

Alf Gohdes
Chair, Actuarial Standards Committee
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28 July 2015

Dear Alf

Re: Draft Statement of Intent for ISAP [1A] - Governance of Models

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the UK's actuarial profession, the Institute and Faculty of Actuaries (IFoA), and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving actuaries and accountants.

In our role as the UK standard-setter for technical actuarial standards we have an interest in the development of the IAA's model standards for actuarial practice.

1 Do you agree an ISAP is need on governance of models? Yes

We have always recognised that modelling plays a key role in much actuarial work. Models are used to price insurance contracts and develop funding plans for pensions schemes. They are used to determine liabilities for insurance contracts, pensions and social security obligations. They are used to determine the capital required by insurance companies to support their business. Models are used to consider long-term investment strategies for insurers and pensions schemes.

As a result the Board for Actuarial Standards, the body responsible for setting the UK's technical actuarial standards, prior to the FRC taking direct responsibility in 2012, issued *Technical Actuarial Standard M: Modelling* (TAS M) in April 2010. From April 2011, this applied to work reserved in the public interest to actuaries. We have widened the scope subsequently to include other work we consider to be of high risk to the public interest through our four specific TASs which cover work in insurance, pensions and funeral plans.

We have recently consulted on extending the scope of our generic TASs on data, modelling and the reporting of actuarial information to all actuarial work. This also includes principles and provisions applicable to modelling in actuarial work. We are grateful to the IAA for its considered comments on our exposure draft of TAS 100.

We recommend that should the IAA go ahead with the development of ISAP [1A], it considers TAS M and the exposure draft of TAS 100 as it develops an exposure draft.

2 Do you agree that the ASC should attempt to find a graceful way of merging ISAP [1A] into ISAP 1 at an appropriate time provided that it can be done without disrupting the adoption of ISAP 1 or creating other problems for member associations? *Yes*

As reported above, we are proposing to include principles and provisions concerning governance of models within TAS 100, our generic standard that will apply to all actuarial work. Given that models are integral to much actuarial work we consider that it makes sense to include it within a standard applicable to general actuarial practice.

We do not consider that it need extend ISAP 1 significantly. We would expect that a small number of principles plus some guidance on their application is sufficient.

3 Are any of the proposed topics inappropriate for inclusion in ISAP [1A]? If so, please explain why the particular topic should not be included. *No*

TAS M includes principles concerning:

- the design and relevance of models;
- the validation of models;
- data and assumptions used in models; and
- communications concerning models.

We have carried through many of these principles in to our proposals for TAS 100 which will extend them to models used in all actuarial work.

Models used in actuarial work come in all shapes and sizes from the very small and relatively simple to the large and very complex depending on the purpose for which they have been developed. We therefore consider that, for a standard which applies to all models used in actuarial work, the principles need to be able to be applied proportionately. This was an area we considered very carefully as we moved from a relatively narrow scope TAS M to TAS 100 applying to all actuarial work. We are pleased to see that the IAA recognise the need to highlight that proportionality should be considered in any model governance work.

We are concerned that the proposed definition of model governance refers to a “*comprehensive set of principles*”. This may give some the impression that the IAA is considering an extensive standard and that actuaries will have to develop a detailed policy on model governance that is applied throughout their work.

4 What other topics should be included in ISAP [1A]? Please explain why you wish guidance in this area and if appropriate provide an example to illustrate the issue.

We consider the current scope is sufficiently comprehensive.

We would be happy to assist the ISAP [1A] task force in its work if they would find that useful.

Yours sincerely

A handwritten signature in blue ink that reads "John Instance". The signature is written in a cursive style with a large initial "J" and "I".

John Instance
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