

Response to FRC Consultation on a New Framework for Technical Actuarial Standards

1.0. Introduction

1.1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Financial Reporting Council's consultation "A new framework for Technical Actuarial Standards". 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 The IFoA is supportive of the proposals and, in particular, the intention to simplify the existing framework for technical actuarial standards. In addition, we share the FRC's view that the combined requirements of TAS 100, the Actuaries' Code and the IFoA's cross-practice standards as applied in the UK, are substantially consistent with the requirements of the International Actuarial Association's International Standard of Actuarial Practice 1 (ISAP 1).

1.3 The IFoA had an opportunity to consider and comment upon the pre-consultation proposals. This response sets out the IFoA's view on the revised proposals, as set out in the consultation paper. 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.

2.0 Structure

2.1 We support:

- the proposal to streamline the structure of the technical actuarial standards framework;
- the removal of the "significant considerations documents"; and
- the further move towards a principles based framework.

2.2 Whilst such a principles based approach is intended to avoid overly prescriptive regulation, it should be recognised that "technical standards" may, by their very nature, require more detail than ethical standards. Care should be taken to ensure that the revised technical standards are sufficiently detailed to avoid over-reliance on supporting guidance material, the status of which may be unclear.

2.3 In addition, it is difficult to form a clear view on TAS 100 and how this fits with the wider framework without having sight of the proposed amendments to the Specific TASs.

2.4 We propose that the FRC should consider deferring adoption of TAS 100 pending a further short and targeted consultation once the proposed framework as a whole is available.

3.0 Definition of actuarial work

3.1 The proposed framework seeks to define the term "actuarial work". While there are clear attractions of a widely adopted definition, we recognise both the challenges in achieving this and how difficult a concept this is. Particular attention should be given to assessing the acceptance of such a definition given the important role that the definition holds in the design of the framework and the wider regulatory structure.

3.2 It is suggested that the definition of actuarial work be amended to ensure that it is substantially consistent with that used in the IFoA's standards and in ISAP 1. This will assist with consistency of application and will avoid unnecessary confusion.

3.3 The proposed definition may also cause difficulties in the practical application of TAS 100 and the Specific TASs. The definition focuses on types of work rather than the outputs of the work or the end product that is delivered to the user. For example, it may be difficult to apply the standards to software development, as a general concept, rather than the work which is produced through software development. In our view, it is preferable to have a reference to the end product when considering whether the technical actuarial standards apply. As such, a definition which is more akin to that used in ISAP 1¹ or APS X2² may be more effective.

3.4 Given that the proposed framework is focused on actuarial work rather than actuarial deliverables and the wide application of the standards to all actuarial work rather than just formal actuarial reports, the FRC may wish to reconsider the compliance statement requirements.

4.0 Application

4.1 The proposals encourage the adoption of TAS 100 by non members of the IFoA, but how will this be enforced? The users of actuarial work will be confused if there are not clear, common standards across all advisers. It may also give a perverse incentive for users to transfer actuarial work to unregulated, or more lightly regulated, advisers. This would not be in the public interest as it would reduce confidence in the quality of actuarial work overall. We therefore suggest limiting the scope of the TAS to groups of advisers where there are clear comparable standards and enforcement.

4.2 In general, it will be in the public interest for actuarial work to be undertaken by qualified regulated persons operating under a regulatory framework founded upon TAS 100. The costs associated with regulatory compliance should be balanced against the assurances that come with instructing practitioners who are subject to appropriate professional, ethical and technical requirements.

4.4 In light of the limitations on enforceability, care should be taken not to introduce disproportionate barriers to IFoA members carrying out the work. As noted above, this may result in other professionals, who are less constrained in how they deliver work to users, being instructed to carry out the work instead.

5.0 Implementation

5.1 In our view, the proposal to split the implementation dates of TAS 100 and the Specific TASs may cause confusion - see also paragraph 2.2 above. For example, some pieces of work, such as Pension Protection Fund levy advice, may require the application of several standards. We would ask that the transitional arrangements be further considered.

¹ Services, based upon actuarial considerations, provided to intended users that may include the rendering of advice, recommendations, findings, or opinions.

² Work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings, or opinions.

6.0 Conclusion

6.1 We commend the work of the FRC in developing the new framework for Technical Actuarial Standards and are grateful for the opportunity to consider and comment on this. We look forward to continuing to work with the FRC in the development and promotion of the effective and proportionate regulation of actuaries.

Appendix

In preparing the IFoA's response to the discussion paper, the Regulation Board sought comments from the Practice Boards of the IFoA. Our objective in doing so was to assess the consultation proposals against specific practice areas and consider any implications for those areas. Of necessity these comments are likely to be case sensitive and detailed. We have therefore included these comments grouped under common themes in this appendix.

The key themes arising from those comments are detailed below.

Data

- Section 2 of the draft TAS 100 refers to “sufficient” and “reliable” data. This is similar to the ISAP 1 requirements; however these terms have a specific meaning in ISAP 1³. The FRC may wish to consider adopting the provisions in ISAP 1 which essentially require the actuary to consider the suitability of the data and take reasonable steps to validate the data and thus may offer a more proportionate approach.
- The current wording of this section supposes that the actuary has more responsibility for the data than happens in practice and that they are capable of solving all data uncertainties. We consider both assertions to be problematic and that revisions might usefully be considered.
- Paragraph 2.4 of the draft TAS 100 requires any uncertainty in the data to be communicated to the user. In light of the inherent uncertainty in actuarial work, it is suggested that this should be subject to materiality since communication of "any" uncertainty may hamper clear communication to users. It may also be preferable for this section to refer to “data limitations” rather than “uncertainty in the data”.

Models

- The use of the terms “controls” and “tests” in paragraph 4 may cause potential uncertainty as these terms are not further defined. It may, in the absence of definitions, be more straightforward to refer to “checks”.

Materiality

- The use of “can have no material effect” in the draft TAS 100 is extremely wide and introduces a very low threshold which could generate significant difficulties for users of such reporting. It is suggested that “is expected to have no material effect” may be more appropriate and recognises that consideration of materiality or material effects contains an element of judgement.

³ 3.5.1 Sufficient and Reliable Data - The actuary should consider whether sufficient and reliable data are available to perform the actuarial services. Data are sufficient if they include the appropriate information for the work. Data are reliable if that information is materially accurate.

- The explanation regarding materiality in paragraph 5.28 of the consultation paper is somewhat circular due to the reliance on “immaterial”. The FRC may wish to consider providing clearer guidance on this point. In the absence of a clear interpretation of “materiality”, practitioners may understandably be overly cautious when applying this, to the ultimate detriment of users.
- It may be helpful to clarify that materiality will be judged by reference to the reasonable actuary at the time exercising reasonable judgement based on the information available at the time, rather than with hindsight.

Communications

- Some of the requirements regarding disclosure to users are likely to be difficult to navigate, particularly with models containing multiple parameters, each of which could potentially be material in a given circumstance.
- While it is appropriate to require practitioners to disclose material departures (and the reasons for them) to the user, the form of the disclosure should be flexible. The wording in the exposure draft requires reference to TAS 100, however TAS 100 might have limited or no meaning to some users given the wide applicability of the standard. It may be preferable, in some circumstances, to disclose that the work has been undertaken in accordance with the principles of the applicable standards promulgated by the FRC and IFoA, as this may make more sense to a lay user.
- Paragraph 5.9 requires a practitioner to provide clarification or information to correct a misunderstanding where they have become aware that the communication has not been understood by any user. It is suggested that this provision should require the practitioner to “endeavour” to correct the user’s understanding.
- It may be helpful to clarify whether practitioners are required to comply with all of the requirements in every update they provide to the user, or whether it may be sufficient to rely on previous communications, for example if the data, judgements and uncertainties remain unchanged.

Appendix E- Examples of work in/ out of scope of TAS 100

- The examples included in Appendix E are helpful, particularly the clarity regarding trustee and Non Executive Director work. However, the appendix appears to focus on the obvious examples of work which are in or out of scope. It would be helpful if more guidance could be provided regarding the grey areas to assist with the application of the framework in practice. The FRC may wish to consider including the following examples:
 - Comments on proposals in mutuals by a With Profits Actuary, for example in relation to membership rights. This does not always involve actuarial science, but is reserved to an IFoA member.
 - Valuation of environmental impacts.
 - Input-output modelling.
 - Estimates of Pension Protection Fund levies and advice on ways to reduce levies (including advice on insolvency risks).

- Advice or commentary on proposed pension scheme amendments where those amendments affect member benefits (but perhaps no specific value test is being applied).
- Advice on the transfer of risk to an insurance company, and whether different considerations apply to the different aspects of that transfer (e.g. benefits to be replicated versus innovative risk transfer options).
- Advice or commentary on issues relating to scheme documentation and/or data quality, for example resolving errors relating to the incorrect equalisation of pension benefits between men and women.
- Advice on the feasibility of liability management options, such as enhanced transfer values or pension increase exchange options, including advice on practical implementation.
- Drafting communications to members or groups of member containing actuarial/financial matters.
- Advice on pension taxation issues for schemes and members, for example the impact of the reduced Annual Allowance and the options for addressing this.