

Institute and Faculty of Actuaries, **Regulatory Board**

Subject	Outcome of regulatory consultation on a revised Actuarial Profession Standard Z1
Meeting date	25 July 2023
Previous Steer/Approval	<p>December 2015 - APS Z1 and accompanying guidance introduced following period of consultation</p> <p>January 2021 - Risk Alert published on the transitional risks for UK Trust based pre-paid funeral plans moving to FCA regulation.</p> <p>July 2021 - Board updated on FCA publication of their final rules of the regulation of the sector. AMS Trust-based Funeral plans Thematic Review launched.</p> <p>February 2022 - Board discussed the outputs of the AMS Funeral Plan thematic review and noted an update on regulatory actions arising out of the review.</p> <p>October 2022 - Board approved proposed changes to the Code to go out for consultation.</p> <p>January 2023 - Board agreed not to introduce a PC for actuaries carrying out work in relation to UK Trust-Based Pre-Paid Funeral Plans, and approved the publication of a consultation on proposed changes to APS Z1</p>
International issues considered?	No – UK issue only
Author	Hannah MacLeod, Senior Regulatory Lawyer
Reviewer	Alan Marshall, Review Actuary Suzie Lyons, Regulatory Consultant
Purpose	Approval

A: Executive summary

1. This paper provides an update to Regulatory Board (the Board) on the outcome of the consultation on proposed revisions to Actuarial Profession Standard (APS) Z1 on duties and responsibilities for actuaries working for UK Trust-based Pre-Paid Funeral Plans.
2. This report provides for discussion a summary of the feedback provided by the consultation respondents, and invites the Board to approve the proposed amendments.

B: Background

3. On 29 July 2022 a new regulatory framework was introduced which is overseen by the Financial Conduct Authority (FCA) and which requires that funeral plan trusts falling into the regime will need an annual actuarial valuation, including a Solvency Assessment Report (SAR) to be carried out by an actuary who is a Fellow of the IFoA.
4. APS Z1 has been reviewed in light of the new FCA regulatory framework and to include consideration of the findings of the Actuarial Monitoring Scheme's (AMS) Thematic Review on funeral plan trusts.

5. In October 2022, the Board approved for consultation the revised Standard, and in January 2023, following its consideration of whether a Practising Certificate should be required for Members carrying out work in relation to UK Trust-Based Pre-Paid Funeral Plans, the Board agreed to the publication of the consultation.

C: Engagement with the consultation

6. There were 5 responses to the consultation, comprising 1 individual responses and 4 responses from organisations. In comparison to the number of responses received for other recent regulatory consultations, such as relating to Climate Change (65), Practising Certificates Scheme Review (104), Review of APS P1 (17), CPD Scheme Review (220) and the last consultation on changes to the Actuaries' Code in 2017-2018 (103), this is a low number, reflecting the relatively small number of actuaries carrying out this type of work.

D: Consultation responses and considerations

7. The responses to the consultation are produced in full at Appendix 2 – the Summary of Consultation Responses.

Question		Summary of Responses	Considerations for the Board
1.	Do you agree with the proposal to withdraw the current version of APS Z1 and replace it with the revised version 2.0?	All of the respondents agreed with the proposal.	
2.	Overall, do you think that the requirements contained in the revised APS Z1 are relevant and appropriate?	Three respondents answered ' yes ' and one answered ' no '.	
		One respondent commented that the IFoA should expand the standard to cover insurance-based pre-paid funeral plans and that it should not just apply to trust-based plans.	Although the statutory requirement for actuarial involvement in Funeral Plans is limited to Trust Based plans, actuaries are also instructed to provide advice in respect of insurance-based plans and it is therefore recommended that the Standard is extended to cover all work carried out by actuaries in providing advice to Funeral Plan providers or trustees. Until now, the APS Z1 has only applied to actuaries advising trust-based plans. However, our existing non-mandatory guidance suggests that members advising insurance-based plans and other types of plan might wish to follow the guidance

			<p>and the standard, although not required to do so.</p> <p>It is suggested that the Standard expressly applies to Members carrying out the following work in respect of Funeral Plans: Solvency Assessment Reports, Valuations, approvals of surplus payments, approvals of remediation plans, and certification of transfer to new arrangements.</p>
3.	Overall, do you think that Members' obligations under the revised APS Z1 are clearly set out?	<p>2 respondents answered 'yes' and two answered 'not sure'.</p> <p>One organisation commented that reference to the Members' obligations when asked to provide approval for remediation plans would be helpful.</p>	<p>The standard was drafted to reflect the obligations on Members who are providing Solvency Assessment reports or valuations. However, the same obligations are relevant to Members providing remediation plans. Accordingly, it is recommended that the wording of the standard be extended to refer to the carrying out by an actuary of <i>'work in respect of a Funeral Plan'</i> and as stated above, that a list of work to which the standard applies is provided, including the approval of remediation plans.</p> <p>It is also recommended that a specific obligation be included to require Members to ensure access to all information required to enable them to carry out their instruction, which would include any prior Solvency Assessment reports or valuations, necessary to inform a remediation plan.</p>
		<p>One individual commented that it is not clear what the Members' obligation is should they find or have grounds to believe that there are issues either with the plan data or the accounting or other financial information.</p>	<p>The existing terms of the revised APS provide situations where the actuary should raise an issue with the Funeral Plan Provider, and these situations are set out in 1.2. This would include a belief by the actuary that there is an issue with the plan data or financial information. In addition, the requirements of the Code would apply which oblige Members to raise concerns or flag issues.</p>
4.	Do you think the key terms within the revised APS Z1 are sufficiently well defined?	<p>3 respondents answered 'yes' and one answered 'not sure'.</p>	
		<p>One respondent commented that the definition for Valuation</p>	<p>It is accepted that actuaries may be instructed to carry out valuations other than for a trustee and it is</p>

		<p>should remove “<i>on behalf of the Trustees</i>” because the provider could ask for a valuation on a basis other than best estimate outside of the formal SAR</p>	<p>therefore recommended that the definition of ‘valuation’ be amended to exclude the reference to trustees.</p>
		<p>A similar suggestion is that Valuation should be defined as “An actuarial valuation undertaken on behalf of the Funeral Plan Provider and/or the Trustees to determine, calculate and verify the assets and liabilities of the Funeral Plan Trust.”</p>	
<p>5.</p>	<p>Do you have any other comments on the requirements and provisions of the revised APS Z1?</p>	<p>Three comments were received in response to this question, which offer specific drafting suggestions as follows:</p>	
		<p>One respondent suggests that 1.2 be amended to mirror the wording at 1.1 which refers to a Member accepting an instruction. This suggestion reflects the fact that if an instruction is not accepted, the obligations contained within 1.2 would not apply to the Member.</p>	<p>It is considered that the acceptance of an instruction is implicit within the current wording of the Standard, and that it will be clear to Members that if an instruction was declined, the obligations within 1.2 would not apply.</p>
		<p>One respondent suggests that 1.2 be amended to mirror the wording at 1.1 which refers to a Member <i>accepting</i> an instruction. This suggestion reflects the fact that if an instruction is not accepted, the obligations contained within 1.2 would not apply to the Member.</p>	<p>The suggested requirement is to alert the Provider or the Trustees IF there is a concern regarding the systems of control. It does not impose an obligation of the Member to identify all issues that might arise.</p>
		<p>In relation to the reference in the Standard to Governing Documents, one respondent suggests that the Standard should include a requirement on the Member to obtain the</p>	<p>It is accepted that a requirement on Members to ensure that they have access to all necessary documentation would be desirable, and it is recommended that a new provision to cover this be added at 1.1, as set out in Appendix 1.</p>

		Governing Documents in the first place.	
6.	Do you think it would be helpful to have any further guidance and/or training opportunities in relation to the new requirements (other than the planned updated guides to accompany APS Z1)?	2 respondents answered 'no' and one answered 'not sure'	
7.	Do you anticipate there will be any practical or resource implications caused by the introduction of these proposals?	All respondents answered 'no'.	

[REDACTED]

12. The requirements on a Scheme Actuary to ensure disclosure to a successor stem from statutory regulation. Equivalent provisions are not contained within the FCA rules on Funeral Plans, which impose no such requirement on actuaries.
13. Outgoing actuaries may be willing and able to assist newly instructed actuaries in providing background information to any valuation or Solvency Assessment Report. However, it is not considered appropriate, in the absence of a statutory requirement to do so, for the Standard to

require actuaries who have previously advised a Funeral Plan Provider or trust, to provide information to a new actuary. Issues of contract or confidentiality may apply, and it would seem more appropriate that the new actuary is required to ensure, before accepting an instruction, that this information can be provided by the Funeral Plan provider or trustee.

14. It is therefore recommended that the provisions at 1.1 concerning the obligations placed on Members before accepting an instruction, should be extended to include an assurance of access to all relevant information, which would include any previous actuarial work. It is also recommended that a specific requirement on Members is introduced to require Members to obtain the most recent Solvency Assessment Report before carrying out any instruction to approve a remediation plan, or a surplus payment, or to certify the sufficiency of transfer arrangements.

Conflicts of Interest

[REDACTED]

16. When the Board considered this matter in October 2022, it was noted that the Actuaries' Code clearly sets out what is expected of actuaries should conflicts arise and that there was a desire not to duplicate those requirements within the APS.
17. [REDACTED] The draft standard at Appendix 1 indicates some suggested wording at 1.2.5 which would do this, without restating the terms of the Code.

F: Guidance and support for Members

18. The Board will recall that the IFoA previously published accompanying guidance to APS Z1 to assist actuaries carrying out work in this area. There is also a guide for Funeral Plan Providers and Trustees. Both documents are now outdated, due to the change to FCA regulation and the findings of the AMS Thematic Review report.
19. It was initially intended to publish amended guidance alongside the revised Standard. However, the FRC published its consultation on a revised TAS 400 immediately prior to the APS Z1 consultation. Given the volume of technical material within the existing IFoA guidance, it was decided that any revisions to the APS Z1 guidance should await the publication of a revised TAS 400, and a decision from the FRC as to whether guidance on the TAS 400 will be produced.
20. The final TAS 400 was published on 10 July, and will come into force on 17 July. The FRC has confirmed that it does not intend to produce technical guidance at this time, but rather that it intends to wait a period of twelve months before assessing whether there is an ongoing need for FRC guidance to help actuaries comply with their obligations. During this period, the FRC will work with

the FCA to review how well actuaries are interpreting the Solvency Assessment Report requirements and their obligations when they are required to sign off bulk transfers, remediation plans or payments to the provider.

21. The FRC has also indicated that practitioners working in this area intend to work together to develop a common taxonomy for use in communicating valuation results. The FRC is of the view that such a project may remove the need for technical guidance in this area.
22. It is recommended that the existing, outdated, IFoA guidance be withdrawn. It is recommended that the decision be postponed as to whether replacement guidance is required.
23. Respondents to the consultation indicated that they did not consider a specific need for additional IFoA guidance to support the revised APS Z1. However, it was indicated in the consultation that an update of the current guidance was planned. A period of reflection would enable the IFoA to assess whether there is any need for clarification of Members' responsibilities in this area. Should there be evidence that Members would benefit from guidance, it is proposed that the Executive would work with the Member Interest Group (who have previously engaged positively with the Executive in this regard) in order to produce updated guidance which addresses any areas identified as needing clarification.

G: Recommendations

24. It is recommended that the Board:
 - Approves the amendment of APS Z1 in accordance with the proposals consulted upon, but subject to the further revisals highlighted in the draft APS Z1 produced at Appendix 1;
 - Approves the withdrawal of existing non-mandatory guidance;
 - Postpones, for a period to be agreed, the decision as to whether to produce replacement guidance to assist Members in understanding the requirements of the APS;
 - Approves the completion of the draft Summary of Consultation Responses to reflect the decisions of the Board; and the subsequent publication of that document.

H: Conclusion

25. The Board is asked to approve the recommendations noted above, with such amendments as may be determined.

I: Appendices

- **Appendix 1:** Revised APS Z1, as consulted upon, and with further revisals highlighted
- **Appendix 2:** Draft Summary of Consultation Responses