Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):  

(1) section 59 (Approval for particular arrangements);  
(2) section 138 (General rule-making power);  
(3) section 156 (General supplementary powers);  
(4) section 157(1) (Guidance); and  
(5) section 340 (Appointment).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 31 December 2004.

Amendments to the Handbook

D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Threshold Conditions (COND)</td>
<td>Annex A</td>
</tr>
<tr>
<td>Conduct of Business sourcebook (COB)</td>
<td>Annex B</td>
</tr>
<tr>
<td>Authorisation manual (AUTH)</td>
<td>Annex C</td>
</tr>
<tr>
<td>Supervision manual (SUP)</td>
<td>Annex D</td>
</tr>
<tr>
<td>Enforcement manual (ENF)</td>
<td>Annex E</td>
</tr>
<tr>
<td>Glossary of definitions</td>
<td>Annex F</td>
</tr>
</tbody>
</table>

Citation

E. This instrument may be cited as the Supervision Manual (Actuaries) Instrument 2004.

By order of the Board  
18 November 2004

Amended by Addendum  
29 July 2005
Annex A

Amendments to the Threshold Conditions

In this Annex underlining indicates new text and striking though indicates deleted text.

2.5.7  G  (11)  where appropriate, the *firm* has appointed auditors and actuaries, who have sufficient experience in the areas of business to be conducted (see *SUP 3.4* (Auditors' qualifications) and *SUP 4.3.8G* to *SUP 4.3.10G* (Appointed actuaries' qualifications)); and

...
Annex B

Amendments to the Conduct of Business sourcebook

In this Annex underlining indicates new text and striking through indicates deleted text.

6.11.11 R Any The report to with-profits policyholders made under SUP 4.3.16AR (4) by a with-profits actuary from an actuary appointed under SUP 4 (Actuaries) must be annexed to the annual report in COB 6.11.9R.

...

6.11.14 G In preparing the report to with-profits policyholders in COB 6.11.9R, a firm should take advice from a with-profits actuary.

Insert the following new transitional provision in COB TR5.

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COB 6.11.9</td>
<td>R</td>
<td></td>
<td>Transitional provision</td>
<td>Transitional provision: dates in force</td>
<td>Handbook provision: coming into force</td>
</tr>
<tr>
<td>COB 6.11.9</td>
<td>R</td>
<td>Annual report to with-profits policyholders</td>
<td>From 30 April 2004</td>
<td>30 April 2004</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A firm must produce its first report to with-profits policyholders under COB 6.11.9R in respect of the part of its financial year that follows the date on which PRU 7.4 (With-profits Insurance Capital Component) comes into force.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex C

Amendments to the Authorisation manual

In this Annex underlining indicates new text and striking through indicates deleted text.

3.9.19 D If an applicant appoints an actuary, other than an appointed actuary, to report on an application for Part IV permission, the applicant is directed to take reasonable steps to ensure that the actuary satisfies the qualification tests in SUP 4.3.9R (Appointed actuaries' qualifications).
Annex D

Amendments to the Supervision manual

In this Annex underlining indicates new text and striking though indicates deleted text.

Insert the following new transitional provisions in the correct sequential order:

<table>
<thead>
<tr>
<th></th>
<th>Material to which the transitional provision applies</th>
<th>Transitional provision</th>
<th>Transitional provision: dates in force</th>
<th>Handbook provision: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>4A</td>
<td>SUP 4</td>
<td>R</td>
<td>Anything done before 31 December 2004 for the purposes of an amended provision in SUP 4 has effect as if done under that provision.</td>
<td>From 31 December 2004</td>
</tr>
<tr>
<td>4B</td>
<td>SUP 4.3.1R</td>
<td>R</td>
<td>A firm must notify the FSA immediately of all appointments under SUP 4.3.1R (as amended) which come into, or are in, effect on 31 December 2004, advising the FSA of the name and business address of each actuary appointed and the functions each actuary is to perform.</td>
<td>From 31 December 2004</td>
</tr>
<tr>
<td>4C</td>
<td>SUP 4.5.9R</td>
<td>R</td>
<td>An actuary, who immediately before 31 December 2004 is the appointed actuary of a firm, must notify the FSA under SUP 4.5.9R (as amended) if on that date he is not appointed by the firm under SUP 4.3.1R (as amended).</td>
<td>From 31 December 2004</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
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<tr>
<td>Material to which the transitional provision applies</td>
<td>Transitional provision: dates in force</td>
<td>Handbook provision: coming into force</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4D</td>
<td>SUP 4.5.10R</td>
<td>R</td>
<td>An actuary, who immediately before the relevant time in (a) or (b) below is the appointed actuary of a firm, must notify the FSA under SUP 4.5.10R (as amended) if:</td>
<td>From 31 December 2004</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(a) he is not appointed by the firm under SUP 4.3.1R (as amended) on 31 December 2004; or</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(b) he is or has been formally notified that he will not be so appointed by the firm.</td>
<td></td>
</tr>
<tr>
<td>4E</td>
<td>SUP 4.3.1R and SUP 4.3.3R</td>
<td>G</td>
<td>Firms and the FSA will need to make fresh appointments once these proposed amendments come into effect, even if an actuary has already been appointed under the existing provisions. A firm will not need to seek fresh approval under section 60 of the Act for an existing appointed actuary who continues to perform the actuarial function (CF12) or the</td>
<td>From 31 December 2004</td>
</tr>
</tbody>
</table>
4.1 Application

4.1.1 R This chapter applies to:

(1) every firm within a category listed in column (1) of the table in SUP 4.1.3R; and
4.2 Purpose

4.2.1 Section 340 of the Act gives the FSA power to make rules requiring an authorised person, or an authorised person falling into a specified class, to appoint an actuary. Section 340 further empowers the FSA to make rules governing the manner, timing and notification to the FSA of such an appointment and, where an appointment is not made, for the FSA to make an appointment on the firm’s behalf. The FSA’s rule-making powers under section 340 of the Act also extend to the actuary’s duties and to the cessation of an actuary’s term of office.

4.2.2 This chapter defines the relationship between a firm’s and its appointed actuaries or appropriate actuary and clarifies the role which appointed actuaries and appropriate actuaries play in the FSA’s monitoring of firms’ compliance with the requirements and standards under the regulatory system. The chapter sets out rules and guidance on the appointment of an actuary to the position of appointed actuary or appropriate actuary, and the termination of an actuary’s term of office, as well as setting out their respective rights and duties. The purpose of the chapter is to ensure that:

1. long-term insurers (other than certain friendly societies) have access to adequate actuarial advice, both in valuing their liabilities to policyholders and in exercising discretion affecting the interests of their with-profits policyholders; and

2. other friendly societies carrying on insurance business (and which have traditionally relied upon actuarial expertise) employ or use an actuary of appropriate seniority and experience to evaluate the liabilities of that business.

4.2.3 The functions described by SUP 4.2.2G(1) are performed by one or more of the appointed actuaries who are required to hold office continuously
and must be an approved persons. The principal duty of the appointed actuary appointed to perform these functions is to advise the firm (see SUP 4.3.13R to SUP 4.3.1821G for the rights and duties of such an appointed actuary).

4.2.4 G The function described by SUP 4.2.2G(2) is performed by the appropriate actuary who is appointed to prepare the triennial investigation and interim certificate or statement required by IPRU(FSOC) 5.2(1) (see SUP 4.4.7R to SUP 4.4.10G 4.5.12G to SUP 4.5.14G for the rights and duties of an appropriate actuary).

4.2.5 G Both the appointed actuary and the appropriate actuary act as a valuable source of information to the FSA in carrying out its functions. For example, in determining whether a firm satisfies the threshold conditions, the FSA has regard to whether the firm has appointed an appointed actuary with sufficient experience in the areas of business to be conducted by the firm (COND 2.5.7G(11)).

4.2.6 G In making appointments under this chapter and in allocating duties to actuaries, firms are reminded of their obligation under SYSC 2.1.1R to maintain a clear and appropriate apportionment of significant responsibilities so that it is clear who has which of those responsibilities and that the business and affairs of the firm can be adequately monitored and controlled by the directors, relevant senior managers and governing body of the firm.

4.3 Appointment of actuaries

Appointment by firms

4.3.1 R A firm to which this section applies (see SUP 4.1) must:

(1) appoint one or more actuaries (the “appointed actuary”) to perform:

(a) the actuarial function (see SUP 4.3.13R) in respect of all classes of its long-term insurance business; and

(b) the with-profits actuary function (see SUP 4.3.16AR) in respect of all classes of its with-profits business (if any);

(2) notify the FSA, without delay, when it is aware that a vacancy in the office of any such appointed actuary will arise or has arisen, giving the reason for the vacancy;

(3) appoint an actuary to fill any such vacancy in the office of appointed actuary that has arisen; and

(4) ensure the replacement actuary can take up office at the time the vacancy arises or as soon as is reasonably practicable after that.

4.3.2 G The provisions relating to the duties of an appointed actuary appointed
to perform these functions are set out in SUP 4.3.13R to SUP 4.3.18R. The functions performed by actuaries appointed Acting in the capacity of appointed actuary of by a firm under SUP 4.3.1R are specified as a controlled functions (CF 12, the appointed actuarial function, and CF 12A, the with-profits actuary function) in SUP 10 (Approved persons). As a result, an application must be made to the FSA under section 60 of the Act (Applications for approval) for approval of the person proposing to take up such an appointment as an appointed actuary. Section 61(3) of the Act (Determination of applications) gives the FSA three months to grant its approval or give a warning notice that it proposes to refuse the application. A firm should not appoint an actuary until the FSA has approved the actuary. In order to comply with SUP 4.3.1R, a firm should ensure it applies to the FSA as soon as practicable before the date when it needs the actuary to take office. The FSA will need time to consider the application before deciding whether to grant approval. See SUP 10 (Approved persons).

**Appointment by the FSA**

4.3.3 R If a firm, which is required to appoint one or more actuaries an actuary under SUP 4.3.1R, fails to do so within 28 days of a vacancy arising, the FSA may appoint one or more actuaries an actuary to perform the actuarial function corresponding to the actuarial function or the with-profits actuary function of appointed actuary on the following terms:

1. the actuary to be remunerated by the firm on the basis agreed between the actuary and the firm or, in the absence of agreement, on a reasonable basis; and

2. the actuary to hold office until he resigns or the firm appoints another actuary.

4.3.4 G SUP 4.3.3R allows but does not require the FSA to appoint an actuary if the firm has failed to do so within the 28 day period. When it considers whether to use this power, the FSA will take into account the likely delay until the firm can make an appointment and the urgency of any pending duties of the appointed actuary.

...  

4.3.7 G If the FSA appoints an actuary under SUP 4.3.3R, he will not be an appointed actuary-approved person (not being appointed under SUP 4.3.1R) and will not therefore need to be an approved person. However, the firm is still under an obligation to appoint an actuary under SUP 4.3.1R and will need to seek prior approval of that person (even if the individual it proposes to appoint is the person who has been appointed by the FSA under SUP 4.3.3R).

**Appointed actuary’s Actuaries’ qualifications**

4.3.8 G The FSA is concerned to ensure that every the appointed actuary appointed by a firm under this section has the necessary skill and experience to provide
the firm with appropriate actuarial advice. SUP 4.3.9R to SUP 4.3.10G set out the FSA’s rules and guidance aimed at achieving this.

4.3.9 R Before a firm applies for approval of its proposed person it proposes to appoint as an appointed actuary under SUP 4.3.1R, it must take reasonable steps to ensure that the actuary:

1. has the required skill and experience to perform his functions under the regulatory system; and
2. is a Fellow of the Institute of Actuaries or of the Faculty of Actuaries.

4.3.10 G To comply with SUP 4.3.9R and Principle 3, before an appointed actuary takes up his appointment the firm should ensure that the actuary:

1. has skills and experience appropriate to the nature, scale and complexity of the firm’s business and the requirements and standards under the regulatory system to which it is subject; and
2. has adequate qualifications and experience, which includes holding an appropriate Appointed Actuaries Practising Certificate under the rules of the Institute of Actuaries or the Faculty of Actuaries; and seek confirmation of these from the actuary, or the actuary’s current and previous employers, as appropriate.

Disqualified actuaries

4.3.11 R A firm must not appoint under SUP 4.3.1R an actuary who is disqualified by the FSA under section 345 of the Act (Disqualification) from acting as an actuary either for that firm or for a relevant class of firm.

4.3.12 G If it appears to the FSA that an appointed actuary has failed to comply with a duty imposed on him under the Act, it may disqualify him under section 345 of the Act. For more detail about what happens when the disqualification of an actuary is being considered or put into effect, see ENF 17 (Disqualification of auditors and actuaries). A list of actuaries who are disqualified by the FSA may be found on the FSA website (www.fsa.gov.uk).

Conflicts of interest

4.3.12A R A firm must take reasonable steps to ensure that an actuary who is to be, or has been, appointed under SUP 4.3.1R:

1. does not perform the function of chairman or chief executive of the firm, or does not, if he is to perform the with-profits actuary function, become a member of the firm’s governing body; and
2. does not perform any other function on behalf of the firm which
could give rise to a significant conflict of interest.

4.3.12B Both the actuarial function and the with-profits actuary function may be performed by employees of the firm or by external consultants, and performing other functions on behalf of the firm will not necessarily give rise to a significant conflict of interest. However, being a director, or a senior manager responsible, say, for sales or marketing in a firm (or for finance in a proprietary firm), is likely to give rise to a significant conflict of interest for an actuary performing the with-profits actuary function. He nevertheless retains direct access to the firm’s governing body under SUP 4.3.17R(2).

4.3.13 An appointed actuary appointed to perform the actuarial function must, in respect of those classes of the firm’s long-term insurance business which are covered by his appointment:

(1) identify and monitor advise the firm’s management, at the level of seniority that is reasonably appropriate, on the risks the firm runs in so far as they may have a material impact on the firm’s ability to meet liabilities to policyholders in respect of long-term insurance contracts as they fall due and on the capital needed to support the business, including regulatory capital requirements;

(2) monitor those risks and inform the firm’s management, at the level of seniority that is reasonably appropriate, if he has any material concerns or good reason to believe that the firm:

(a) is not meeting liabilities to policyholders under long-term insurance contracts as they fall due, or may not be doing so, or might not have done so, or might, in reasonably foreseeable circumstances, not do so;

(b) is, or may be, effecting new long-term insurance contracts on inadequate terms contrary to IPRU(INS) 3.5A or IPRU(FSOC) 4.13 [number to be inserted later] as applicable; terms under which the resulting income earned is insufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources that are available for the purpose, to enable the firm to meet its liabilities to policyholders as they fall due (including reasonable bonus expectations);

(c) does not, or may not, have sufficient financial resources to meet liabilities to policyholders as they fall due (including reasonable bonus expectations) and the capital needed to support the business, including regulatory capital requirements or, if the firm currently has sufficient resources, might, in reasonably foreseeable circumstances, not continue...
to have them;

(3) advise the firm’s governing body on the methods and assumptions to be used for the investigations required by IPRU(INS) 9.4R or IPRU(FSOC) 5.1R and the calculation of the with-profits insurance capital component under PRU 7.4 as applicable; perform actuarial investigations and prepare abstracts of those investigations as required by IPRU(INS) 9.4R or IPRU(FSOC) [number to be inserted later] as applicable;

(4) perform those investigations and calculations in (3), in accordance with the methods and assumptions determined by the firm’s governing body; request from the firm such information and explanations as are reasonably considered necessary to enable him to properly perform the duties described in SUP 4.3.13R(1) to (3); and

(5) report to the firm’s governing body on the results of those investigations and calculations in (3); and advise the firm as to the data and systems reasonably needing to be kept and maintained to provide such information and explanations.

(6) in the case of a friendly society to which this section applies, perform the functions of the appropriate actuary under section 87 (Actuary’s report as to margin of solvency) of the Friendly Societies Act 1992.

4.3.14 G IPRU(INS) 9.4R and IPRU(FSOC) 5.1R require firms to which this section applies to cause an investigation to be made at least yearly by the actuary or actuaries appointed to perform the actuarial function, and to report on the result of that investigation. PRU 7.4 requires realistic basis life firms to calculate the with-profits insurance component as part of their capital resources requirements. The firm is responsible for the methods and assumptions used to determine the liabilities attributable to its long-term insurance business. The obligation on friendly societies to obtain a report from the ‘appropriate actuary’ under section 87 of the Friendly Societies Act 1992 applies to a friendly society which is to receive a transfer of engagements under section 86 (transfer of engagements to or by a friendly society). The ‘appropriate actuary’ in this context is the actuary appointed to perform the actuarial function, rather than the appropriate actuary under SUP 4.4 (Appropriate actuaries). A liability to a policyholder is defined in the Glossary as any liability or obligation of an insurer to, or in respect of, a policyholder. It includes policyholder’s reasonable expectations as to discretionary benefits and charges.

4.3.15 G The appointed actuary’s duty to request information does not necessarily require him to undertake continuous monitoring. This depends on the firm’s size, financial position, future plans and other circumstances, including the robustness of its systems and controls. If a periodic update or review is sufficient, it should be carried out as often as is reasonably necessary. An annual update may suffice for small, financially sound, well-run insurers. Such periodic reviews might also usefully be supplemented by desk-based monitoring to identify circumstances where the timing of the next review...
might need to be brought forward. SUP 4.3.13R is not intended to be exhaustive of the professional advice that a firm should take whether from an actuary appointed under this chapter or from any other actuary acting for the firm. Firms should consider what systems and controls are needed to ensure that they obtain appropriate professional advice on financial and risk analysis; for example:

1. risk identification, quantification and monitoring;
2. stress and scenario testing;
3. ongoing financial conditions;
4. financial projections for business planning;
5. investment strategy and asset-liability matching;
6. individual capital assessment;
7. pricing of business, including unit pricing;
8. variation of any charges for benefits or expenses;
9. discretionary surrender charges; and
10. adequacy of reinsurance protection.

The with-profits actuary function

4.3.16 G If a firm also carries out general insurance contracts, the appointed actuary should consider the general insurance business to the extent, if any, that this might have an impact on the long-term insurance business. [deleted]

4.3.16A R An actuary appointed to perform the with-profits actuary function must:

1. advise the firm’s management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed;

2. where the firm is a realistic basis life firm advise the firm's governing body as to whether the assumptions used to calculate the with-profits insurance component under PRU 7.4 are consistent with the firm's PPFM in respect of those classes of the firm's with-profits business;

3. at least once a year, in respect of each financial year commencing on or after 1 January 2005, report to the firm’s governing body on key aspects (including those aspects of the firm’s application of its Principles and Practices of Financial Management on which the advice described in (1) has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of
with-profits business of the firm;

(4)* in respect of each financial year commencing on or after 1 January 2005, make a written report addressed to the relevant classes of the firm’s with-profits policyholders, to accompany the firm’s annual report under COB 6.11.9R, as to whether, in his opinion and based on the information and explanations provided to him by the firm, the annual report and the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking, or having taken, their interests into account in a reasonable and proportionate manner;

(5) request from the firm such information and explanations as he reasonably considers necessary to enable him properly to perform the duties in (1) to (4);

(6) advise the firm as to the data and systems that he reasonably considers necessary to be kept and maintained to provide the duties in (5); and

(7) in the case of a friendly society to which this section applies, perform the function of appropriate actuary under section 12 (Reinsurance) of the Friendly Societies Act 1992 or section 23A (Reinsurance) of the Friendly Societies Act 1974 as applicable, in respect of those classes of its with-profits business covered by his appointment.

4.3.16B* G In advising or reporting on the exercise of discretion, an actuary performing the with-profits actuary function should cover the implications for the fair treatment of the firm’s with-profits policyholders. His opinion on any communication or report to them should also take into account their information needs and the extent to which the communication or report may be regarded as clear, fair and not misleading. Aspects of the business that should normally be included are:

(1) bonus rates to be applied to policies at maturity or on the death of the policyholder, or when calculating the annual bonus;

(2) investment policy in the light of product descriptions disclosed to customers;

(3) surrender value methodology (including market value adjusters);

(4) new business plans and premium rates;

(5) allocation of expenses to with-profits business;

(6) investment fees to be charged to with-profits business;

(7) changes to the Principles and Practices of Financial Management; and

(8) communication with policyholders or potential policyholders on the

* See Addendum 29 July 2005 on p. 24
issues in (1) to (7).

4.3.16C G The report in SUP 4.3.16AR(3) should be proportionate to the nature of the with-profits business. For smaller firms with fewer products, the extent of reporting would be proportionately less.

4.3.16D G Firms should normally obtain advice, from the actuary appointed to perform the with-profits actuary function in respect of the affected class or classes of with-profits business, whenever they are preparing to make key decisions based on the exercise of discretion affecting their with-profits business. Firms should also have risk management processes in place to ensure that all relevant matters are referred to the actuary for advice.

4.3.17 R A firm must require and allow any its appointed actuary appointed to perform the with-profits actuary function to perform his duties and, in particular must:

(1) keep him informed of the firm’s business and other plans (including, where relevant, those of any related firm, to the extent it is aware of these);

(2) provide him with sufficient resources (including his own time and access to the time of others);

(3) hold such data and establish such systems as he reasonably requires;

(4)* request his advice about the likely effect of material changes in the firm’s business plans, practices or other circumstances on the fair treatment of with-profits policyholders’ rights and reasonable expectations of policyholders in respect of long-term insurance contracts; and

(5) pay due regard to his advice, whether provided in response to a request under (4) or on the appointed actuary’s own initiative; this will include, if he requests it, allowing him to present his advice directly to the firm’s governing body (that is, the board of directors or, for a friendly society, the committee of management).

4.3.18 G A firm’s duty to keep an its appointed actuary appointed to perform the with-profits actuary function informed includes providing relevant information, even where the appointed actuary does not ask for it. The firm needs to appreciate that the appointed actuary may be unaware of certain business developments and so unable to request relevant information.

4.3.19 G Section 341 of the Act (Access to books etc.) provides that an appointed actuary:

(1) has a right of access at all times to the firm’s books, accounts and vouchers; and

(2) is entitled to require from the firm’s officers such information and explanations as he reasonably considers necessary to perform his

* See Addendum 29 July 2005 on p. 24
4.3.20 R When carrying out his duties, an appointed actuary must pay due regard to generally accepted actuarial best practice.

4.3.21 G The standards and guidance issued from time to time by the Institute of Actuaries and the Faculty of Actuaries are important sources of actuarial best practice.

4.4 Appropriate actuaries

4.4.5 G If it appears to the FSA that an appropriate actuary has failed to comply with a duty imposed on him under the Act, it may disqualify him under section 345 of the Act. For more detail about what happens when the disqualification of an actuary is being considered or put into effect, see ENF 17 (Disqualification of auditors and actuaries). A list of actuaries who have been disqualified by the FSA may be found on the FSA website (www.fsa.gov.uk).

Specific Rights and duties of the appropriate actuary

4.4.6 R An appropriate actuary must carry out the triennial investigation and prepare an abstract of the report as required by IPRU(FSOC) 5.2(2) and provide the interim certificate or statement as required by IPRU(FSOC) 5.2(3).

4.4.7 G Section 341 of the Act (Access to books etc.) provides that an appropriate actuary:

(1) has a right of access at all times to the firm’s books, accounts and vouchers; and

(2) is entitled to require from the firm’s officers such information and explanations as he reasonably considers necessary for the performance of his duties as appropriate actuary.

4.4.8 R In carrying out his duties an appropriate actuary must pay due regard to generally accepted actuarial best practice.

4.4.9 G The standards and guidance issued by the Institute of Actuaries and the Faculty of Actuaries are important sources of actuarial best practice.

4.5 Provisions applicable to both appointed and appropriate all actuaries

Objectivity

4.5.1 R An appointed actuary or appropriate actuary appointed under this chapter must be objective in performing his duties.
4.5.2 Objectivity requires the appointed actuary or appropriate actuary to perform his duties in such a manner that he can have an honest belief in his work and does not compromise the quality of his work or his judgment. An appointed actuary or appropriate actuary should not allow himself to be placed in situations where he feels unable to make objective professional judgments.

4.5.3 An appointed actuary or appropriate actuary appointed under this chapter must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.

4.5.4 The appropriate action may include asking the firm’s governing body to re-assign temporarily some or all of his duties to another competent actuary. Where this is insufficient, the appointed actuary or appropriate actuary should resign his office.

4.5.5 If the appointed actuary or appropriate actuary is an employee of the firm, the ordinary incentives of employment, including profit-related pay, share options or other financial interests in the firm or any associate, give rise to a conflict of interest only where they are disproportionate, or exceptional, relative to those of other employees of equivalent seniority.

Appointed and appropriate actuaries’ statutory duty to report

4.5.7 Appointed actuaries and appropriate actuaries appointed under this chapter are subject to regulations made by the Treasury under section 342(5) and 343(5) of the Act (Information given by auditor or actuary to the Authority). These regulations oblige actuaries to report certain matters to the FSA. Sections 342(3) and 343(3) of the Act provide that an actuary does not contravene any duty by giving information or expressing an opinion to the FSA, if he is acting in good faith and he reasonably believes that the information or opinion is relevant to any functions of the FSA. These provisions continue to have effect after the end of the actuary’s term of appointment.

Termination of term of office

4.5.8 SUP 4.5.9R to SUP 4.5.11G apply to a person who is or has been an appointed actuary or appropriate actuary appointed under this chapter.

4.5.9 An appointed actuary or appropriate actuary appointed under this chapter must notify the FSA without delay if he:

(1) is removed from office by a firm; or
(2) resigns before his term of office expires; or
(3) is not reappointed by a firm.
4.5.10  R  An **actuary** who has ceased to be appointed under this chapter, the appointed actuary or appropriate actuary, or who has been formally notified that he will cease to be so appointed, the appointed actuary or appropriate actuary, of a firm must notify the FSA without delay:

(1) of any matter connected with the cessation which he thinks ought to be drawn to the FSA’s attention; or

(2) that there is no such matter.

4.5.11  G  When an appointed actuary appointed under **SUP 4.3.1R** ceases to hold office, he ceases to perform a **controlled function** the appointed actuary function. A firm is therefore required under SUP 10.13.6R to tell the FSA within seven **business days** of its appointed actuary ceasing to hold office and to complete a withdrawal form (Form C, **SUP 10 Ann 6R**). Note also the requirement of **SUP 10.13.7R** in relation to qualified withdrawals.

**Rights and duties**

4.5.12  G  Section 341 of the Act (Access to books etc.) provides that an **actuary** appointed under or as a result of the Act:

(1) has a right of access at all times to the firm’s books, accounts and vouchers; and

(2) is entitled to require from the firm’s officers such information and explanations as he reasonably considers necessary to perform his duties as actuary.

4.5.13  R  When carrying out his duties, an **actuary** appointed under this chapter must pay due regard to generally accepted actuarial best practice.

4.5.14  G  The standards and guidance issued from time to time by the Institute of Actuaries and the Faculty of Actuaries are important sources of actuarial best practice.

…

10.4.5  R  **Table: Controlled functions**

<table>
<thead>
<tr>
<th>Type</th>
<th>CF</th>
<th>Description of controlled function</th>
</tr>
</thead>
<tbody>
<tr>
<td>…</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Required functions</strong>*</td>
<td>8</td>
<td>Apportionment and oversight</td>
</tr>
<tr>
<td>…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td><strong>Appointed actuary</strong> Actuarial function</td>
</tr>
<tr>
<td>12A</td>
<td></td>
<td><strong>With-profits actuary function</strong></td>
</tr>
<tr>
<td>…</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10.7.17 R The appointed actuary—actuarial function (CF12) and With-profits actuary function (CF12A)

is the function of acting in the capacity of an appointed actuary appointed by a firm under SUP 4.3.1R to perform the duties set out in SUP 4.3.13R.

10.7.17A R The with-profits actuary function is the function of acting in the capacity of an actuary appointed by a firm under SUP 4.3.1R to perform the duties set out in SUP 4.3.16AR.

10.7.18 G The effect of SUP 4.1.1R (Application) and SUP 4.3.1R (Appointment of an actuary) is that a long-term insurer (unless it is a certain kind of friendly society) must appoint one or more actuaries to perform the actuarial function in respect of all classes of its long-term insurance business and the with-profits actuary function in respect of all classes of its with-profits business, defined in SUP 4.3.1R as an appointed actuary. The kinds of friendly society to which the provisions do not apply are:

(1) a registered friendly society which is a non-directive friendly society; and

(2) an incorporated friendly society that is a flat rate benefits business friendly society.

10.7.19 G The appointment of an actuary to perform either of these functions is a personal appointment and the appointee is typically either typically is an employee of the firm. However, in many cases or a partner or employee in a firm of actuaries is appointed.

10.7.20 G The appointed actuary—actuarial function and the with-profits actuary function does not extend to the giving of actuarial advice to a firm by an actuary who has not been appointed to perform these functions is acting outside the capacity of appointed actuary. A person who gives actuarial advice, whether occasionally or regularly, other than in his capacity the course of his duties as an appointed actuary appointed to perform these functions would not be performing a controlled the appointed actuary function.

10.7.21 G The rules and guidance concerning the rights and duties of an appointed actuary appointed to perform either of these functions are set out in SUP 4.3.13R to SUP 4.3.18G.

* See Addendum 29 July 2005 on p. 25
SUP Schedule 2 Notification requirements

SUP Table:

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Matter to be notified</th>
<th>Contents of notification</th>
<th>Trigger event</th>
<th>Time allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUP 4.3.1R(2)</strong></td>
<td>Vacancy in the office of <em>appointed actuary</em></td>
<td>The fact of the vacancy and the reason for it</td>
<td>Vacancy in the office of <em>appointed actuary</em> will arise or has arisen</td>
<td>Without delay</td>
</tr>
<tr>
<td><strong>SUP 4.3.1R(3)</strong> and <strong>SUP 4.3.2G</strong></td>
<td>Appointment of <em>appointed actuary</em></td>
<td>Matters specified in <em>SUP 10</em> (because the <em>actuarial function</em> and the <em>with-profits actuary function</em> are specified as acting as an <em>appointed actuary</em> is specified as a controlled functions)</td>
<td>Appointment of <em>appointed actuary</em></td>
<td>Before appointment</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUP 4.5.11G</strong></td>
<td><em>Appointed actuary: ceasing to hold office</em></td>
<td>Matters specified in <em>SUP 10.13.6R</em> and <em>SUP 10.13.7R</em> (because the <em>actuarial function</em> and the <em>with-profits actuary function</em> are acting as an <em>appointed actuary</em> is specified as a controlled functions)</td>
<td><em>Appointed actuary ceasing to hold office</em></td>
<td>Seven business days; or, if <em>approved persons</em> Form C is qualified, as soon as reasonably practicable</td>
</tr>
</tbody>
</table>
Annex E

Amendments to the Enforcement manual

In this Annex underlining indicates new text and striking though indicates deleted text.

17.4.2  Appointed actuaries appointed by of firms under SUP 4.3.1R who are approved persons and as such will be subject to the Statements of Principle and Code of Practice for Approved Persons. When deciding whether to exercise its power to disqualify an appointed actuary who is an approved person, the FSA will consider whether the particular breach of duty can be adequately addressed by the exercise of its disciplinary powers in relation to approved persons. These powers and the factors that the FSA will take into account when deciding whether to exercise them are set out in ENF 11 (Discipline of authorised firms and approved persons: the FSA's general approach), ENF 12 (Discipline of firms and approved persons: public censures and public statements) and ENF 13 (Discipline of firms and approved persons: financial penalties).
Annex F

Amendments to the Glossary

In this Annex, underlining indicates new text and striking through indicates deleted text.

Insert or delete the following definitions in the appropriate alphabetical position.

- **actuarial function**: controlled function CF12 in the table of controlled functions, described more fully in SUP 4.3.13R and SUP 10.7.17R.

- **appointed actuary**: an actuary appointed under SUP 4.3.1R (Appointment by firms).

- **appointed actuary function**: controlled function CF12 in the table of controlled functions, described more fully in SUP 10.7.17R.

- **established surplus**: has the meaning in IPRU(INS) 3.3(4).

- **with-profits actuary function**: controlled function CF12A in the table of controlled functions, described more fully in SUP 4.3.16AR and SUP 10.7.17AR.

- **with-profits actuary**: an actuary appointed to perform the with-profits actuary function.
ADDENDUM

SUPERVISION MANUAL (ACTUARIES) INSTRUMENT 2004

In this Addendum, the text shown is that which results following the making of this instrument, and all other instruments that have taken effect on or before 25 July 2005. That text is then amended. Underlining indicates new text and striking through indicates deleted text. These amendments make the effect and purpose of the rules clearer, so the position and obligations of the with-profits actuary is clearer.

This Addendum contains amendments to SUP 4.3.16AR(4), SUP 4.3.16BG, SUP 4.3.17R(4) and to SUP 18.2.58G.

Annex D (Supervision manual (SUP)) of this instrument is amended as follows:

4.3.16A R An actuary appointed to perform the with-profits actuary function must:

... (4) in respect of each financial year commencing on or after 1 January 2005, make a written report addressed to the relevant classes of the firm's with-profits policyholders, to accompany the firm's annual report under COB 6.11.9R, as to whether, in his opinion and based on the information and explanations provided to him by the firm, and taking into account where relevant the rules and guidance in COB 6.12, the annual report and the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking, or having taken, their interests of the relevant classes of the firm's with-profits policyholders into account in a reasonable and proportionate manner;

...

4.3.16B G In advising or reporting on the exercise of discretion, an actuary performing the with-profits actuary function should cover the implications for the fair treatment of the relevant classes of the firm's with-profits policyholders. His opinion on any communication or report to them should also take into account their information needs and the extent to which the communication or report may be regarded as clear, fair and not misleading. Aspects of the business that should normally be included are:

...

4.3.17 R A firm must require and allow any actuary appointed to perform the with-profits actuary function to perform his duties and must:

... (4) request his advice about the likely effect of material changes in the firm's business plans, practices or other circumstances on the fair treatment of the relevant classes of the firm's with-
profits policyholders; and

... 

18.2.58  G  For long-term insurance business, the affidavit evidence to the court would normally include copies of reports on the transfer by the appointed actuaries of both firms, which should be provided to the FSA at an early stage. SUP 4.3.17R(4) requires a firm to consult its appointed actuary about the likely effect of material changes in its business plans on rights and reasonable expectations of long-term insurance business the relevant classes of its with-profits policyholders. A transfer would be material unless the liabilities transferred were not material relative to the total liabilities of the firm. The advice on a transfer would normally be in the form of a formal report by the appointed actuary.

Addendum
29 July 2005