are kept under review to ensure they are compatible with the definitions being developed for FRC standards.

3.3 Technical skills of actuaries

We anticipate that the practising certificate regime for the Chief Actuary role will now be in place in time for the full implementation of Solvency II in January 2016.

We note that, following consultation, the IFoA has recently decided not to introduce voluntary practising certificates for members carrying out Chief Risk Officer roles. We now encourage the IFoA to consider whether any further work is appropriate (for example, in relation to CPD requirements) in relation to its members in CRO roles.

Following the conclusion of the initial research commissioned by the IFoA to identify the knowledge, skills and competencies that users can expect of actuarial practising certificate holders, we understand that the IFoA will use the outputs from this research to inform its education, CPD and regulation programmes.

We are supportive of the IFoA's launch of a strategic review to ensure that the actuarial qualification remains fit for purpose. We encourage the IFoA to ensure that its examination process is transparent and with this in mind we are pleased to note that the IFoA plans to start publishing the examination pass marks in 2016/17.

3. Looking ahead

To summarise, in view of progress to date and your own regulatory programme as set out in Appendix 1 to your letter, we consider that the following should be the IFoA's priorities for the year ahead:

- focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis (ongoing);
- continue to participate actively in JFAR, maintaining engagement over the analysis and coordinated mitigation of risks, and develop a risk outlook whereby the IFoA will identify, own and keep up-to-date the risks to the public interest (2015-16 and ongoing);
- conduct a thematic review into the “group think” risk (2015-16); implement the QAS for firms (2015) and develop a strategy to use the Scheme to facilitate the monitoring of the quality of actuarial work (2015-16);
- commence a post-implementation review of APS X2, focusing on public interest outcomes and, in particular, on the way in which APS X2 has been applied to work which was formerly covered by APS P2 (2015-16);
- commence the substantive review of the Actuaries’ Code (2015-16), incorporating an analysis of what it means to be a professional actuary, and continue to progress a wider review of actuarial standards (2015-16) with a view to completing these projects (by 2016-17);
- respond to the findings of the study of skills that users can expect from practising actuaries undertaking key actuarial roles (2015-17);
- implement an effective competence and standards regime for IFoA members performing the Chief Actuary role under Solvency II (Q3 2015).

We look forward to continuing to work with you and your team both in delivering key regulatory projects, and in developing your regulatory agenda. This will include your response to the risks identified both through the JFAR and through enhanced monitoring, which will generate information about public interest risks relating to actuaries and actuarial work.

Yours sincerely



David Childs
Chair – Conduct Committee