



FAO Natasha Regan
Project Director
Codes and Standards Division
Financial Reporting Council
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2 March 2015

Dear Natasha

Response to FRC Risk Consultation

1.0. Introduction

- 1.1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Financial Reporting Council's discussion paper, "A Risk Perspective". This response has been prepared by the Regulation Board of the IFoA which has sought input and assistance from the IFoA's Practice Boards.
- 1.2. Our members work within a complex regulatory framework. As such, the IFoA is supportive of the formation of the JFAR and its objectives and in particular the direction adopted by the FRC in seeking inter alia the views of the profession and in particular practitioners.
- 1.3. A more coordinated approach can only assist in the task of ensuring regulation which is both proportionate and effective in safeguarding the public interest and promoting consistently high standards.
- 1.4. As a member of the JFAR, the IFoA had the opportunity to contribute to this discussion paper. This response sets out the IFoA's view on the proposals and what the next steps could be. In addition, our Practice Boards have provided more detailed responses from their practice specific perspectives, which are set out in the **appendix** to this response.
- 1.5. The IFoA supports the aims of the consultation. It is helpful to initiate and maintain a discourse across all areas in which actuaries practise about public interest risks and how these identified risks and the responses to those risks could inform the regulatory agenda. For its part, the IFoA will consider how the risk perspective might inform its own actions and priorities in its own regulatory response.
- 1.6. It might appear trite, but if the actuarial profession and its regulators can remain alive to and act upon relevant prospective risks, this will better serve the public interest.

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2.0 The Approach to Risk

- 2.1. The existence of risk is of course inherent in the work of actuaries and the markets and users they serve. In our view, the focus should be on ensuring that relevant risks are appropriately managed, recognising that it will not always be possible, or perhaps desirable, to seek to eliminate risks. We would also highlight that not all of the risks identified in the discussion paper can necessarily be attributed to the acts or omissions of actuaries. Some of them appear systemic in nature - part of the landscape in which actuaries operate rather than directly attributable to actuaries as such.
- 2.2. It is also important that the management of such risks is proportionate. We would endorse the proposition in the discussion paper that regulation is not always the most suitable response to risk and that care should be taken not to leap in to regulatory reaction. Further, as recognised in the discussion paper, we must be mindful of the risks to which regulation itself may give rise, and in particular the danger that regulation which is too prescriptive or onerous may jeopardise the very public interest benefits the regulatory actions purport to deliver.
- 2.3. We recognise that the discussion paper is positioned as a “think-piece”. It has been extremely helpful in initiating the discussion and allowing the risks to be identified and debated. The key now, we believe, is to maintain momentum by focusing more directly and practically on specific risks and their management.
- 2.4. Almost of necessity, the scope of the paper is extremely broad, with a large number of “hotspots” having been identified. We consider that it is now important to adopt a targeted approach. In particular, it would be helpful to prioritise the perceived risks by reference to their impact on the public interest. In doing so, recognition of those risks where a collective regulatory approach may have the greatest impact, should be highlighted thereby enhancing the role and efficacy of the JFAR.
- 2.5. One area which may merit such an approach is the anticipated changes in the pensions sector as a result of the implementation of the Taxation of Pensions Bill.
- 2.6. As recognised in the discussion paper, there is the potential for these changes to result in an inadequate understanding of risk and return which may in turn result in poor decision making by users. It is in the public interest to ensure that individuals, sponsoring employers and trustees are appropriately advised and informed as to the risks involved in the various options available to them or obligations (whether statutory or otherwise) imposed upon them.
- 2.7. Actuaries may not always be solely responsible for providing the advice or information upon which decisions are ultimately made; therefore mitigation of the risks may not be entirely within their control. However, in light of their sophisticated level of understanding in this area, actuaries may be best placed to raise awareness of the issues and speak up if they encounter unfair practices or processes where poorly informed decisions could be made. In addition, the IFoA is cognisant of its role as a public interest body and its responsibility to educate and inform the debate surrounding actuarial work. In such a context, the implementation of the Taxation of Pensions Bill appears to be a sufficiently significant medium term risk which would benefit from the collective approach which the JFAR can offer.

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2.8. We commend the work that has been carried out to date in developing what we view as a valuable platform from which we are able to move to the next stage of prioritising and addressing the specific risks identified. We look forward to working with the JFAR in identifying how best to harness the outcomes of this discussion paper to ensure protection of the public interest.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Desmond Hudson', with a horizontal line underneath the signature.

Desmond Hudson
Chair of the Regulation Board

2 March 2015

Appendix

In preparing the IFoA's response to the discussion paper, the Regulation Board sought comments from the Practice Boards of the IFoA. The key themes arising from those comments are detailed below.

Tone

While it is recognised that the purpose of the exercise is to highlight perceived risks, when taken out of context this may be interpreted as overly negative and does not acknowledge the high level of professionalism within the profession.

Scope

The scope of the discussion paper is extremely wide. In particular, some of the risks covered aren't exclusive to actuarial work or even primarily related to actuaries, for example covenant advice and independent governance committees. In some cases, the work may be done by other professionals who are regulated by the members of the JFAR; in other cases, the work may be overseen by other regulators or not regulated at all. The IFoA specialist Boards suggest that much could be gained from a coordinated or joined-up approach to regulation or ways of collectively addressing some of the identified risks through the JFAR. Debate and publicising how such an approach will be implemented in practice would be beneficial.

In addition, while the discussion paper understandably focuses on the public interest risks to which actuarial work is relevant, regard should also be had to the wider risk of the public not taking actuarial advice at all.

Group Think

Defining group think is not easy. Where does the collective wisdom of a profession (or part of that profession) cease to be the well grounded standard response expected from any proficient individual practitioner and become an unthinking "group response"? It is recognised that "group think" need not always be a concern, particularly where the group practice is properly evidence based. Promulgation of the adequacy and applicability of the evidence base becomes vitally important as does supervisory responses to the presence of the evidence base.

It has also been suggested that the discussion around "group think" should be extended to include the issue of "hiding behind established practice". Regulators need to be alert to potential collective errors and take responsibility for addressing them. While the IFoA's ethical standards may assist with mitigating group think, it may be difficult for individual actuaries or firms to identify and address issues arising from this. It is therefore vital that a culture of speaking up is promoted and supported by regulators, ensuring actuaries feel comfortable with discussing issues and considering whether current approaches are appropriate.

Legislation

Regard should be had to the role of Government in the drafting of legislation and in particular the risks that may arise as a result of a lack of legislative clarity.

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Communication

A common theme arising from the hotspots that have been identified is that of communication. Regardless of the reliability of the work of actuaries, any weaknesses in the communication of that work may have an unintended impact to an individual or the wider public. One challenge for actuaries is the degree of judgement to be applied to the level of assumed knowledge of the audience. It may be that work via the profession on better communication and the "science of clear communication" could be an important response.

Alternatives to regulatory intervention

A possible next step in putting this research into practice may be to discuss the findings with the Boards of consultancies and stakeholders to investigate their level of engagement with this initiative and whether they would be prepared to raise awareness of the issues within their firms and commit appropriate resource to doing so. For some perceived risks, engagement from such firms or stakeholders may be more effective than introducing new regulation. Education may also be an appropriate and more proportionate means of mitigating the perceived risks.