



ASSOCIATION OF CONSULTING ACTUARIES

Association of Consulting Actuaries Limited · First Floor (129) · 40 Gracechurch Street · London · EC3V 0BT

Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk

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By email to APT@frc.org.uk.

FRC
8th Floor
125 London Wall
London EC2Y 5AS

To whom it may concern

Post Implementation Review Technical Actuarial Standards

I am writing on behalf of the **Association of Consulting Actuaries** (ACA) with comments on FRC's Call for Feedback on the Technical Actuarial Standards.

The ACA welcomes the opportunity to provide input, our comments on the relevant questions are set out in the **appendix** to this letter, below.

Members of the ACA are all qualified actuaries – mainly Fellows of the Institute and Faculty of Actuaries. All actuarial advice given by our members is subject to the Actuaries' Code. Members provide advice to thousands of employers and pension schemes - with total assets exceeding £1 trillion - including most of the country's largest schemes – and increasingly consulting actuaries are now involved in a wide range of additional areas.

We hope you find our comments useful. We would be happy to discuss this matter further if you wish – if so, please contact Jillian Pegrum, a member of our Professional Affairs Committee, at jillian.pegrum@aon.com or on 01252 768175.

Yours sincerely

David

David Robertson
Secretariat
On behalf of the Association

Appendix

Question 1: Please provide your name (note that anonymous responses will not be accepted).

David Robertson

Question 2: Are you responding as an individual or on behalf of an organisation? If so, please list.

On behalf of the Association of Consulting Actuaries

Question 3: Please provide your email address so we can validate your response is legitimate. The responses to this survey are being collected and processed by the Financial Reporting Council (FRC) in order to inform certain aspects of the Actuarial Policy Team's work. In particular, the data collected through this survey will be used by the FRC APT for the Technical Actuarial Standards Post Implementation Review. The FRC will process any personal data provided by you in accordance with the General Data Protection Regulation and the Data Protection Act 2018. More information about how we handle the personal data of stakeholders is contained in the privacy notice on the FRC website at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>.

david.robertson@aca.org.uk

Question 4: Do you request confidentiality of your response? (note: if so, your response will NOT be published to the FRC website as described in paragraphs 1.23 to 1.25)

No

2.1 Over-arching questions in relation to the TASs

Question 5: To what extent have the TASs been effective in supporting high quality technical actuarial work?

- As a whole we believe that, since their original introduction, the TASs have led to an improvement in the standard of technical actuarial work across the industry.
- The TASs are clear and to the point which encourages actuaries to read them, they allow judgement which encourages actuaries to consider their work more carefully. They are easily applied to other colleagues who are not members of the IFoA.

Question 6: What aspects of the TASs have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

We believe that consideration of the scope of the standards initially caused difficulties. If the decision has been made to apply the standards to all work, then the question of

whether work is in or out of scope (and so, in particular, whether the compliance statement was needed) detracted from the main consideration of what needs to be covered in the advice. Similar issues have arisen when trying to get compliance between members of the IFoA (mandatory compliance) and non-actuaries (where compliance is encouraged). The difficulties were addressed through training, guidance and support. This was generally done in addition to FRC/IFoA training at a business level. However in some cases the compliance statement might be seen as too vague to be helpful (see also questions 16 and 20).

Question 7: [for users of technical actuarial work] Have the TASs been effective in ensuring the quality and clarity of the actuarial information you receive is reliable to any decisions that you take based on that information?

n/a

Question 8: Are there any aspects of the TASs that do not help to ensure the quality of actuarial information? Please explain your response with examples of where this has been an issue.

We do not believe that the TAS compliance statement helps to ensure the quality of actuarial information. However, see our answer to question 20.

Question 9: Is TAS 100 of sufficient detail to enable you to have a clear understanding of what is required in order to comply with this TAS? Are there areas of guidance which are vital to your understanding to the TASs?

- TAS100 is of sufficient detail to ensure clear understanding noting the points below. Where standards are very detailed, use of judgement might be lost.
- When the TASs came in we used the significant considerations documents and other guidance (eg prepared by ACA) to augment our understanding. But that is no longer necessary – as the TASs are principles based then we should be free to use our judgement.
- The document “Guidance on the application of TAS100” issued by the Regulation Board of IFoA was useful when the TASs were reformed (and such documents can help TASs becoming unwieldy)
- In the time since the TASs were initially introduced the world has changed, and in particular the delivery approaches for advice have evolved and continue to change. Consideration needs to be given as to whether the TASs need amendment in light of the different methods of delivering advice - with advice being more interactive and building on other discussions and information.
- We would also point out that the needs of the user are extremely varied and actuaries need to be able to reflect this, choosing the appropriate method of

delivering advice (and the information provided) to address the needs to their clients.

Question 10: [for users of technical actuarial work] Are there any areas where you would welcome further standards; in particular, new areas where an increasing number of actuaries are performing technical actuarial work?

n/a

Question 11: Do you foresee any issues with the TASs being reviewed and updated in a staggered approach?

If a single existing TAS were to be split up and released by way of a staggered approach, this could cause issues, otherwise we do not foresee any problems.

3 Professional Judgement

The first principle of TAS 100 states: "Judgement shall be exercised in a reasoned and justifiable manner; material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information." TASs go no further than this and do not define nor constrain the above principle. Recent trends have been towards providing greater clarity on what constitutes good professional judgement.

Question 12: Are there specific considerations or factors that actuaries should take into account when making professional judgements?

It is very important for actuaries to be able to exercise professional judgement and to understand their clients. Not only do actuaries need to understand their clients but they also must understand the needs of other users, and particularly how to communicate with them. Members of the IFoA must, in addition to the TASs, abide by the Actuaries' Code and IFoA ethical standards.

Question 13: Does TAS 100 currently give sufficient direction on the nature of professional judgement and what it involves?

Yes, it does when applied in conjunction with the Actuaries' Code and other ethical standards - we do not think it needs any further direction.

Question 14: [for users of technical actuarial work] In making your decisions based on the actuarial information requested, how much reliance do you place on the professional judgement made which resulted in the actuarial information, and has there been sufficient clarity of how these judgments are arrived at?

n/a

4 Modelling

Stochastic modelling and option pricing are now mainstream in many areas of actuarial work. Actuaries are likely to become more involved in areas such as climate change and pandemic modelling, and the use of data science is becoming more prevalent.

Actuaries are increasingly working in multi-disciplinary teams to develop and use models

All of these trends could increase the importance of model governance, including control of the model environment, model validation, and communication of results.

The International Actuarial Association (IAA) developed an addition to International Standard of Actuarial Practice (ISAP) 1, namely ISAP 1A Governance of Models which has subsequently been incorporated into ISAP 1. FRC will examine whether it should adopt the relevant standards within the TASs.

Question 15: How has TAS 100 supported you in determining whether a model is fit for purpose?

Probably the latest TAS 100 has not caused a great deal of change in the determination of whether a model is fit for purpose (where work was already within scope of earlier TASs). Widening the scope has caused that thought process to be used for a wider range of work – but the rationale for deciding whether a model is fit for purpose can just be extended to that wider range of work. The main consideration here is whether there is a proper framework in place and how is it tested. And again, calling out any limitations of the model. It is also worth distinguishing between internal models (to support the advice given by actuaries) and interactive models built by actuaries for external users.

Question 16: How have changes in modelling techniques in recent years impacted on your models used in technical actuarial work? What changes should be made to TAS 100 to reflect these developments?

Again, the delivery of actuarial advice has evolved, and with it the models used to create that advice for its users (and who will use that advice will also have changed with more online access to advice). The consultation document refers to ISAP 1A as one of the standards that FRC will examine as to whether it should be adopted by IFoA “within the TASs”. ISAPs are very detailed and need to work for an international population where standards and the actuarial market might not be as developed as it is in the UK. ISAP 1A could be used to complement the TASs in relation to modelling controls but it does not seem necessary to introduce ISAP 1A for UK actuaries.

Question 17: How has TAS 100 supported you in determining whether sufficient controls and testing is in place for the models used in technical actuarial work?

TAS 100 has not helped as there can still be unintended consequences. However, there are other controls on models which ensure the quality of the work.

Question 18: How are recent or anticipated changes in modelling techniques, or other influences, changing the nature of model governance and validation? What changes should be made to TAS 100 to reflect these?

There is an increasing presence of real time modelling and increased use of third parties (due to increased complexity) meaning that actuaries have less control over models and tools. Actuaries must be able to conduct an appropriate and thorough review to ensure the model is fit for purpose. However, it is still the case that the TAS100 principles hold firm and prove effective in a changing more complex world.

Question 19: [for users of technical actuarial work] How are recent or anticipated changes in modelling techniques affecting the communication of a) methods and measures used in the technical actuarial work and b) significant limitations to the models?

n/a

5 Statement and evidence of TAS compliance

Each TAS includes a requirement for a statement of TAS compliance. The specific wording of the statement of TAS compliance is not defined, and FRC has observed that a wide variety of wordings are adopted for the statement of TAS compliance, ranging from the concise to the less concise. This could lead to a perception that different levels of compliance to TASs are available and acceptable.

Actuarial reports and communications FRC has examined do not always make it clear which provisions of each TAS apply to the work in question, and which sections of the work come within the provisions of the TASs.

Question 20: Do you consider standardising the wording of the statement of TAS compliance would lead to better clarity on the quality of the work provided? Please provide rationale for your view.

The more fundamental question may be whether the compliance statement should be required at all. As noted above this has led to discussions on whether the work is within scope itself. Not including the compliance statement for work that is clearly within scope is a breach; including a statement for work that is not within scope is not a breach - but it may be misleading to the user (particularly if the work does not comply with the TASs but the statement is suggesting that it does comply). For example, work might be regarded to be presented as Technical Actuarial Work even if it is not intended to be such. We accept that some kind of disclosure can be useful for actuaries (i.e. showing that there are limitations in advice and also alerting or reminding users of this point), whether or not this is a standard form of wording.

If it is decided that the requirement to include a compliance statement should remain, there could be different views on standardisation:

- Some might feel that standardising the wording would not be helpful if it is not accompanied by a clear instruction and rationale as to when the statement is required.

- Some would welcome further guidance on compliance statements, if not standardised wording. Examples of approaches that we are aware of include:
 - adding the following statement to all work (whether in scope of not): “Where appropriate and relevant, this email/report/presentation, and the work relating to it, complies with ‘Technical Actuarial Standard 100: Principles for Technical Actuarial Work’ (‘TAS 100’) and or ‘Technical Actuarial Standard 300: Pensions’ (‘TAS 300’).”
 - “Technical Actuarial Standard (TAS) 100: The analysis is based on the methodology and assumptions described, including the supporting material. In the context of the Technical Actuarial Standards (TASs) the sole users of this report are the Trustees of the XYZ Scheme (the “Scheme”) and this is to whom the report is addressed. In the context of TAS 100, the report has a limited purpose and is presented for discussion purposes that may lead to a decision at the Trustee meeting or subsequently.”

Question 21: As an actuary completing a work review as defined in APS X2, or as a user of technical actuarial work, is the evidence supporting the statement of TAS compliance clear and accessible, and how important is it to have this evidence available to you?

The answer is different depending on whether this is an actuary completing a work review or a user of technical actuarial work:

- From the viewpoint of the actuary the main concern is the quality of the advice being reviewed, the communication aspects, what the users will do with the advice and whether the actuary has exercised their judgement appropriately. This applies regardless of whether the work is in scope of the TASs and regardless of whether there is a TAS compliance statement. For many people a review of compliance with TAS is a combination of checking that a TAS statement is included and a review of the final report for obvious breaches based on a broad understanding of the TAS principles (e.g. is it clear what data and assumptions have been used, has uncertainty been addressed etc.). The majority of peer reviewers will obtain such evidence but may not consider the documentation of the underlying work and are likely to rely on others involved in the process for ensuring TAS compliance.
- In relation to the users of actuarial advice, most users would have insufficient knowledge and understanding of the TASs to assess whether the advice is TAS compliant – whether or not a TAS compliance statement is included.

Question 22: Have there been circumstances where you have experienced issues with making a statement of compliance with TAS 100? Please can you provide examples of such.

- There was initially some confusion and concern over how the TASs scope and use of compliance statement applied, particularly where work was newly in scope, and also around the geographic restrictions of the scope of the TASs. For example, US GAAP is not in scope of TAS 100 itself but IFoA members should ensure that their Actuarial

Work is carried out in a way that is substantially consistent with ISAP 1 – which means applying all relevant TASs.

- There are also difficulties in determining who is the end user; for example, if an investment manager takes the actuary's defined limited analysis to present ALM solutions to the trustees, there can be difficult questions for the actuary as to where TAS100, Reliability Objective, Actuaries Code all begin and end.

IFRS17

The International Actuarial Association (IAA) has introduced International Standard of Actuarial Practice 4 (ISAP 4) as a model standard, focused on work produced in relation to IFRS 17. The FRC is assessing the costs and benefit of adopting this for the UK.

Question 23: Should ISAP 4 be adopted by the FRC? Please provide your rationale supporting your view.

It is our view that the TASs should be sufficient to ensure quality for UK work without adopting IAA standards. The review of TAS 200 should address any issues arising.

Question 24: If ISAP 4 is adopted as a UK standard, are there either additions or deletions that we should consider to ensure that it best reflects UK conditions?

TAS 100 and TAS 200 should be adequate rather than adopting a new amended standard which could be cumbersome and confusing.

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