

SPENCE

FRC TAS Consultation Spence Response



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

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

Organisation. Spence and Partners Limited.

Question 3: Please provide your email address so we can validate your response is legitimate.

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Question 4: Do you request confidentiality of your response?

No.

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

The TASs (supplemented by IFoA guidance and the Reliability Objective) have been effective and successful in creating a framework and environment for the provision of high-quality actuarial work. In particular, the principles based and outcome-focused approach (as opposed to a lengthy, rigid, rules-based approach) has improved the communication of technical actuarial work.

TAS 100 is short (less than five pages), readable, accessible and easily understandable. It focuses appropriately on the key areas of technical actuarial work, namely:

- Data;
- Assumptions;
- Models;
- Communication; and
- Documentation.

There are no main areas of technical actuarial work not covered under one or more of the above list.

A principles-based approach (similar to the shortened Actuarial Code) leads those undertaking work to focus on the purpose and nature of their advice. It moves away from a “box-ticking” compliance approach which, in our experience, was more for the protection of the actuary providing the advice rather than for the benefit of the end user. Compliance with the guidance was often at the detriment to the level of the user’s understanding of the work that had been done.

The removal of some jargon from earlier iterations (e.g. valuation exercise, planning exercise) has been helpful in streamlining communications and making them clearer.

TAS 300 is also short (seven pages) and readable. It clearly list a number of categories of pensions work which, while not exhaustive, is relatively comprehensive. In the UK, as new types of pension scheme emerge (e.g. consolidation vehicles, collective defined contribution schemes), it may be appropriate to expand TAS 300 to ensure that work in these areas is properly covered.

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 have not encountered any difficulties with the current TASs. There were difficulties with previous iterations (e.g. differentiating between valuation exercises and planning exercises), but these have been resolved.

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.

No issues at present. The Framework for FRC technical actuarial standards, section 2.3, sets out possible reasons for issuing or amending a code, standard or guidance. We do not believe that any of these reasons are currently applicable.

As noted in our response to Question 6, in the future, it may be appropriate to extend TAS 300 to ensure that work in relation to scheme consolidators and collective defined contribution schemes are properly covered.

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?

In our view, TAS 100, supported by IFoA guidance on the application of TAS 100 and the Framework for FRC technical actuarial standards, are sufficient. However, the latter documents are "supplementary" and need not be included in TAS 100.

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?

We would prefer that any changes are introduced uniformly, with some notice period of say six months. During this transition period, early adoption should be permitted.

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

Yes, but such considerations and factors will vary significantly depending on the unique characteristics of each case and so in our view attempting to define rigid parameters around this could lead to sub-optimal outcomes. We believe that the principles-based approach currently set out is the appropriate way to govern this. Whilst in our view the current framework is adequate, further guidance and amplification of the principles may be helpful in assisting actuaries when making professional judgements. As such, promotion and adoption of the AAE guidance referenced in para 3.4 of the consultation document may be helpful, although not strictly necessary as we believe the current standards are sufficiently clear.

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

Yes. When read in conjunction with The Actuaries' Code and the Framework for FRC Technical Actuarial Standards, we believe that TAS 100 is sufficient in this area.

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 judgements are arrived at?

N/A

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

As the standards, including TAS 100, are principles-based and outcome focused, there is little detail in TAS 100 regarding how to determine whether a model is fit for purpose. The previous standard TAS M: Modelling was more

descriptive in relation to approaches that may be taken to determine whether a model is fit for purpose, and, in that regard, TAS M could be considered more supportive than TAS 100.

However, we believe that the principles-based and outcome focused approach in TAS 100 affords us the flexibility required to undertake whatever actions are necessary to determine whether a model is fit for purpose, and to take a proportionate approach depending on the nature, purpose and complexity of the model.

Provisions 4.1 to 4.5 of TAS M place sufficient requirement on us to ensure that a model's fitness for purpose is tested, documented and communicated.

As such, in the context of the Technical Actuarial Standards and the other professional standards to which we have to adhere, we believe TAS 100 is sufficiently supportive on this aspect.

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?

The most significant recent impacts on the models we use in our technical actuarial work are from:

- The continued growth in the use of stochastic modelling techniques.
- An increase in the use of information from third parties for assumption purposes, e.g. mortality curves, projected economic scenarios (for stochastic modelling purposes).
- Some widening of the purposes of actuarial models, i.e. into reasonably new areas.

The main impact of the above is to bring additional complexity to our models – in terms of our own understanding, the determination of a model's fitness for purpose, and communication.

However, we feel the principles-based and outcome focused approach of TAS 100 provides sufficient flexibility to deal with these impacts – we are able to take a proportionate approach, which means that we approach additional complexity accordingly. For example, we would expect more complex, or new, areas to require more checking, documentation, description and communication.

We also believe that it would be difficult to reflect specific complexities in the standard while retaining its generic principles-based approach. We do not believe it would be beneficial to introduce more prescription to address these developments.

As such, at the present time, we do not consider it necessary to change TAS 100 to reflect the developments we have seen. If anything, a supporting document to the standards may be useful to provide some guidance on what may be considered best practice, but without it being a part of the standards. However, we do not feel this is absolutely necessary.

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?

Similar to the comments we made in our answer to Q15, we believe that the principles-based and outcome focused approach in TAS 100 affords us the flexibility required to apply the controls and testing we consider necessary to the models we use in our technical actuarial work, and to take a proportionate approach depending on the nature, purpose and complexity of the model.

Again, in the context of the Technical Actuarial Standards and the other professional standards to which we have to adhere, we believe TAS 100 is sufficiently supportive on this aspect.

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?

Our answer to Q16 also reflects our view on the changing nature of model governance and validation.

In line with that answer, we do not consider it necessary to change TAS 100 to address the changing nature of governance and validation of more complex models that reflect the developments we have seen over recent years or those that we currently anticipate.

If anything, a supporting document to the standards may be useful to provide some guidance on what may be considered best practice on model governance - in this regard, we do note the principles covered in ISAP 1A (Governance of Models). However, we do not feel this is absolutely necessary.

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

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.

An advantage of the TASs is the principles-based approach, as opposed to the prescriptive approach of the old Guidance Notes. The flexibility afforded by the TASs allows the compliance statement to be tailored to the audience, e.g. level of knowledge. We do not feel that standardised TAS compliance wording is needed and could in fact be counter-productive, e.g. if standardised wording is used, it is easier to overlook and/or less consideration to what is appropriate for the end user is given.

Question 21: As an actuary completing a work review as defined in APS X210, 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 reports we prepare as actuaries will have a statement that provides details of compliance with the TASs. We would also comment where we have not explicitly complied with the TASs if, for instance, it would not be proportionate to do so in the context of the work undertaken.

Many of the reports we prepare as actuaries are based on standard templates, as well as standard calculation models, which are regularly reviewed and updated. Part of this process includes a review of TAS compliance, which is then documented. Consequently, the evidence supporting the statement of TAS compliance is readily available to us.

Any significant change in requirements could necessitate wholesale changes to our standard models and documents. This is a cost which would ultimately be passed onto the end user. Hence, we would caution against unnecessary change.

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.

While it is typically straightforward to confirm compliance with and/or areas of material departures from TAS 100 (e.g. where full compliance with the TASs would not be proportionate in the context of the work undertaken), there are inevitably times when it is necessary to consider how best to apply the principles set out in TAS 100. For example, whether or not a judgement is material, or how best to communicate a particularly complex matter.

On balance, we believe the current principles-based approach is the right one, the exercise of judgement leading to more appropriate disclosures and better outcomes for end users.

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