

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

Subject	Climate Change and Sustainability - Guidance to support Members
Meeting date	21 November 2023
Previous Steer/Approval	<p>November 2020 – Board carried out a deep dive on climate change.</p> <p>May - August 2021 - Board approved consultation on potential changes to regulatory framework.</p> <p>February 2022 – Board considered responses to consultation, determined not to amend the Actuaries’ Code but approved the development of non-mandatory guidance.</p> <p>April 2022 – Board approved the issuing of a risk alert to highlight to Members the risk of failing to appropriately consider or communicate the impact of climate change and sustainability issues in actuarial work.</p>
Related horizon scan code	<p>HS01</p> <p>Failure to appropriately promote and allow for climate change, biodiversity and sustainability risks</p>
International issues considered?	Yes
Author	Hannah MacLeod, Senior Regulatory Lawyer
Reviewer	Fiona Goddard, Interim Head of Regulatory Policy
Purpose	Approval

A: Executive summary

1. **This paper relates to the development of guidance to support Members in understanding the professional responsibilities incumbent on them in respect of climate change and sustainability matters.**
2. Climate change and sustainability has been a focus for the Board for several years and the work in this area has included the issuing of Risk Alerts in 2017 and 2022 and the carrying out of a consultation into proposals to amend the regulatory framework to reflect climate change responsibilities.
3. Following the 2022 consultation on climate change and sustainability, the Board determined that an amendment of standards or of the Actuaries’ Code was not appropriate, but that work should be undertaken to develop non-mandatory guidance to support Members in recognising and meeting their existing professional obligations when engaged in actuarial work related to climate change and sustainability.
4. This report invites the Board to consider the draft guidance provided at Appendix 1 and to approve the steps outlined below in order to progress the draft and publish the guidance.

B: Background

5. The IFoA is a signatory to the UK Government's Green Finance Education Charter (GFEC) and a supporter of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures, the United Nations' Principles for Responsible Investment and the United Nations' Principles for Sustainable Insurance. As part of the IFoA's climate change statement, it has undertaken to support actuaries in their understanding of climate risks and opportunities, and encourage their incorporation into actuarial advice.
6. The Regulatory Board in recognising its role in supporting Members, has this year agreed as a priority to develop and publish guidance on the professional requirements concerning climate change and sustainability.

C: Aim of the guidance

7. The IFoA takes an active role in research and advocacy in the areas of climate change and sustainability and through various partnerships (including with the Institute of Environmental Management and Assessment, the Oxford Smith School of Enterprise and the Environment, and the Centre for the Understanding of Sustainable Prosperity) it has produced and contributed to various publications and items of research. The proposed guidance does not seek to replace or consolidate the existing volume of reading and resources.
8. In keeping with the Board's remit, the guidance does not seek to include technical guidance, such as how Members should carry out actuarial work in order to appropriately reflect climate related risks.
9. Instead, the guidance seeks to highlight, with particular focus on the Actuaries' Code, the areas of regulation which are relevant to climate change and sustainability. In particular, the guidance seeks to:
 - Help Members understand how climate change and sustainability matters might be relevant to their individual practice;
 - Provide a summary and explanation of Members' regulatory responsibilities in connection with climate and sustainability risk, including some practical examples of the ethical and professional issues facing Members;
 - introduce the opportunities open to actuaries in this area;
 - Sign-post Members to further learning, including both academic discussion and practical guidance on the work of actuaries in climate-related and sustainability matters.

D: Practitioner input

10. In preparing the draft guidance, the Executive has engaged with the IFoA's Sustainability Board. The Sustainability Board has confirmed its support for the issuing of guidance and has provided helpful input to the draft.

11. In addition to some drafting suggestions, which have been incorporated into the guidance produced at Appendix 1, the Sustainability Board has provided the following comments for the consideration of the Board:

- *The current draft of the guidance focusses heavily on climate related risk, but fails to address in any detail the potential role of actuaries in achieving a just transition to sustainability, and equitable access to sustainable development.*

The Board will wish to consider whether it feels that these ambitions should be reflected in the guidance (perhaps being noted as opportunities for Members to exert influence), or whether the guidance should be limited to cover circumstances in which Members have a clear professional obligation, in terms of the existing Code principles.

- *It would be helpful for the draft guidance to explain how actuaries might balance historic data with future scientific outlooks, challenging underlying assumptions of continuity where they may not be appropriate over the projection period and explaining how these may be incorporated.*

The question of *how* members might exercise judgement in respect to climate related uncertainties, would seem to be a technical matter. Principle 1 of TAS 100 (Risk Identification) provides direction to members regarding the consideration of material factors, including climate change.

- *It would be helpful if some of the questions posed in the case studies are answered in the guidance. It would be useful to identify the key areas of how the Code applies to help readers focus on the key issues that need to be drawn out.*

It is suggested that the case studies be developed before the guidance is published in order to include suggested responses to the questions posed.

E: The Financial Reporting Council (FRC)

12. In its 2021 [position paper](#) responding to a call for feedback on the revision of TASs, the FRC noted that some actuaries were concerned about whether climate change risks are adequately considered in some Technical Actuarial Work. The FRC stated its intention to consult on proposals to revise the TASs to ensure that they consider all relevant risks in a proportionate way.

13. A consultation on revisions to TAS 100 followed and the amended standard has since been published and brought into effect. The revised TAS 100 introduces a new principle relating to risk identification which the FRC states in its [feedback paper](#) should ensure that non-traditional risks such a climate change will be taken into account.

14. To complement TAS 100, the FRC has published guidance relating to Proportionality, Modelling, Technical Actuarial Work, and Geographic Scope. [REDACTED]

F: Recommendations

15. It is recommended that the Board:

Approves the publication of the non-mandatory guidance provided at Appendix 1 to assist Members in understanding their professional obligations in respect of climate change and sustainability, with such amendments as may be determined.

G: Conclusion

16. The Board is asked to approve the recommendation noted above.

H: Appendices

- **Appendix 1:** Draft guidance on Climate Change and Sustainability