

Actuarial Policy Team Update September 2017

To: AAE Standards, Freedoms and Professionalism Committee Meeting

From: FRC Actuarial Policy Team

Date: 21 September 2017

Re: Update on FRC's actuarial policy activities in the UK

Introduction and context

This memo provides a high level overview of the recent activities of the FRC in relation to the work of actuaries in the UK.

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We are the UK competent authority for audit and set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent enforcement arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

TAS Outreach

At the time of writing we have delivered almost 50 presentations in 2017 on the revised Technical Actuarial Standards (TASs) through conferences and seminars, actuarial societies, to teams at insurers and consultancies and to support the Institute and Faculty of Actuaries (IFoA) in relation to the Professional Support Service and the Quality Assurance Scheme. We have another ten presentations booked and we are planning to present at the major conferences later in the year. We have received good engagement with the case studies and positive feedback that the training was relevant and useful for the attendees.

We have been working with the IFoA to outreach to the membership, including making contact with the regional actuarial societies and delivering a joint presentation with the IFoA to LMAG, with further joint presentations planned for later in the year.

A key consideration is how we communicate the new TASs to those actuaries whose work previously did not fall within the TAS regime and may not be aware that their work is now within the definition of technical actuarial work. These include actuaries working in general insurance pricing, in risk management and investments. This has been largely addressed through the outreach activities already delivered or planned. We have also met with the IFoA's Finance & Investment (F&I) Board to answer their questions on TAS 100 and have

now had several discussions on the practical considerations for determining when investment related work is in scope of TAS 100.

We have received a small number of queries on specific elements of the TAS which indicates that IFoA members are now starting to implement the TAS's. We are currently logging and responding to each query we receive. If we identify any topics that come up consistently in a few queries we will consider whether we should publish staff guidance notes on those points.

We have been invited to present on TASs to 2nd year students at Queen Mary's University, London, as part of the "Actuarial Professional Development" module in the new "Mathematics and Actuarial Science" Bachelor of Science degree.

We have continued to support the IFoA's working group developing TAS 100 case studies, most recently we have been reviewing the final version of the practice specific case studies in advance of publication.

Actuarial Standard Technical Memorandum (AS TM1)

AS TM1 specifies the actuarial assumptions and methods to be used in the calculation of Statutory Money Purchase Illustrations (SMPI), which must be produced annually for all defined contribution pensions.

We will review and consider updating the economic assumptions for AS TM1 when the Financial Conduct Authority has completed its review of economic assumptions for point of sale illustrations, as we believe the SMPI assumption basis should be consistent with the basis used for point of sale illustrations.

We have recently completed the 2017 annual survey of accumulation rates used under AS TM1 for SMPI and we plan to publish the findings later this month. This year 19 respondents, who issue over 24 million SMPIs between them, took part in the survey.

International Standards

We are discussing the proposed changes to ISAP 1 incorporating ISAP 1A with the IFoA and we plan to submit a response to the IAA consultation by the closure date of 31st October 2017. Based on an initial review of the proposed changes we have a number of points to raise in our response, which we will consider in detail as we complete our review and discuss our response with the IFoA. We feel it would be helpful if the IAA allowed more time for bedding in of the published version of ISAP 1 before implementing further changes.

IFRS 17, the new accounting standard for insurance contracts, will become effective for annual reporting periods on or after 1 January 2021. This effective date means that IFRS 17 will potentially be a test case for adoption of IFRS post Brexit.

JFAR Risk Perspective

The Joint Forum on Actuarial Regulation (JFAR) is a collaboration between UK regulators to co-ordinate, within the context of its members' objectives, the identification and analysis of UK public interest risks to which actuarial work is relevant. JFAR was established in 2013 by the FRC, IFoA, the Financial Conduct Authority (FCA), the Pensions Regulator (tPR) and the Prudential Regulation Authority (PRA).

Recently the JFAR has discussed areas of interest for its members including the issues raised in the *FCA Feedback Statement: Call for Inputs on Big Data* in retail general insurance and the IFoA Risk Alert: Climate-Related Risks. The JFAR has also completed two projects arising from its Risk Perspective published in December 2016, one considering the role of actuaries in with-profits and the other on the effect of continuing low interest rates.

The JFAR is currently engaged in its annual review of the Risk Perspective which identifies and reports on risks to the public interest where actuarial work is relevant, identifying broad risk categories and hotspots. The hotspots identified by JFAR relate to current or emerging risks which due to their changing nature or level of uncertainty drive particular sources of risk to the public interest e.g. potential impacts on vulnerable groups. The JFAR intends to publish its 2017 update to the Risk Perspective in December 2017.

Support for Audit Quality Review

Defined Benefit Pension Schemes: the AQR team has identified that the audit of the accounting for and disclosure of defined benefit schemes in corporate report and accounts is an area for thematic review. We have been supporting reviews in relation to the actuarial work considered by the auditors.

Insurance Company Audits: following the identification of insurance companies as Public Interest Entities, the AQR team is reviewing the audits of a greater number of insurance audits and we are supporting these reviews in relation to the actuarial work considered by the auditors.

Enforcement Update

The FRC has concluded cases in relation to three actuaries and the details are published on our website.

If you have any question on this update please contact Erica will be happy to answer them at the meeting on 21 September or please contact Erica at email e.nicholson@frc.org.uk