



Financial Reporting Council

ANNUAL REPORT AND ACCOUNTS 2015/16

FOR THE YEAR ENDED 31 MARCH 2016

(v) Other oversight responsibilities

This Appendix reports on: the FRC's non-statutory oversight of the regulation of actuaries in the UK by the Institute and Faculty of Actuaries (IFoA), 'the body'.

SUMMARY

- The body continues to make regulatory progress and the level of cooperation from the body is very high;
- The launch of its Quality Assurance Scheme is a significant and encouraging step;
- A number of IFoA reviews of key areas, including ethics, are in hand;
- The nature and timing of FRC's actuarial oversight work programme has been reviewed;
- The FRC wishes to review the current regulatory arrangements and intends to a consultation in 2017.

1. INTRODUCTION

1.1 One of the central recommendations of the Morris Review of the Actuarial Profession (published in March 2005) was that self-regulation by the actuarial profession should be subject to independent oversight by the Financial Reporting Council. The FRC assumed responsibility for independent oversight of the UK Actuarial Profession (now the IFoA) in April 2006 at the request of HM Treasury.

1.2 Since 2006, the FRC has issued technical actuarial standards and has overseen the body putting conduct standards into place such as the Actuaries Code in 2009 on behavioural ethics, a cross-practice standard on work review in 2015 and the voluntary quality assurance scheme for employers of actuaries also in 2015. The FRC assumed responsibility for public interest disciplinary cases that involve actuaries in 2007. The FRC developed an actuarial quality framework to guide the FRC, IFoA and other stakeholders in promoting actuarial quality.

1.3 The FRC reviewed the sources of monitoring of actuarial work in detail in 2008-2009, identifying gaps. This monitoring 'map' was updated in 2014 and found largely to be unchanged. Indirect monitoring in insurance has now increased as a result of scrutiny of Solvency II implementation by the PRA.

1.4 In 2012/13, the FRC reviewed the framework for actuarial regulation with the IFoA and continued to set technical standards, oversee the body's regulatory activities and operate a public interest disciplinary scheme. We updated our Memorandum of Understanding with the body in 2014.

1.5 In 2013, the FRC established the Joint Forum on Actuarial Regulation (JFAR) which is described below in 2.2. In 2014, the FRC with the JFAR published a Risk Perspective document which outlined the public interest risks relating actuarial work and mitigation options.

1.6 The FRC now plans to consult in early 2017 on the future of actuarial regulation including on whether independent oversight of the actuarial profession remains necessary and appropriate. Until any post-consultation decisions are taken, the FRC will continue to undertake its current role in accordance with its work programme which was reviewed and agreed with the body in 2015/16.

2. REPORT ON THE IFOA'S REGULATORY PROGRESS IN 2015/16

2.1 The public letter of 10 August 2015 from the Chair of the FRC's Conduct Committee to the Chair of the IFoA's Regulation Board set out the matters which the FRC considered should be the body's priorities for the year ahead. We asked the body to be proactive on regulatory matters and to continue to focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis. The IFoA plans to include in its regulatory policy statement, to be finalised in July this year, an appendix which seeks to clarify what acting in the public interest means to the body.

(a) IFoA review of its standards framework

2.2 In April 2016, the IFoA published the consultation feedback document of its review of its standards framework. The main conclusions were:

- the current structure is broadly fit for purpose and should be retained;
- the labelling and structure should be simplified, consistent terminology used and accessibility enhanced;
- the IFoA will enhance communication and proportionately monitor the framework's effectiveness.

(b) Public interest risks to which actuarial work is relevant

2.3 The IFoA has continued to participate in the Joint Forum on Actuarial Regulation (JFAR); a unique collaboration between regulators to co-ordinate, within the context of its members' objectives, the identification and analysis of public interest risks to which actuarial work is relevant. The JFAR comprises the Financial Reporting Council, the Institute and Faculty of Actuaries, the Financial Conduct Authority, the Pensions Regulator and the Prudential Regulation Authority.

2.4 Following the publication of JFAR's Risk Perspective Document, we encouraged the IFoA, like the FRC,

to reflect and embed the risks and associated mitigations identified through the JFAR into its regulatory strategy. The IFoA embarked upon its 'Risk Outlook' project in 2015, to identify, prioritise, and where appropriate, publicise risks to the public interest in connection with actuarial activity. As the IFoA reported to the JFAR in March 2016, single topic "risk alert" communications will be published to bring relevant risks to the attention of the body's members and stakeholders. The Risk Outlook project is ongoing and will inform the IFoA's regulatory strategy and the prioritisation of its regulatory work.

2.5 The IFoA led JFAR's review of 'Group Think' in 2015/16, which resulted in publication of a paper in June 2016 to raise public awareness of this risk after identifying this as a key way to mitigate the risk.

(c) Quality Assurance Scheme for firms

2.6 The IFoA launched its Quality Assurance Scheme (QAS) for firms in September 2015, which had been developed in response to recommendations that the FRC made in 2009. The QAS is a voluntary initiative which encourages active engagement with actuarial quality by firms which employ actuaries, although the IFoA has no jurisdiction to regulate firms. It strengthens the regulatory regime which is in the public interest. Under the QAS, the first batch of applications from firms which collectively employ approximately 20% of the body's UK membership have now been independently externally assessed and approved for accreditation. These initial accreditations took effect from 12 April 2016 and demonstrate a very good initial take up for a voluntary compliance arrangement. The IFoA is now considering how to use outputs from the QAS to inform its regulatory strategy.

(d) IFoA standards on review of individuals' work

2.7 The IFoA's new principles-based cross-practice standard, APS X2: *Review of actuarial work*, came into force on 1 July 2015 and at the same time the more prescriptive standard, APS P2: *Compliance review: pensions*, was withdrawn. The IFoA's programme of implementation training is ongoing. We engaged with the body to ensure that the transition training put in place was sufficiently accessible before the new standard was implemented and old one simultaneously withdrawn in July 2015.

2.8 The IFoA's post-implementation review of APS X2 has begun: oral and written feedback has been obtained from some larger firms on how APS X2 has been applied to work that was formerly covered by APS P2. We expect the IFoA's post-implementation review in 2016/17 to be evidence-based and to focus on public interest outcomes, in particular on the way in which APS X2 has been applied

to work in the public interest which was formerly covered by APS P2. Our view remains that effective peer review must be a robust challenge that is both objective and effective.

(e) Ethical code for actuaries

2.9 The IFoA's substantive review of the Actuaries Code is still at an early stage. We have provided strategic input to the project's scope and we continue to encourage the body to share its draft proposals with us, which will include outputs from its standards framework review and from wider consultation. The IFoA has confirmed that it plans to complete its review and implement the revised code by summer 2017.

(f) Actuarial skills and competencies

2.10 In April 2016, the IFoA published the findings of its commissioned research into the knowledge skills and competencies that users can expect of actuarial practising certificate holders, to provide a learning reference point for its members. The body is now considering how best to embed these key attributes into its programme of education, continuing professional development (CPD) and other regulatory activities and remains on track with our expectations that it should respond to the findings in 2015–17. CPD is a key pillar of the regulatory regime.

2.11 In line with our mutual expectations, the IFoA launched a new Practising Certificates regime for the Chief Actuary role in July 2015, in time for the implementation of Solvency II in January 2016.

2.12 The IFoA published further Professional Skills training materials for its members. We had suggested that the IFoA should monitor whether the key messages taken away by participants from the professionalism case studies are aligned with the outcomes the body intended. The new materials are clearer in this regard. Additionally a new recording requirement was introduced for student members in relation to professional skills. Broad compliance in relation to the established CPD requirements can now be evidenced, demonstrating that the new Professional Skills regime is becoming embedded.

(g) Disciplinary process

2.13 The IFoA has refreshed the membership of its Disciplinary Board and Disciplinary Pool. New tribunal guidance is under development in relation to sanctions. Increased efficiency has resulted in improved case handling timescales.

(h) Education strategy

2.14 The IFoA has completed a major review of its curriculum and examinations to reflect the changing nature

of actuaries' work. The draft curriculum has been shaped in consultation with learners, employers and other relevant stakeholders. The draft curriculum was circulated for further stakeholder comment in May 2016, prior to anticipated implementation from 2019.

3. THE FRC'S ACTUARIAL OVERSIGHT ACTIVITIES IN 2015/16

3.1 We carried out an internal review of whether the scope and substance of our ongoing actuarial oversight role should be changed and whether we are carrying out the current role in the best way. Our review included input from external stakeholders and the IFoA was particularly helpful in this. Following this review, we agreed that there was a need for:

- more FRC involvement at earlier stages on strategic and regulatory matters;
- direct FRC review of the body's regulatory processes.

3.2 In connection with the IFoA's five-year refresh of its regulatory strategy, we gave input to its strategy refresh principles and to its regulatory deliverables for 2016/17.

3.3 The FRC oversaw the build up to the IFoA's launch of its new quality assurance scheme (QAS) for firms in September 2015. We are supportive of the scheme as an initiative to embed drivers of actuarial quality into organisational culture. We encouraged the body and supported its development of criteria which would enable the entities themselves and those responsible for monitoring or awarding accreditation, to assess objectively whether the QAS outcomes are met by the entities' processes.

3.4 We also engaged significantly with the IFoA prior to the respective implementation and withdrawal of its IFoA's actuarial standards, APS X2: *Review of Actuarial Work* and APS P2: *Compliance Review – Pensions* in July 2015. We stressed the need for the body to make available sufficient timely accessible training on the transition to APS X2, and to monitor the approach to compliance with APS X2, particularly in relation to work where compliance with APS P2 had hitherto been required. The IFoA is still developing its approach to monitor compliance with APS X2 and its programme of education and training is ongoing.

3.5 We outlined to the IFoA the key aspects that its 2016/17 review of the ethical code for actuaries should include, in the public interest and will continue to provide input as the review develops.

3.6 We contributed to the IFoA's analysis of its research into actuarial knowledge, skills and competencies, to assist the body with its development of a 'key skills' guide. The guide will facilitate the embedding of these key attributes

both into the IFoA's regulatory activities and into its members' competencies.

3.7 We reviewed, from a public interest perspective, the IFoA's consultation feedback and response documents in relation to the body's new obligations on actuaries who carry out the Chief Actuary role under Solvency II with effect from 1 January 2016.

3.8 We visited the IFoA's Edinburgh office in November 2015 to observe its processes in relation to complaints/discipline and CPD/practising certificates. The processes appeared to be fit for purpose and we will make a second visit in the coming year to test their application.

3.9 We reviewed, and gave feedback on, the IFoA's latest post-qualification professional skills training materials for its members. We have also provided input to the IFoA on alternative proposals which it is currently considering for possible alteration to its disciplinary processes.

4. THE FRC'S PRIORITIES FOR THE IFOA IN 2016/17

4.1 The FRC expects the IFoA to continue to focus on public interest outcomes and on the quality of regulatory processes for achieving these outcomes on a timely basis.

4.2 We look forward to the completion of the IFoA's review of its ethical code for actuaries, '*the Actuaries' Code*', in 2016/17 building on the body's articulation of its members' public interest role within its regulatory policy.

4.3 We expect the IFoA to continue to embed the principles of the Code in its educational and regulatory initiatives, recognising the scope for these principles to mitigate some of the risks associated with actuarial work. It is particularly important that actuaries are supported throughout their careers by training, where appropriate, so that their communications are clear to those who rely upon them.

4.4 Following the JFAR's review of the 'group think' risk in relation to actuarial work, on which the IFoA took the lead, we anticipate further initiatives by the IFoA to mitigate this risk via education and training. We would encourage the body to continue to play an active role in the JFAR in terms of identifying public interest risks and also by responding to these including with initiatives in training, education and guidance for its members. We consider that the IFoA would be well placed to take ownership of a new JFAR risk-based review in 2016/17.

4.5 Building on the JFAR's updated Risk Perspective and the IFoA's new Risk Outlook, and referencing the Actuaries' Code and the standards framework, we now

look forward to the IFoA's conclusions in 2016/17 on how best to ensure that its regulatory initiatives continue to focus on an up-to-date assimilation of the drivers and indicators of actuarial quality.

4.6 As the IFoA continues to increase the range and diversity of organisations accredited under its new Quality Assurance Scheme, we look forward to its assessment of how the outputs from the Scheme can be used as a measure of actuarial quality.

4.7 We consider the IFoA's development in 2016/17 of an effectiveness review programme for its standards and guidance to be an essential strand of its regulatory strategy. We expect that such reviews should be evidence-based and should focus on public interest outcomes.

4.8 We expect the IFoA, through its reviews of education strategy and of the practising certificate regime to ensure that the professional qualification and practising certificates remain fit for purpose. Building on the online professionalism skills training that the body has developed in recent years, training is now needed for its members on the application of the technical actuarial standards, TASs.

4.9 We welcome the conclusion of the IFoA's research into the skill sets expected of role holders and now look forward in 2016/17 to the embedding of these into the body's programme of education, CPD, member support and other regulatory activities.

4.10 In order to oversee the IFoA's CPD, certification, disciplinary and education arrangements, we need to be able to test the body's processes in these key areas. We also expect the body to alert us when there are new developments and to self-report to us on an exceptions basis.

4.11 In support of the FRC's publication of the framework for technical actuarial standards (TASs), TAS 100 and the exposure drafts of the specific TASs, the IFoA has formed a working group to consider and draft any necessary guidance for IFoA members.

4.12 We are working with the IFoA to agree how best to influence the development of international and European standards and the approach to adoption of these.

5. THE IFOA'S KEY PROJECTS FOR 2016/17

5.1 The Royal Charter to which the IFoA is held to account states: *"The objects of the Institute and Faculty of Actuaries shall be, in the public interest, to advance all matters relevant to actuarial science and its application, and to regulate and promote the actuarial profession"*.

5.2 The IFoA's vision is: *"to serve the public interest by ensuring that where there is uncertainty of future outcomes, actuaries are trusted and sought after for their valued analysis and authority"*.

5.3 The IFoA has refreshed the strategy that it devised in 2011 and will launch its new strategy in 2016/17. The IFoA's Corporate Plan for 2016/17 includes the following regulatory projects which the IFoA plans to complete during 2016/17:

- a. deliver review of the Actuaries' Code after obtaining wide stakeholder input;
- b. launch 'risk outlook' to raise awareness of areas of public interest risk and to underpin a proportionate and targeted risk-based approach to regulation;
- c. develop an effectiveness review programme for the IFoA's standards and guidance;
- d. further develop its professional skills training and reinforce the importance of organisational culture in embedding professional values;
- e. review criteria for practising certificates;
- f. complete the review of education strategy;
- g. ensure appropriate examination support is available to all student members;
- h. provide online annual reporting of work-based skills by student members;
- i. continue ongoing review of disciplinary scheme for clarity and effectiveness;
- j. continue to engage with the International Actuarial Association and the Actuarial Association of Europe in the development of actuarial standards.

6. THE FRC'S ACTUARIAL OVERSIGHT PRIORITIES FOR 2016/17

6.1 Our activities are focused on:

- a. areas of potential risk to public interest;
- b. areas where we consider that it is in the public interest that the IFoA should move more quickly;
- c. the intended outcomes of IFoA regulation and the quality of its processes for achieving them.

6.2 In addition, we continue to monitor areas of regulation where the body has already developed an appropriate and robust approach.

6.3 In 2016/17 we will:

- provide an external perspective by high level and strategic review of the IFoA's regulatory initiatives, at an early stage;
- assist the IFoA to identify and prioritise regulatory matters that the FRC considers to be significant;
- encourage the IFoA to work more effectively with other regulators and co-ordinate through JFAR the identification of public interest risks and the IFoA's response to them;
- promote ongoing review by the IFoA of the effectiveness of its standards and guidance and their application by members and encourage challenge (e.g. through peer review);
- oversee the IFoA's development of its Quality Assurance Scheme (QAS) for firms;
- review the IFoA's governance process for deriving its education strategy and the associated work flows;
- oversee the effectiveness of the IFoA's procedures for ensuring that the professional qualification and the practising certificate regime remain fit for purpose for role holders;
- monitor the IFoA's published disciplinary cases and review the annual report of the IFoA's Disciplinary Board;
- visit the Edinburgh office again to test processes in relation to complaints and discipline, CPD and practising certificates;

- monitor (via the IFoA reporting to us) exceptional matters that have occurred;
- monitor the IFoA's initiatives to use its new Skill Sets Framework in its Education and Member Support directorates;
- influence the IFoA's education, training and guidance of its members; and
- encourage knowledge sharing between the IFoA and other UK professional bodies.

6.4 We will consider with the JFAR the options to mitigate any shortcomings identified by its 2015/16 risk-based reviews. Our analysis of existing mitigants will include consideration of whether IFoA regulation is fit for purpose in terms of producing good quality actuarial work in the public interest.