

Oversight of the Profession
by the Financial Reporting Council (FRC)

Life Convention
6th November 2006

Paul Seymour, BAS Chair
Nigel Bankhead, BAS Director
Paul Kennedy, Head of Actuarial Oversight (POB)



Agenda

- The work and structure of the FRC
Paul Seymour
- The Board for Actuarial Standards
Nigel Bankhead
- The Professional Oversight Board
Paul Kennedy



The work and structure of the FRC

Paul Seymour
Chair, Board for Actuarial Standards



The FRC's Aim

... is to promote confidence in corporate reporting and governance



Our objectives & powers

To promote:

- high quality **corporate reporting**
- high quality **auditing**
- high **quality** **actuarial practice**
- high standards of **corporate governance**
- the **integrity, competence** and **transparency** of the **accountancy & actuarial professions**
- the FRC's **effectiveness** as an independent regulator

We have significant statutory powers but some of our activities are based on market consensus



Promote high quality actuarial practice

- Developing a **conceptual framework** (BAS)
- Adopting **technical standards**, including for **communication** (BAS)
- Promoting **scrutiny/monitoring** of quality (Oversight Board)
- Encouraging wider **debate** on quality (FRC)



Promote the integrity, competence and transparency of the actuarial profession

- Overseeing the Profession's regulation of its members (Oversight Board):
 - education, CPD, ethics, compliance, discipline
 - progress implementing Morris recommendations
 - public information about the actuarial profession
- Operating an independent investigation and disciplinary scheme for public interest matters (AADB)

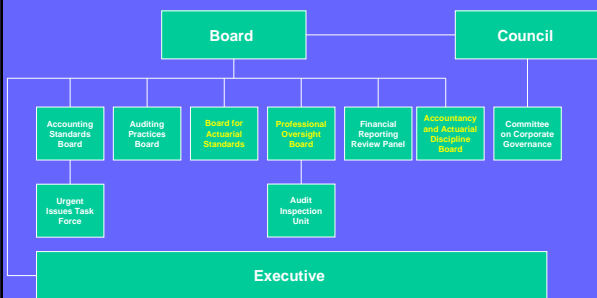


Our Regulatory Philosophy

- A **well-informed market** is the best regulator
- **Targeted** use of powers (proactive, risk-based)
- **Principles** and clarity in standards and codes
- **Consultative**, practitioner decision-making ... but independent
- Recognise the importance of **professional judgment**
- **Fairness** in decision-making
- **Transparency**, accountability and awareness



Organisational Structure (April 2006)



Our Powers

We have a mix of statutory and non-statutory powers:

- **Statutory** powers (given by UK Government)
 - Accounting & reporting standard-setting & enforcement
 - FRC levy
- **Obligations** on other parties to meet our requirements
 - Auditing standards, Audit inspection
 - Investigation & disciplinary scheme for public interest cases
- **Non-statutory**
 - Combined Code on Corporate Governance
 - Oversight of the accountancy profession
 - Standard setting for and oversight of the Actuarial Profession



Some Facts & Figures

- The FRC's budget for 2006/07 is:

Core operating costs	£10.5m
Audit inspection	£2.5m
Actuarial standards & regulation	£1.7m
- The core operating costs are funded equally by the business community, the accountancy profession and the government
- The audit inspection costs are funded by audit firms
- The actuarial costs are split:
10% profession, 45% each insurers and pension funds
- The FRC expects to have 78 employees by March 2007, all working from central London
- The FRC has over 120 part-time market participants and lay people on its operating bodies and sub-committees



Regulation of the Actuarial Profession - Why the FRC?

- Equitable Life, Penrose, Morris (Myners, FRS 27)
- Actuarial issues are central to corporate reporting & governance
- Developing expertise in overseeing the regulatory activities of professional bodies
- Lower cost than stand-alone regulator
- Market-led regulation more flexible than statutory regulation
- Increase influence of actuaries in UK business & investment community



Extending the FRC's Responsibilities to the Actuarial Profession

- Board for Actuarial Standards established (April 2006)
- Extend the role of POB (April 2006) & AADB (early 2007)
- Involve actuaries in FRC governance & decision-making
- Implement funding arrangements
- Review the new regime 2007/08



Regulatory Comparison

	Accounting	Actuaries
Education, training, CPD	Profession Oversight Board	Profession Oversight Board
Technical standards	ASB	BAS (much still FSA, DWP, and even ABI!)
Practitioner standards (ethical, procedural)	APB	Profession, BAS Oversight Board
Review of reporting/returns	Audit, some FSA, TPR, FRRP	FSA, TPR, some audit
Practitioner quality review	Profession, AIU Oversight Board	? (some peer review) Oversight Board
Complaints/discipline	Profession, AADB Oversight Board	Profession, FSA, AADB Oversight Board



Delivery!

- Part of the FRC's added-value is being "more than the sum of the parts"
- Work with other regulators globally (eg European policy on better regulation - RIAs etc)
- Collaborative approach with the profession ...
... but there has been a real transfer of responsibility to the FRC



Board for Actuarial Standards

Nigel Bankhead
Director



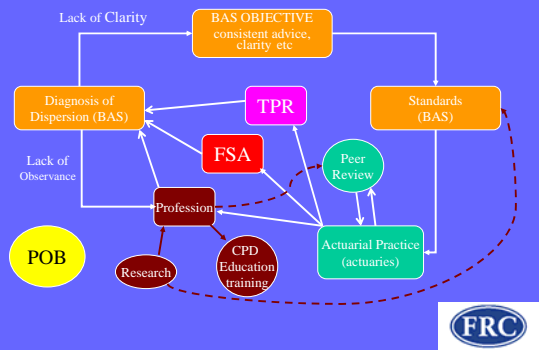
Board for Actuarial Standards

- BAS established under the FRC
- 14 Board members, (7 actuaries incl. me), Academics, User reps, Practising Actuaries, Consumer representative, Finance Directors.
- 5 observers, including FSA and TPR
- First inaugural meeting 20th April 2006
- Second (adoption) meeting 16th May 2006
- Four subsequent (conceptual framework) meetings

[Second Monday at 1.30pm www.frc.org.uk/bas/about]



Regulation of Actuarial Practice “Control Cycle”



What did BAS inherit?

- Profession's and FRC's heritage
 - Standard setting "framework"
 - Existing Guidance Notes
 - Development and consultative arrangements
 - Scrutiny Committee Report
 - Volunteers
 - Profession's research
- External recommendations & observations



External Observations - Morris

- Weak, ambiguous, partial, incoherent, inconsistent, incomprehensive, outdated standards
- Insular (and polarised) profession
- Failed to provide a clear presentation of the unavoidable risks that accompany most long term projections



External Recommendations - Morris

- Develop conceptual framework
 - objectives & characteristics of standards
- Communication content
 - assumptions
 - methodologies
 - nature of calculations and exercise of judgement
 - sensitivity and scenario analysis
 - characterisation of risk
 - client risk bearing capacity



Conceptual Framework Objective

- Develop a conceptual framework establishing the principles and concepts that underlie actuarial practice.
- Thereby:
 - provide clear direction on the matters that should be upheld by actuarial practice (judgement),
 - achieve common understanding, intention and approach (consistency)
 - help users understand the nature and limitations of actuarial practice (communication)



ASB Conceptual Framework

- Objectives of financial statements
- The reporting entity
- Qualitative characteristics of financial information
- Recognition in financial statements
- Measurement in financial statements
- Presentation of financial information
- Accounting for interests in other entities



Discussion Paper Objectives

- Identify, explore and define the different characteristics, philosophies, principles and concepts relevant to actuarial practice
- Compare and contrast the different approaches and identify their strengths and weaknesses
- Consider the matters on which external consultation should be conducted. Form preliminary conclusions where appropriate



Developmental Approach

- Working Groups
 - On Stakeholder Interests, Risk, Value and a Production Group
- Broad Participation
 - actuaries, users, journalist, Trade Union etc
 - General Insurance, Life, Pensions, Investment, Banking, Risk Management and Food Standards
- Stakeholder Interest Group
 - Research/Questionnaire/Personal Interviews
- Consulted Bodies
 - Profession, FSA, TPR



Outline Timescale

2006					2007						
A	S	O	N	D	J	F	M	A	M	J	J
U	E	C	O	E	A	E	A	P	A	U	U
G	P	T	V	C	N	B	R	R	Y	N	L
Risk Working Group											
Value Working Group											
Stakeholder Interests Working Group											



Consultation Phase

2007					2008							
A	S	O	N	D	J	F	M	A	M	J	J	
U	E	C	O	E	A	E	A	P	A	U	U	
G	P	T	V	C	N	B	R	R	Y	N	L	P
Consult on Discussion Paper												u b l i s h
			Analyse responses, draft Exposure Draft									
						Consult on Exposure Draft						
									Analyse responses			



Stakeholder Questions/Considerations

- Environmental Background
 - regulatory structure, governance structures, commercial market, financial markets
- Stakeholders
 - categories?
 - needs?
 - understanding?
 - Public interest requirements?
- Implication for Actuarial Practice
 - what is quality?
 - communication implications?



Value Questions/Considerations

- What is the value measurement philosophy underlying actuarial practice (externally unique or consistent)?
- Are current actuarial valuations (and discounted cash flows) a value determination, or something else?
- Is value an objective or a subjective measure, and can it be context constrained?
- Should value include a risk cost?
- What measurement philosophies fulfil the needs of different users?



Risk Questions/Considerations

- What is risk, what are its characteristics and effects?
- How should risk be measured, what are the risk metrics?
- Does risk have a cost/value?
- What can users readily understand and how should risk be communicated?
- Which risks can be measured and which cannot?
- Scope - measurement, advice on control/mitigation, management?
- Should risk be controlled by prudent measure, or prudent action ie capital reserves, hedging?

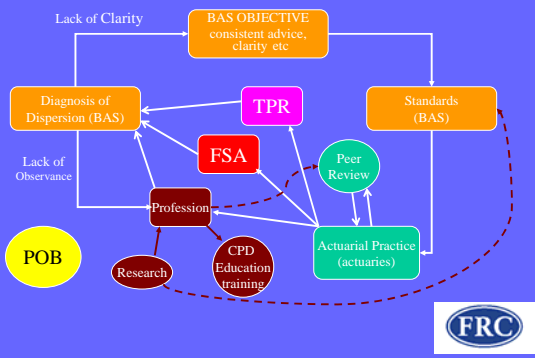


Professional Oversight Board

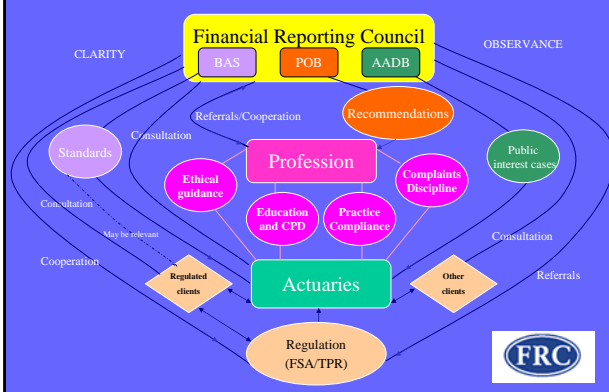
Paul Kennedy
Head of Actuarial Oversight



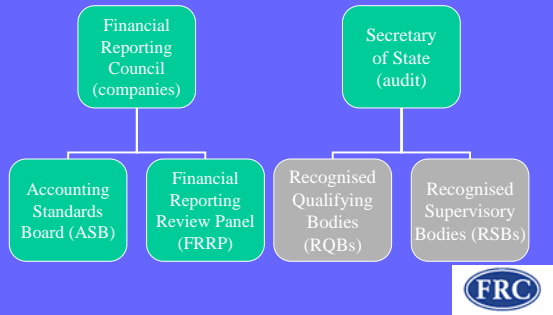
Regulation of Actuarial Practice “Control Cycle”



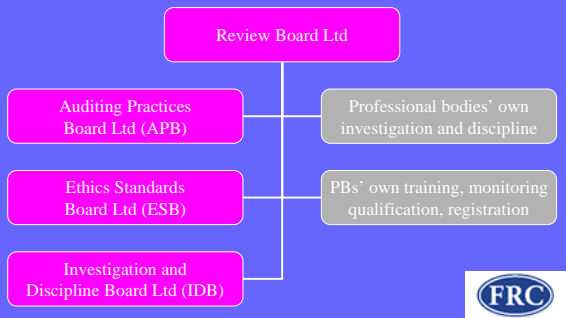
Regulation of Actuarial Practice



FRC: pre-Enron statutory framework for audit regulation



The Accountancy Foundation Ltd: pre-Enron voluntary oversight



Professional Oversight Board

Statutory oversight RQBs: bodies awarding audit qualifications Foreign qualifications: recognition RSBs: audit supervisory bodies	Voluntary oversight Accountants (education, training, ethics, CPD, complaints, discipline) Actuaries (except DPB)
Hybrid audit inspection role Statutory obligation on RSBs to subscribe to independent inspection arrangements for auditors RSBs overseen by Oversight Board RSBs subscribe to Board's Audit Inspection Unit	



11 Board members and 23 staff

Sir John Bourn, Comptroller and Auditor General
 Paul George, Executive Director
 3 NEDs (audit, banking backgrounds)
 1 academic
 1 actuary in private practice
 1 chief executive of an NHS trust
 1 former investment manager and actuary
 1 lawyer with experience of pensions regulation
 1 senior administrator at the TUC
 23 staff (16 at the Audit Inspection Unit)



Major POB projects

- Monitoring RQBs/RSBs
- Audit quality reports (AIU)
- EU cooperation: 8th directive
- Accounting needs of SMEs
- Competition and choice
- Audit quality (with APB)
- Complaints and discipline
- Key facts and trends
- Transparency of audit firms
- Education and training
- Profession's progress in implementing Morris
- Understand Profession's regulatory systems
- Public information about actuaries
- Monitoring and scrutiny
- Regulatory liaison (FRC)
- User needs (with BAS)
- Profession's reviews of PCS and discipline



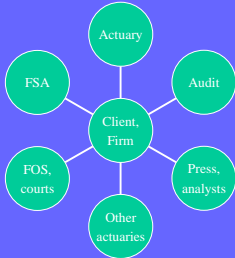
The Profession's response to Morris

	Recommendation	Response
Education and training	Implement 2005 strategy More external input Promote university route	Implemented New review panels New accreditation scheme
CPD	Clarify scheme objectives Keep CPD up to date More rigour, validation	New CPD scheme Professionalism events
Ethical standards	Clarify pensions conflicts Clarify whistleblowing	New principles, seminars Reviewing PCS
Scrutiny and discipline	Review life scrutiny gaps Liaise with regulators	Some, but who deals? Discussing protocols

... and the Strategy Review!



Scrutiny of life actuaries



Actuarial function holder
With-profits actuary
Appropriate actuary
Other e.g. reporting actuary

Reviewing/audit actuary
Independent actuary
Internal peer review
External peer review
Board/WPC/FSA actuaries



Major concerns

- Competence: keeping skills up to date
- Competence: communication skills
- Integrity: PCS review, conflicts
- Integrity: discipline review
- Transparency: regulator soup
- Transparency: recognising a good actuary
- Quality: do actuaries meet user needs?
- Quality: pensions a bigger challenge?