ACA Northern Conference

D17:FRC Update – TAS Consultation

Ann Muldoon

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Financial Reporting Council

What I will cover

Background to TAS development

Framework and TAS 100

Specific TASs

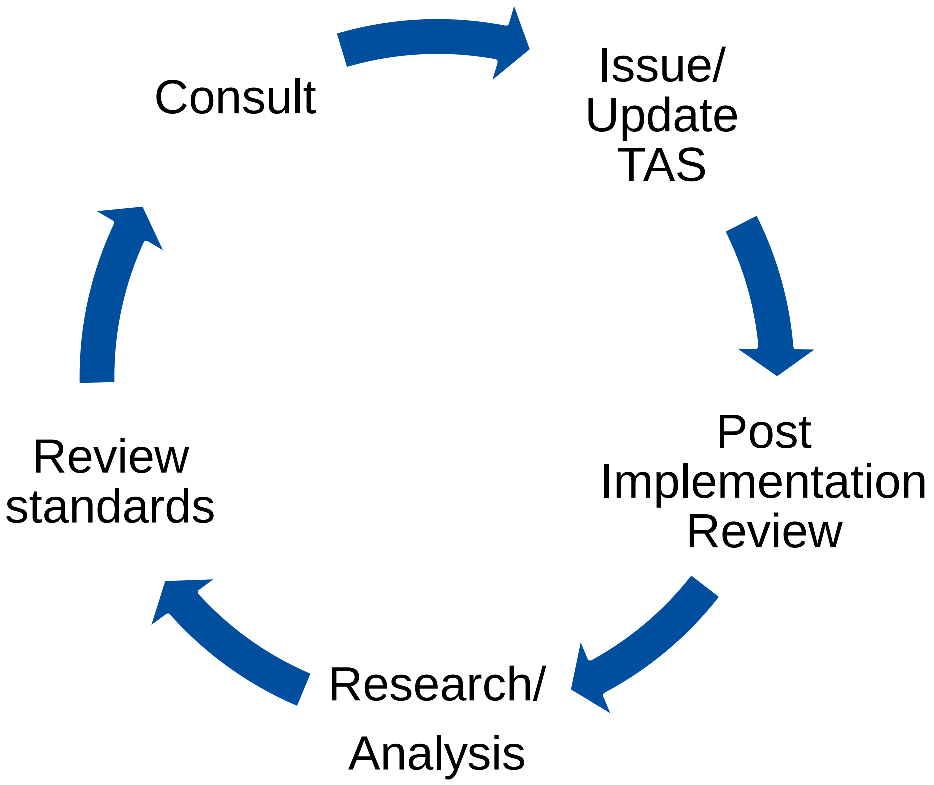
Case studies

Background to TAS Development

Actuarial Regulation Today

IFoA	FRC
Actuaries’ Code Ethical Standards (APSs)	Generic TASs Specific TASs
Educations and examinations CPD Practising certificates Member support	Professional oversight
Discipline (excluding public interest)	Public interest disciplinary cases

TAS review cycle



Framework and TAS 100

Revised Framework for TASs

Framework for FRC Technical Actuarial Standards

Applies to <u>all</u> technical actuarial work — TAS 100

Apply to areas of technical actuarial work specified in the Specific TASs — TASs 200, 300 etc. (Insurance, Pensions, Funeral Plan Trusts, Other)

Risk assessment process

Glossary

SORPs

Guidance

Framework for FRC Technical Actuarial Standards

Historical context
FRC principles for development of codes, standards and guidance
Reliability Objective
Authority
Scope and Application • Including Technical Actuarial Work and Geographic Scope

Reliability Objective

Users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information

Definition of Users: Those people whose decisions a communication is intended (at the time it is provided) to assist

Geographic Scope

Framework for FRC technical actuarial standards:

…….work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation

APS X1 sets out approach for work outside geographic scope

TAS 100

High-level outcome-focused principles

Judgement	Data	Assumptions	Modelling	Communications	Documentation

Supporting provisions

Applies to all technical actuarial work

Based on existing Generic TASs

No guidance

Definition of technical actuarial work

Technical actuarial work is work performed for a **user**:

- where the use of principles and/or techniques of actuarial science is central and which involves the exercise of judgement; or

- which the **user** may reasonably regard as technical actuarial work by virtue of the manner of its presentation.

Application

Departures (from provisions related to Communications)	Permitted if they are **unlikely to have a material effect on the decisions of users.**
Proportionality	Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.
Compliance	Communications for • **reserved** work; • work in the scope of a **Specific TAS**; and • technical actuarial work which is **central to a significant decision by the user.**

The Principles

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

Data used in technical actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information

The Principles (2)

Assumptions used, or proposed for use, in technical actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information

Models used in technical actuarial work shall be fit for the purpose for which they are used and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information

The Principles (3)

Communications shall be clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information

Documentation shall contain enough detail for a technically competent person with no previous knowledge of the technical actuarial work to understand the matters involved and assess the judgements made

Breakout Session

Case Study

Case Study – Technical Actuarial Work

You are presenting on investment strategies at a pensions conference. The audience includes a wide range of participants from the pensions industry. Your presentation includes the results of modelling assets and liabilities of a typical pension scheme under different investment strategies.

A week later you attend a Trustee Meeting of ABC Pension Scheme. You mention your recent research and share a “glossy” paper summarising the key points from your presentation.

A few weeks later the Chair of the Trustee Board asks you to do a presentation on the topic for the next Trustee Meeting.

When would TAS 100 apply?

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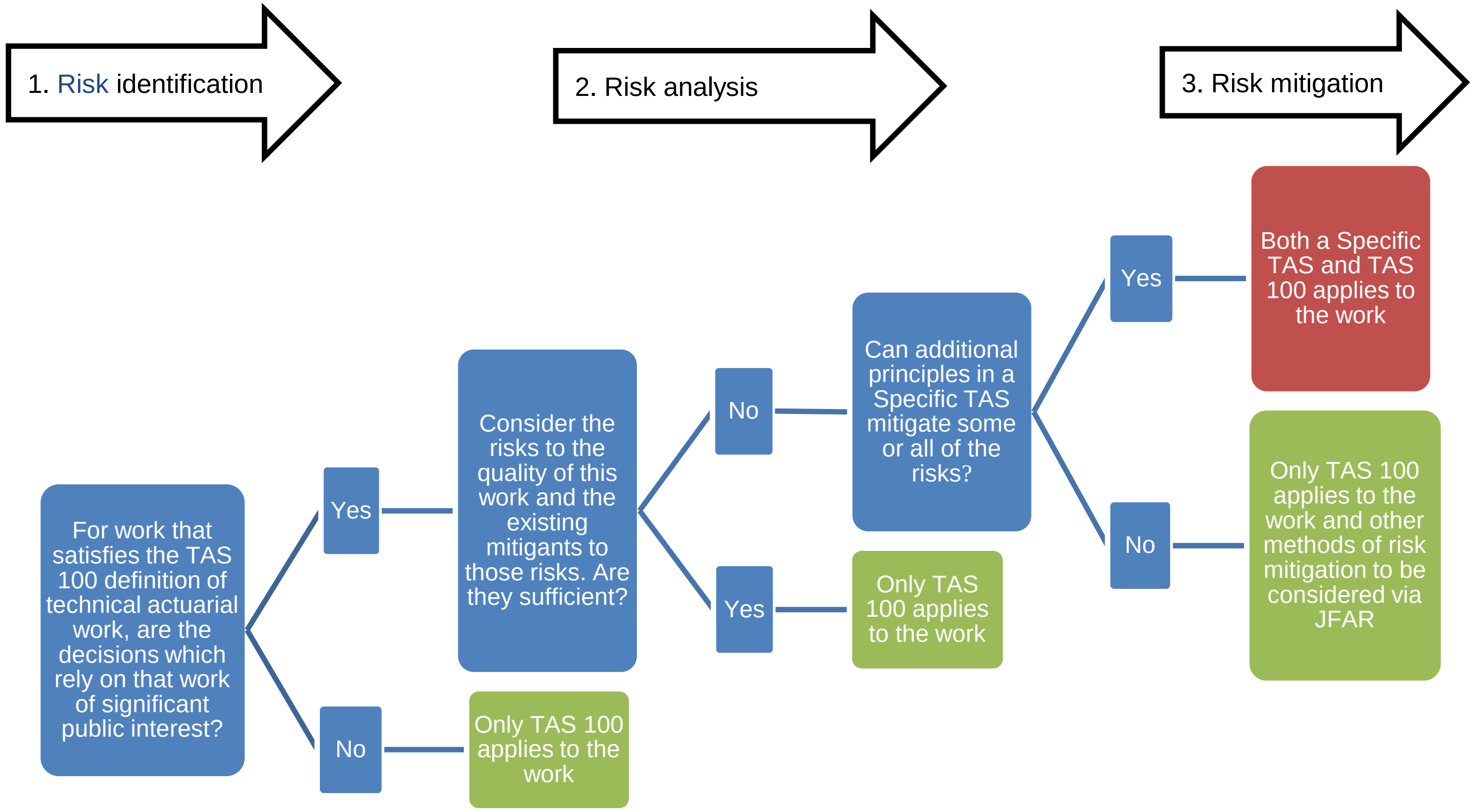
Specific TASs

Specific TASs

Three TASs	Pensions, Insurance and Funeral plan trusts – in future could be others Transformations provisions moved to pensions and insurance TASs
Scope	Work where there is a high degree of risk to the public interest – identified using risk assessment process
Provisions	Support TAS 100 principles Core and work-specific

Risk assessment process



TAS 300

Scope of TAS 300 compared with previous Pensions TAS

Retained	New	Removed
Funding/financing Factors Incentive exercises Scheme modifications (trustees) Bulk transfers (trustees) Section 75 calculations	Scheme modifications (employers) Bulk transfers (employers)	Some Reserved Work eg PPF levy calculations Directors' pensions disclosure Financial statements

Note : All technical actuarial work subject to TAS 100

TAS 300 Core provisions

Data	1. If benefit uncertainty – legislation or scheme documentation – data shall include any relevant legal opinions 2. Include information concerning discretionary benefits
Assumptions	3. Material assumptions should reflect the membership, benefit structures and financial features of the scheme 4. Communication of the derivation of material assumptions and any limitations in the data used
Communications	5. Explanation of any material uncertainty in the calculation of benefits and how this has been treated

Funding and financing

Assumptions	6. Information so user can understand level of prudence 7. Explanation of and reason for material change in prudence from previous exercise 8. Compare discount rate with return from investment strategy 9. Compare recovery plan return rate with return from investment strategy 10. State if and how assumptions allow for employer covenant

Funding and financing

Statutory duties	11. Information to support governing body in fulfilling statutory duties
Risk assessment and future evolution	12. Information to enable governing body to understand material risks: • Indication/description of cash flows • Funding level projections • Indication/description of volatility 13. Information to enable governing body in: • Understanding interaction of funding/investment/covenant • Managing IRM strategy

Funding and financing

Reports of record	14. Written so informed reader can understand financial position 15. Information in Appendix A 16. Applies to schemes not subject to Pensions Act 2004

Factors

17. Communications should include information to enable governing body or decision maker to understand financial implications:
    - Impact of different factors on funding and benefits
    - Rationale for differences for assumptions used for different factors
    - Rationale for differences for assumptions used factors and funding
    - Implications of changes in market conditions
    - When factors should be reviewed

Incentive exercises/modifications/ bulk transfers

18. Communications should include information to enable governing body or decision maker to impact on members benefits:
    - Impact of different assumptions on benefits
    - Changes in material risks to members
    - Material changes to cash flows to members
    - Potential reduction in benefits

TAS 200 and TAS 400

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Scope of TAS 200 compared with previous Insurance TAS

Retained	New – Scope Clarified	Removed
Regulatory balance sheets and financial statements Risk modelling for regulatory capital and ORSA Insurance Transformations Audit and Assurance Pricing frameworks Lloyds syndicates With-profits discretion General Insurance tax	ORSA risk modelling Extension of audit support	Embedded values Pricing of individual contracts of significant risk to the insurer M&A work Commutations Lloyds reinsurance to close Reviewable rate contracts

Note : All technical actuarial work subject to TAS 100

Scope of TAS 400 compared with previous Funeral Plan Trusts TAS

TAS 400 covers the determination, calculation and verification of the assets and liabilities of a funeral plan trust required by legislation or the rules of the Funeral Planning Authority.

The content of TAS 400 is unchanged from the previous TAS and is fundamentally a reformatting of the previous TAS consistent with the other revised TASs.

Note : All technical actuarial work subject to TAS 100

Questions ?

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Case Studies

Case Study – Pension Trustee

You are a pension scheme trustee and your fellow trustees have asked you for your thoughts on the latest scheme funding exercise.

How would the TASs apply to this request?

You have undertaken some simplified calculations to consider the impact of alternative contribution rates before providing your comments to your fellow Trustees.

How would the TASs apply?

Case Study – External Models

In the course of your valuation work you use a proprietary modelling tool sourced from an independent external third party.

How would the TASs apply?

In future you will be changing to using modelling tool that has been developed by a specialist in house team.

How would the TASs apply?

You decide to develop your own valuation tool and sell it to clients.

How would the TASs apply?

Does our work already satisfy the requirements of theTASs?

- Do we have robust in-house procedures and controls?
- Are models documented?
- Do we keep records of information given to users that could lead to major decisions?
- Do we keep records of previous exercises of a similar nature?
- Do we make clear to clients when we advise based on uncertain data?
- Do we test whether models produce sensible results?
- Is our work based on reliable data input?
- Is it clear who our users are?
- Am I the user?

Presenters Contact Details:

a.muldoon@frc.org.uk

Link to revised TASs:

http://www.frc.org.uk/actuaries/actuarial-policy/technical-actuarial-standards/technical-actuarial-standards-2017