



**The Actuarial Profession**

making financial sense of the future

## **Consultation Response** **Financial Services Authority**

CP12/26 – Regulatory reform: the PRA and FCA regimes for  
Approved Persons

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7 December 2012

## **About the Institute and Faculty of Actuaries**

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

FSA CP12/26  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

7 December 2012

Dear Janet and Ian,

### **CP12/26 - Regulatory reform: the PRA and FCA regimes for Approved Persons**

The Institute and Faculty of Actuaries welcomes the opportunity to respond to this consultation. A cross-practice working party comprised of experienced actuaries from Life Insurance, General Insurance, and Pensions backgrounds was set up to prepare this response.

In responding to this consultation, we have confined our comments to aspects of CF12, CF12A, and CF12B (unless otherwise stated). It is the view of the Institute and Faculty of Actuaries that these three Controlled Functions are of crucial importance in ensuring that the quality of work required by certain positions is provided by those with the appropriate expertise and education.

One way of ensuring that the people tasked with performing these controlled functions have the appropriate skills and experience to successfully fulfill these tasks is to look at the qualification and regulation requirements that professional bodies provide for their members. Fellows of the Institute and Faculty of Actuaries have been subject to a rigorous examination process and need to comply with a CPD scheme designed to ensure that their professional and technical skills remain up-to-date and relevant throughout their careers. Fellows of the Institute and Faculty of Actuaries performing the roles of CF12, CF12A, and CF12B will, in addition to FSA regulation, be subject to the Actuaries' Code (which provides an ethical framework for their work) and FRC standards (which creates a framework for the technical standards that must be adhered to by actuaries working in the UK).

With that in mind, and looking forward to Solvency II implementation, we encourage the FSA to recognise the important role the Institute and Faculty of Actuaries could play in supporting and maintaining high standards (both ethical and technical) of actuarial function in this area. We also note that at least one European regulator is intending to require the Solvency II actuarial function to be performed by individuals with suitable actuarial qualifications and that they believe this would be in line with the definition of the role as per the Solvency II Directive and subsequent EIOPA (CEIOPS) advice.

With this in mind, we have provided views on specific questions below which we feel we are most suitably placed to comment on:

**Q2. Do you agree with this approach to ensuring that the PRA and FCA will continue to be able to assess a person's suitability for all the key aspects of their role, without routinely requiring applications to be made to both regulators? If not please explain your concerns and any suggestions for an alternative approach.**

We welcome the measures taken to reduce future duplication of effort and duties.

The Actuarial Profession is the brand name of the Institute and Faculty of Actuaries

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**Q6. Do you agree with our approach to CF28, and how it operates where someone also performs an FCA governing function?**

With regards to the approach to CF28, we note that the FSA has previously consulted on splitting this into 3 distinct roles. Whilst this has not been consulted on here, we feel it is important that the responsibilities for each controlled function are carefully considered to avoid duplication or gaps. We urge the FSA to take this into account particularly with regard to the interaction of CF12 and other controlled functions responsible for finance and risk.

**Q7. Do you agree with our proposals to extend the scope of the APER standards in the ways set out above? If not, please explain the reasons for your objection.**

We appreciate the reasoning behind this proposal. We would expect and require our members to act in a principled manner in all of their actions, and not just, for example, those relating to reserved roles or practising certificate activities. This is in line with the Actuaries' Code.

We would welcome, however, some clarity on how you see this working in practice, particularly 4.11 and 4.12, possibly with the aid of some examples. The concern we have is that there may be unintended consequences that could lead to overreaching obligations.

To clarify, consider for example a With Profits Actuary (WPA) who is also responsible for technical actuarial activities beyond those specifically relating to their WPA role. We agree that the same principles of conduct should also apply to all their activities in this area.

The WPA is however, also almost certainly involved in the wider management activities of their firm, both technical and non-technical. Would the WPA be considered to have fallen foul of the new rules in the following scenario?

- The WPA is a party to a discussion with other approved persons.
- The matter under discussion is not one of the WPA's accountable functions, their remit in this situation being a managerial one, and is more relevant to the other approved persons.
- The matter was not referred to the regulator and it subsequently transpires that it should have been.

If the WPA was the only approved person in the meeting do they then have the responsibility to report matters even if the issue is not one of their approved functions?

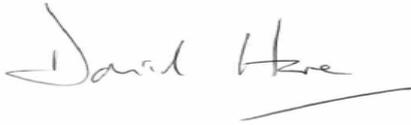
We would also assume that there would be no application of APER to non-regulated activities that an actuary with a Controlled Function may perform. For example, a Scheme Actuary may also be a CF4 (Partner) of an actuarial consultancy authorised and regulated by the FSA. Our reading of the revised wording of APER is that as the Scheme Actuary role is not a regulated activity then this would not be impacted by the APER. The Scheme Actuary would naturally have to follow the Actuaries' Code and other Pensions standards and guidance in respect of their role.

**Q8. Do you agree that these proposals to amend the wording and application of the Statements of Principle in APER are appropriate given the responsibilities of the PRA and FCA?**

With consideration given to our response to Question 7, we have no disagreement with the wording as proposed.

We trust our comments are of value as you seek to complete the reform and we look forward to working closely with the FCA and PRA in due course. If you have any questions or wish to seek further views from us, please contact Helena Dumycz, Policy Manager at the Institute and Faculty of Actuaries, on 020 7632 2118 or [helena.dumycz@actuaries.org.uk](mailto:helena.dumycz@actuaries.org.uk).

Yours sincerely,

A handwritten signature in black ink that reads "David Hare". The signature is written in a cursive style with a horizontal line underneath the name.

David Hare  
President-elect  
The Institute and Faculty of Actuaries