

INTRODUCTION to the FINANCIAL REPORTING COUNCIL

and the

BOARD FOR ACTUARIAL STANDARDS

FIRM Conference: Edinburgh

19th June 2006

Paul Seymour, BAS Chair



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

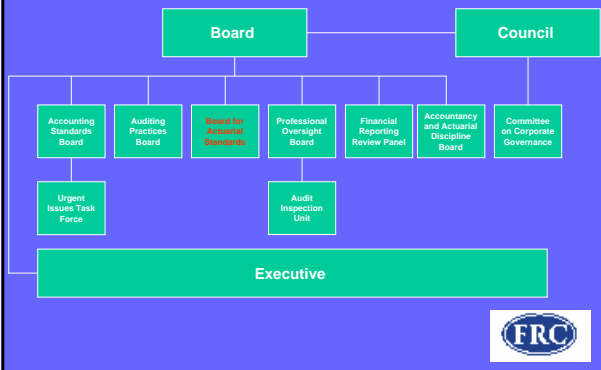


Our Regulatory Philosophy

- 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



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 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

**"Market-led regulation
with some statutory powers"**



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 01.04.06
- Extend the role of POB & AADB
- Involve actuaries in FRC governance & decision-making
- Finalise funding arrangements
- Review the new regime 2007/08



Delivery!

- Additional responsibilities contribute to the public interest ...
... and they enhance the FRC's authority and credibility
- Part of the FRC's added-value is being "more than the sum of the parts"
- Collaborative approach with the profession ...
... but there has been a real transfer of responsibility to the FRC



Regulatory Comparison with Accountants

	Accounting	Actuaries
Education etc	Profession POB (FRC)	Profession POB (FRC)
Technical Standards	ASB (FRC)	BAS (FRC)
Audit Standards	APB (FRC)	
Review of Accounts/returns	Audit FRRP (FRC)	FSA, TPR
Audit Quality	AIU (FRC)	Profession POB (FRC)
Discipline	Profession AADB	Profession AADB



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
- Third (conceptual framework) meeting 12th June 2006

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



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 - Penrose

- “The profession appears, no doubt unintentionally, to have seriously mislead itself”
- Actuaries have at times acted as if they were fully qualified in accountancy, law and other disciplines so as to need no outside input”
- “The question that regulators ...failed properly to address was not whether the actual result should have been anticipated, but whether the outcome was within the range of possible results for which contingency planning should have been in place”



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



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



Developmental Approach

- Questionnaires
- Working Groups
- Conference/Stakeholder Group Response
- Commissioned Research
- Personal Interviews



Initial Outline Plan

2006							2007							
J	J	A	S	O	N	D	J	F	M	A	M	J	J	
U	U	U	E	C	O	E	A	E	A	P	A	U	U	
N	L	G	P	T	V	C	N	B	R	R	Y	N	L	
Initiation														Publish Discussion Paper
Questionnaires														
Working Groups														
Stakeholder Group Meetings / Conference														
Commissioned Research														
Interviews														



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	
Consult on Discussion Paper												Publish Conceptual Framework Draft
Analyse responses, draft Exposure Draft												
						Consult on Exposure Draft						
						Analyse responses						



Sample Questions

- *What is an actuary?*
- *What is the scope of actuarial work or practice?*
- *What are the characteristics of actuarial work or practice?*
- *What is the essence of actuarial work or practice?*
- *What makes actuarial work good (or of high quality)?*
- *What should be the scope of UK actuarial standards and regulation?*



What is an Actuary?

- Valuer
- Risk measurer – incidence, magnitude, drivers, impact on affected parties
- Adviser – range of options and assessments
- Risk manager – accept, limit, mitigate



Actuarial Practice

- **What is actuarial practice?**
Providing information to assist planning for an uncertain future
- **What does it involve?**
Financial payments
Contingencies
Discounting
- **What is it not about?**
Fortune telling
Making the future more certain



BAS Initial Diagnosis

- **Inconsistency of Approach**
 - Principles
 - Assumption setting methodology
 - Permitted Techniques
 - **Analysis and communication of risk**
 - Expected variance
 - Realistic disaster scenarios
- Data & Research**
- Mortality (CMI)
 - Economist input



What does BAS need?

- Adequate informed input from practitioners and academics
- Open debate
- Consistency, transparency and accountability