



ASSOCIATION OF CONSULTING ACTUARIES

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13 August 2020

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Dear Sirs

Defined benefit funding code of practice

I am writing on behalf of the Association of Consulting Actuaries in response to the above-named consultation issued by the Pensions Regulator.

We are supportive of the proposals outlined in the consultation, whilst noting that many of the key details are yet to be defined and these details are likely to make the difference between the success, or otherwise, of the new regime. We have summarised our key points below.

On Fast Track:

- We support a simple Fast Track compliance approach based on covenant and maturity and a 'fit-for-purpose' stress test in principle.
- However, the precise terms of the Fast Track framework will be important (particularly in view of COV19 – see below) to ensure the system works appropriately.
- For schemes undertaking a valuation, it would be helpful if trustees had an option to ask the Regulator to confirm whether it would challenge their covenant assessment in advance of the valuation being finalised – as this will impact on their assessment of the Fast Track benchmark.
- "Covenant visibility" can reasonably inform recovery plan length and prevailing investment risk; but what happens to the covenant beyond the visible period should be based on the balance of likelihoods and not imply low or nil covenant beyond the visible period.
- All of the proposed options for setting maximum discount rates (or TPs) seem reasonable in principle and will help with transition to the new regime. The Scheme Actuary could certify non-discount rate assumptions and produce a calculated value of the liabilities that is, in his or her opinion, no less than best estimate, at the date of the valuation.
- There are a range of views on expenses. For small schemes there is a concern that advance funding of all future expenses would lead to overly burdensome contributions. The LTO is aiming for low dependency, not zero dependency/solvency. This is particularly appropriate where there is a practice of expenses being met by the employer, but even where the current

practice is for expenses to be met from the scheme, this may be the result of the current (surplus) funding position and should not necessarily mean an increase in LTO is appropriate.

- We noted that there was no mention of allowance for post-valuation experience within the Fast Track framework (or more widely). The flexibility to allow for, or ignore, such experience in setting a recovery plan should be maintained.
- There should be an annual review of Fast Track terms and triennial or quinquennial review of the framework.

Bespoke:

- Maintaining the current scheme specific funding flexibility (where the approach is suitably evidenced) is vital to support employer sustainable economic growth. We need more detail on how using the flexibility potentially available under Bespoke would be regulated, to provide assurance that the new regime will not be too restrictive.
- It is also important for the 'Fast Track' approach not to simply be seen as the 'default' option and for Bespoke to offer a genuine and viable alternative (without being overly onerous) for many pension schemes. Not least because a simple Fast Track approach (with a potentially higher funding hurdle) may lead to false economy 'prudence'. For instance, taking more investment risk in the short-term to achieve a long-term objective that may be higher than needed is not prudent.
- We are concerned that there is too much pressure for Fast Track equivalence - with the risk that TPR's s231 powers come into play if TPR considers the divergence from Fast Track too significant, and that a funding solution imposed by TPR will be based on Fast Track. Areas in which we think Bespoke should allow flexibility include -
 - o Maturity should not over-ride covenant strength in all circumstances. Bespoke should allow for strong covenants to support more mature schemes in maintaining lower Technical Provisions. This would require a more sophisticated approach than being benchmarked against Fast Track.
 - o Bespoke should allow alternative journey plans/LTOs than Fast Track; demonstrating how the covenant implicitly supports the risks being run. This could mean alternative LTOs (potentially CDI-based or alternative asset-led discount rates) and/or a longer timeframe (shorter remaining maturity) for stronger covenants.
 - o Bespoke should allow for more flexibility in setting discount rates and extra returns to be assumed in recovery plans.
 - o The option to demonstrate greater analysis of investment stress testing and risk management of assets (over and above a simple fast track framework). The aim of which would be to allow the additional sophistication offered by enhanced investment strategies (and governance arrangements) to support higher discount rate without the need for additional risk mitigations.
- Demonstrating good trustee governance, to manage the scheme and react appropriately to significant changes, is important. This isn't featured in the narrow financial framework but should be within a full IRM evaluation.

Overall framework

- We are supportive of the Fast track/Bespoke framework in principle.
- We are concerned that TPR will respond to COVID-19 by requiring trustees to obtain a strong package of legally binding contingencies to run more risk. We would argue against such an approach:
 - We support Guy Opperman's statement to the House of Commons on 27 April, that the "best possible protection for members of Defined Benefit schemes is a strong profitable employer". This is very different to a minimal risk/insurance approach to funding, which is a higher standard with implications for sustainable growth of employers. The "strong profitable employer" needs to be the starting point for this regulation.
 - The unparalleled government intervention in response to the extreme circumstances of COVID-19 illustrates why targeting insurance levels of capital (i.e. reserving for 1 in 200 events) isn't appropriate for UK business as a whole.
 - The impact of COVID-19 would support setting parameters towards the more flexible end of ranges suggested in the consultation – for example, using gilts+0.5% for LTO rather than gilts+0.25%.
 - To address the financial impact, it would also help to include some temporary additional flexibility – for example, perhaps allowing additional returns in Fast Track recovery plans.
- There is a risk that the new regime may push up DB costs, which would create issues of intergenerational fairness, by taking pensions budget away from DC to make DB more secure. The funding Code needs to balance commercial risks fairly across generations.
- There is a risk that the new regime may change the balance of powers on investment, with an employer veto over the long-term direction of travel for investment policy.
- Trustees should be encouraged not to just cut and paste the Fast Track 'solution'. Some schemes will already be funding at a level in excess of the Fast Track proposals – and the transition to the new regime carries a risk of "levelling down" for such schemes. How does TPR plan to regulate this in first valuations under the new approach?
- Whilst it is hard to disagree with an open scheme being treated consistently with a closed scheme with similar maturity/covenant strength, including for future accrual, we are mindful of unintended consequences and of making further DB accrual unaffordable in the private sector. This seems contrary to desiring provision of good quality pensions and worthy of further political consideration.
- We are supportive of the framework as an important tool to determine when TPR's s231 powers could potentially be activated, with a degree of focus on trustees - subject to explicit recognition that schemes may adopt a bespoke approach including the flexibility we have outlined above to reflect the scheme's specific circumstances and not simply assessed as the level of deviation from the prescribed Fast Track formula.

Our comments on specific questions raised in the consultation are set out in the **Appendix**.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact me on 01372 733763 or at peter.williams@aon.com. Alternatively, you can also contact ACA Chair, Patrick Bloomfield on 07920 812017 or at patrick.bloomfield@hymans.co.uk or Stewart Hastie on 07799 893797 or at stewart.hastie@isio.com

Yours sincerely

Peter Williams

Chair, Pension Schemes Committee

On behalf of the Association of Consulting Actuaries Limited

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Defined benefit funding code of practice consultation

Chapter 3 – Proposed regulatory approach

Question 1: Twin-track compliance

Do you think twin-track compliance is a good way of introducing objectivity into a scheme-specific regime? What are your views on the proposals set out above? If you disagree, what do you propose instead?

We support the proposed twin-track compliance approach, whilst noting that many of the key details are yet to be defined.

We understand that that further details will be set out in a subsequent consultation in 2021. These details are likely to make the difference between the success, or otherwise, of the new regime.

Chapter 4 – Employer covenant

Question 2: Insolvency risk and reliance on covenant

Do you think the risk of member benefit reductions on insolvency is an acceptable part of the existing regime and that trustees should be able to place some reliance (whether implicit or explicit) on the employer covenant? To what extent do you think this should be the case? Do you think this risk is well understood by scheme members?

We agree that it is necessary to maintain some reliance on the employer covenant – and hence the risk of member benefit reductions on insolvency. Reflecting the visibility of covenant is logical and what happens to the covenant beyond the visible period should be based on the balance of likelihoods and not imply low or nil covenant beyond the visible period.

The extent to which this is understood by scheme members is likely to be variable – in many cases members will not be aware of the importance of risk of benefit reduction (although we are not convinced that this is a key point in drafting the new Code of Practice on scheme funding).

Question 3: Integrating covenant into funding

- a. Do you think it is better to keep the Fast Track route simpler by only factoring covenant into Bespoke (TPs and/or RP)?
- b. If you think covenant should only feature in Bespoke, how do you think it should be done?
- c. If we were to integrate covenant into Fast Track guidelines, do you prefer option 1, 2 or 3 or some other approach for reflecting the employer in scheme valuations, and why? If another approach is appropriate, what do you think this should be?

We support factoring covenant into the Fast Track approach and, of the three options put forward, we would prefer options 1 – integrating covenant into fast track technical provisions via the discount rate.

Question 4: Covenant assessment

- a. Should a holistic approach to assessing employer covenant be retained (but with further guidance to assist trustees), or should we seek to define a more prescribed, formulaic approach?
- b. If the former (holistic approach), what amendments/clarifications to our existing guidance on covenant do you consider may be necessary? Do you agree with the ones suggested above? Is the structure and content of our existing employer covenant guidance helpful and accessible to trustees? If not, what would make it better?
- c. If the latter (formulaic approach), what do you think of the proposed RACF approach? How would you propose that covenant could be explicitly defined in a clear, consistent and measurable manner? What other metric(s) may be appropriate?
- d. Alternatively, would it be appropriate to require employer covenant to be assessed in a prescribed (formulaic) way for Fast Track purposes, and only allow for a more holistic approach under the Bespoke framework?

We support retaining a holistic approach to assessing employer covenant. However, under fast track in particular, we have concerns over cases where the Regulator might reach a different conclusion to the trustees on the strength of covenant and, as a result, a different conclusion on whether the scheme passes fast track.

It would be very helpful if the trustees had an option to ask the Regulator to confirm whether it would challenge their covenant assessment in advance of the valuation being finalised – as an option for trustees. For example, trustees could opt to confirm their assessment of the strength of covenant within the 7-month timescale for completion of the scheme accounts and submit this to the Regulator. The Regulator might then be expected to raise any objection within three months of receipt (i.e. within 10 months of the effective date at most) giving the trustees the remainder of the usual 15 months period to complete the valuation, with more certainty that their assessment of covenant (and hence their interpretation of the fast track requirements for their scheme) is consistent with that of the Regulator.

In addition to the covenant grading assessment of 'risk capacity' there may need to be a quite separate assessment of what the employer can afford, where contribution levels are restricted.

Question 5: Reliance on indirect covenant

Do you think that the strength of the wider commercial group should be factored into the sponsoring employer's assessment? If so, how, and to what degree?

We support the approach outlined in paragraphs 128-133 of the consultation, which allows some limited reliance on the wider commercial group.

Question 6: Covenant grades

- a. Should we use a greater range of covenant grades to set guidelines in the code and assess schemes and, if so, what would be an appropriate number of grades?
- b. Would there be sufficiently different characteristics between a greater number of grades, such that a set of trustees could reasonably and reliably assess covenant strength without requiring professional advice?

We would support the Regulator continuing to use four covenant grades. This approach is well understood and works well from a regulatory perspective. Although more granularity is generally used within the industry, if the Regulator adopted more covenant grades there would be an increased risk of trustees reaching a different conclusion to the Regulator.

Chapter 5 – General principles

Question 7: Low dependency LTO

Should all DB schemes have a low level of dependency on the employer by the time they are significantly mature? If not, what do you think would be an appropriate expectation to ensure trustees manage the run-off phase for their scheme effectively and efficiently?

This is reasonable under Fast Track.

However, maturity should not over-ride covenant strength in all circumstances. Bespoke should allow for strong covenants to support more mature schemes in maintaining lower Technical Provisions. This would require a more sophisticated approach than being benchmarked against Fast Track.

Bespoke should allow alternative journey plans/LTOs than Fast Track; demonstrating how the covenant implicitly supports the risks being run. This could mean alternative LTOs (potentially CDI-based or alternative asset-led discount rates) and/or a longer timeframe (shorter remaining maturity) for stronger covenants.

Question 8: Timing of the LTO

What factors should influence the timing of reaching the LTO? Do you think that the timing should be linked to maturity?

Linking the timing to maturity is reasonable under Fast Track.

As noted in response to question 7, Bespoke should allow additional flexibility for alternative journey plans. For example, employers with particularly long covenant visibility should not have to target funding in line with the LTO in the near future, whilst the covenant visibility is good, even if the scheme is significantly mature.

Question 9: High resilience to risk at the LTO

Do you think that the investment portfolio should be highly resilient to risk when schemes reach their LTO? If not, what do you suggest?

We agree that, when it is appropriate for schemes to be funding using a low dependency target, in principle it would also be appropriate for the investment portfolio to be highly resilient to risk.

Question 10: Risk-taking for immature schemes

Is it reasonable for less mature schemes, which would have more time to reach low dependency funding, to assume and take relatively more investment risk than a mature scheme?

It is generally more difficult to match the liabilities of immature schemes and so allowing a higher level of risk-taking seems appropriate. Requiring significantly mature schemes to take a low level of risk is reasonable under Fast Track. Again, however, we would suggest that Bespoke should be more flexible, and allow even significantly mature schemes to take additional risks. For example, under Bespoke, employers with particularly long covenant visibility should not have to adopt a low risk strategy in line with the LTO in the near future, whilst their covenant visibility is good, even if the scheme is significantly mature.

Question 11: Journey planning

What are your views of the rationale above for the journey plan? Do you think there is a better way for trustees to evidence that their TPs have been set consistently with the LTO?

Planning to de-risk as a plan matures and linking technical provisions to the LTO is generally reasonable under Fast Track, provided the mechanism allows adequately for sponsors with particularly long covenant visibility under Bespoke.

Question 12: Relevance of investments for funding

Do you agree that the actual investments and investment strategy are a relevant factor for scheme funding?

Yes. However, discount rates for technical provisions can of course be more prudent than the anticipated investment returns. If the scheme were to set TPs equal to the LTO but run a higher but still reasonable level of investment risk to get there while still not significantly mature, or supported by some form of covenant protection, this should be allowable (if not actively encouraged).

Question 13: Broad consistency between investment and funding strategy

- a. Should the investment strategy be broadly consistent with the level of current and future investment risk assumed in the funding strategy? If not, why not?
- b. If it is not broadly consistent, for instance where trustees want to take additional investment risk (than that assumed in the TPs), should trustees have to demonstrate that the investment risk taken can be managed appropriately? If not, why not and what would you suggest?

The investment strategy should be reflected in the funding strategy. In particular, the discount rate used should not exceed the return that might be expected based on the scheme's investment strategy, with a suitable margin for prudence, over the medium-term (short-term deviations to manage risk would be acceptable).

Question 14: Liquidity and quality at maturity

Do you think that security, quality, and liquidity become more important as a scheme becomes significantly mature? In particular, do you think that the scheme's asset allocation at significant maturity should have a high level of liquidity and a high average credit quality?

These are important factors.

For pension schemes targeting a large-scale bulk annuity insurance transaction, managing liquidity as they approach this will be important. While illiquid assets can potentially be realised on the secondary market or passed to insurers (albeit at a discount), a plan to improve liquidity will likely be desirable.

For pension schemes targeting a runoff or CDI type strategy (likely larger pension schemes or those with secure sponsors), assets that are illiquid but generate income should not be ruled out. Specifically, one of the competitive advantages of pension schemes in runoff is their long-time horizon and accessing capacity away from traditional liquid, low-risk assets (e.g. gilts and corporate bonds) into other secure assets will likely be attractive.

Security/quality will be essential in a runoff or CDI structure as mission impairment will be linked to default of assets. Traditional pension scheme risk metrics (such as Value at Risk) do not model this well and so focussing on security/quality of the underlying assets and default risk becomes a greater focus. We would discourage insisting upon "too much" liquidity and "too high" quality. For example, forced selling of downgraded assets may be detrimental to performance.

Question 15: Covenant visibility

- a. Do you think it is prudent for reliance on employer covenant to be reduced beyond the period over which there is reasonable visibility? If not, why not?
- b. How much visibility do you think most trustees can have over the employer covenant? In the absence of evidence to the contrary, do you think it is reasonable for most schemes to assume there is reduced visibility beyond 3-5 years?

A visibility period of 3-5 years is reasonable for most employers. However, the Bespoke framework must also allow for employers with significantly longer covenant visibility.

We agree it is prudent to reduce the allowance for employer covenant beyond to covenant visibility but what happens to the covenant beyond the visible period should be based on the balance of likelihoods and not imply low or nil covenant beyond the visible period.

Question 16: Use of additional support

Should additional support, such as contingent assets and guarantees, be allowed in scheme's funding arrangements provided they are sufficient for the risk being supported, appropriately valued, legally enforceable and realisable at their necessary valued when required?

We agree that additional support should be allowed for in funding arrangements.

We are not convinced, however, that variation from Fast Track should only be possible under Bespoke where additional support is made available. We also have concerns over setting too high a benchmark for 'legally enforceable and realisable' support. This may discourage trustees from agreeing valuable additional support, where such 'legally enforceable and realisable' support is not an option.

Question 17: Appropriateness of RPs and affordability as key factor

- a. Should employer affordability be the key factor to determine the appropriateness of a RP? If not, what should it be?
- b. Is it reasonable to require schemes with a stronger employer covenant (and a resulting reduction in prudence in the assumed TPs and size of deficits) to have a commensurately shorter RP?

Affordability will certainly be a key factor where it is a genuine constraint – every employer will have a maximum contribution level it can afford and in some cases this will restrict the contributions that might be payable to the scheme. We expect that this is most likely to be an issue for employers in covenant grade categories 3 and 4.

It is reasonable to require stronger employers to make good deficits over shorter periods than those employers constrained by affordability. However, for stronger employers, plans for sustainable growth may also legitimately reduce the level of contribution.

In addition, under Bespoke, for employers with sufficiently strong covenants trustees should be able to allow for anticipated returns in excess of those allowed for in technical

provisions in their recovery plans, to the extent that these anticipated returns may obviate the need for any contributions. Indeed, given the impact of COVID-19, this might also be a flexibility that could be incorporated into Fast Track as a temporary measure.

Question 18: Open schemes, past service

Should past service have the same level of security, irrespective of whether the scheme is open or closed?

Whilst it is hard to disagree with an open scheme being treated consistently with a closed scheme with similar maturity/covenant strength, we are mindful of unintended consequences (see question 19).

Question 19: Open schemes, future accruals

Do you think it would be good practice for trustees to ensure that the provision of future accruals does not compromise the security of accrued benefits?

Whilst it is hard to disagree with an open scheme being treated consistently with a closed scheme with similar maturity/covenant strength, including for future accrual, we are mindful of unintended consequences and of making further DB accrual unaffordable in the private sector. This seems contrary to desiring provision of good quality pensions and worthy of further political consideration.

Chapter 6 – Other issues

Question 20: Other issues

Do you agree with our assessment of the issues above and do you have any further comments?

The analysis of other issues seems reasonable.

Our further, wider, comments are:

- We noted that there was no mention of allowance for post-valuation experience within the Fast Track framework (or more widely). The flexibility to allow for, or ignore, such experience in setting a recovery plan should be maintained.
- There should be an annual review of Fast Track terms and triennial or quinquennial review of the framework.
- There is a risk that the new regime may push up DB costs, which would create issues of intergenerational fairness, by taking pensions budget away from DC to make DB more secure. The funding Code needs to balance commercial risks fairly across generations.
- There is a risk that the new regime may change the balance of powers on investment, with an employer veto over the long-term direction of travel for investment policy.
- We are supportive of the framework as an important tool to determine when TPR's s231 powers could potentially be activated, with a degree of focus on trustees - subject to explicit recognition that schemes may adopt a bespoke approach including the flexibility we have outlined above to reflect the scheme's specific circumstances and not simply assessed as the level of deviation from the prescribed Fast Track formula.

Chapter 8 – Setting the long-term objective (LTO)

Question 21: Fast Track low dependency discount rate

What are your views on our proposal that the appropriate low dependency funding basis for Fast Track should be with a discount rate somewhere in the range of Gilts +0.5% to Gilts +0.25%? Where in the range do you think it should be and why? If you disagree, what do you think would be a more appropriate basis and why (please provide evidence)?

Given financial developments since the consultation was published it is likely that fast track parameters will need to be set towards the more flexible end of the spectrum, in order to encourage a reasonable number of schemes to adopt the fast track approach. This would suggest setting the initial assumption at the upper end of the range (or even higher) initially. We might expect the Regulator to review this from time to time and reduce the margin at some point.

Setting the rate at the top end of the range does have disadvantages. For example, schemes that are already funding to a higher level, or targeting a higher level as their long-term objective, may be encouraged to "level down" if the Regulator is seen to endorse a lower target.

Question 22: Options for defining other assumptions for Fast Track low dependency funding basis

Which of these options should be used to set assumptions for low dependency funding under Fast Track? Are there any other options we should consider? Are there any other pros and cons we should consider?

We would support the Regulator defining a limited number of other assumptions or relying on the trustees to set all assumptions on a best estimate basis. The Scheme Actuary could certify that the non-discount rate assumptions produce a calculated value of the liabilities that is, in their opinion, no less than best estimate, at the date of the valuation.

Question 23: Defining assumptions for Fast Track low dependency funding basis

- a. What are the most significant assumptions (other than discount rates) for the calculation of the Fast Track low dependency liabilities?
- b. If we were to specify some or all of the assumptions to calculate the level of Fast Track low dependency liabilities, which assumptions should we specify and how should we do this? Do you have views on the suggested benchmarking factors in the table above?
- c. If we determined mortality assumptions, how could we balance the scheme-specific nature of mortality with the desire to ensure a level of consistency in the assumptions used by different schemes?

If the Regulator decided to set certain assumptions, we would suggest this be limited to core financial assumptions, such as inflation and pension increases.

Question 24: Low dependency basis – verification that other assumptions meet the best estimate principle

- a. Which of these options do you prefer to verify that other assumptions used for low dependency liabilities under Fast Track meet the ‘best estimate’ principle and why? Are there any other pros and cons we should consider? Are there any other options we should consider?
- b. If we decided to require schemes to provide additional information about their assumptions, what information should we require schemes to provide compared to the current requirements?

We support option 4 – the Scheme Actuary could certify non-discount rate assumptions to be no less than best estimate overall.

Question 25: Other assumptions for Fast track low dependency basis – prudence

- a. If we specified certain assumptions, should we aim for those to be best estimate or to be chosen prudently?
- b. Given the uncertainty around assumptions such as future improvements in mortality should we i) define these assumptions in Fast Track and ii) set the assumptions prudently?

We would generally support adopting best estimate for all other assumptions.

Question 26: Low dependency liabilities – reserve for future ongoing expenses

- a. Should the low dependency liabilities carry an expenses reserve? If so, should this only be a requirement for schemes that self-fund their expenses?
- b. To what extent should we define the reserve for future expenses under Fast Track? Should we just provide guidance on how to calculate an appropriate reserve? As part of that, what level of ongoing expenses is it reasonable to allow the employer to pay directly without any reserve?
- c. If we defined guidelines on expenses for Fast Track, how should we reflect the proportionally different level of expenses incurred by schemes of different sizes? Could we adopt a sliding scale of percentages of liabilities based on the size of the scheme or a fixed element and proportionate element of expenses?

This is a very significant issue. A requirement for such a reserve could make Fast Track compliance particularly difficult to achieve for smaller schemes.

There are a range of views on expenses amongst ACA members. For small schemes there is a concern that advance funding of all future expenses would lead to overly burdensome contributions. The LTO is aiming for low dependency, not zero dependency/solvency. This is particularly appropriate where there is a practice of expenses being met by the employer, but even where the current practice is for expenses to be met from the scheme, this may be the result of the current (surplus) funding position and should not necessarily mean an increase in LTO is appropriate.

One way of balancing this issue against the technical arguments for inclusion of expenses may be to have an expense reserve that only reflects expenses for some short finite future period – for

example 5 years. This reserve would then reflect a cushion if the sponsor's circumstances changed, giving time for actions to be taken and contributions renegotiated if needed, but is less onerous than holding a reserve for all future expenses. This also seems consistent with the concept that the LTO is low-dependency rather than no-dependency.

Question 27: Definitions of maturity

- a. Should maturity be defined as duration for the purpose of prescribing significant maturity under Fast Track? If not, which measure would you favour and why? Note that whatever measure we use, it needs to be applicable not only to the time at which we would expect a scheme to reach significant maturity but also at all earlier times in the scheme's life.
- b. Whichever method is used to determine maturity, we need to use actuarial assumptions to make the calculation. Should we require that the Fast Track low dependency assumptions are used for this purpose? What other assumptions could be used?

We support the use of duration based on the LTO assumptions.

Where a scheme has secured part of their liabilities with an insurance company, guidance will be needed on how this should be allowed for in the calculation of duration/maturity. One argument is that duration for such schemes should be based on the residual liabilities, consistent with a scheme that had bought out the secured liabilities. Another argument is that duration should be based on total liabilities, consistent with a scheme that might have achieved a similar risk position using a 'synthetic buy-in'.

Question 28: Defining the timing point for significant maturity

What are your views on our proposal to set significant maturity (used to define the timeframe for reaching the LTO) for Fast Track to be in the range of a scheme duration of 14 to 12 years (or equivalent on a different maturity measure)? If you disagree, what would be a more appropriate timeframe and why? Please provide evidence.

This seems reasonable. This could be one of the "controls" that TPR uses, along with TP/LTO discount rates to manage the framework over time, in response to changes in financial and longevity assumptions.

Question 29: Points or ranges for low dependency funding basis and timing point

Do you think our proposal to set a particular level for the low dependency funding basis and/or a range for the significant maturity timing associated with the LTO would be helpful to schemes to manage volatility and allow some smoothing? If not, what would you suggest?

Duration is dependent on the financial assumptions on which it is calculated and so it will vary as financial conditions change. In contrast, it would be helpful for trustees to aim for a relatively fixed end date for becoming 'significantly mature'. Using a range rather than a point may therefore be helpful, as the projected end date will be more stable than if a single point definition was used.

Chapter 9 – Technical provisions (TPs)

Question 30: Journey plan shape for Fast Track TPs

- a. Which shape of journey plan is most appropriate to define for calculating the Fast Track TPs and why? Does this vary depending on the circumstances of the scheme?
- b. Are there any other journey plan shapes we should consider?
- c. What unintended consequences might arise from adopting the linear de-risking or horizon method journey plans for Fast Track?

We do not have a strong preference. We would support schemes having the flexibility to choose their approach, even under Fast Track, to reduce systemic risks and provide additional flexibility.

Question 31: Key factors for Fast Track TPs

Should other scheme-specific factors other than covenant and maturity be considered to define the journey plan and TPs in Fast Track?

We agree that covenant and maturity are the two key factors (in addition to the parameters around recovery plans, where assets fall short of TPs, as discussed elsewhere).

Question 32: Extent of reliance on covenant in Fast Track TPs

- a. Should we define a maximum period of acceptable full covenant reliance for Fast Track TPs? For example, a general guideline of five years? Or should covenant reliance be assumed to decline in the much shorter term (or immediately)?
- b. What level of covenant support should subsequently be assumed? Should there be an assumption of a single covenant grade reduction (e.g. CG1 to CG2), a reduction to assumed returns in line with a weak covenant, or something else?
- c. Over what period should any reduction in reliance take place? Should this be immediate (e.g. a reduction to a lower covenant reliance in the sixth year) or more gradual (for example, over the subsequent five years)?
- d. Does the need for a covenant visibility overlay depend on the approach taken for the journey plan to low dependency? For example, is this a more relevant consideration where the horizon journey plan shape is used?

We would support adopting a 5 year covenant visibility assumption, at each valuation, under Fast Track (or even 6 years to tie in with the valuation cycle). However, we would suggest a gradual reduction in covenant is assumed from 5 years onwards. It is not completely clear how the 5 year figure was derived but cumulative default rates on investment grade corporate bonds suggest that sponsors with strong covenants have very small insolvency risks well beyond 5 years into the future. What is assumed to happen to the covenant beyond the visible period should be based on the balance of likelihoods and not imply low or nil covenant beyond the visible period.

The important issue for trustees and employers is how the assumed covenant visibility follows through to the actual parameters adopted in Fast Track, and what this means for

schemes in terms of technical provisions and contributions. We have insufficient information to comment on this at present.

There is a risk of encouraging gaming the system if the allowance for covenant has more impact on recovery plan length than technical provision strength. A lower covenant grading could result in lower annual contribution requirements under fast track.

Question 33: How Fast Track TPs should be expressed

Which option do you think is preferable for defining TPs/journey plans under Fast Track and why? What are the practical issues associated with each option? If you disagree with these options, what would you suggest and why?

Each approach has advantages and disadvantages.

Defining a maximum discount rate will be easier to incorporate into a basis but leave scope for variation in the other assumptions. In addition, if a yield curve approach is adopted this may cause difficulties for those schemes who do not currently use yield curves.

Defining a maximum percentage of a scheme LTO avoids these issues but it will require a more complicated calculation to ensure set a discount rate which produces technical provisions at (or above) the required level.

On balance, we have a marginal preference for the 'percentage of LTO' approach.

Question 34: Method to derive Fast Track TPs

- a. Do you prefer a particular approach? If so, why? Is there another approach that would be suitable?
- b. Do you have ideas as how to best approach each option?
- c. How do trustees incorporate considerations about covenant strength into their TP assumptions/discount rates?
- d. If a stochastic approach is adopted, what would you consider to be an appropriate confidence level against which to mark the results?
- e. Do you have any data or modelling results which you think would provide useful evidence for the baseline TPs or covenant overlay? Please provide full details of methodology/data limitations.

From a scheme perspective, the Fast Track parameters derived from the Regulator's analysis are more important than the details of the analysis used. The Regulator could even consider multiple approaches to inform its decision on appropriate parameters. The key point is that the approach(es) adopted should be robust and able to cope with changing financial conditions.

Chapter 10 – Investments

Question 35: Which reference point from which to measure investment risk in Fast Track

- a. Would a measure of the liabilities be an appropriate position to measure investment risk from? If not, why not?
- b. Do you prefer a liability measure on the low dependency basis (Gilts +0.5% to +0.25%) or a Gilts flat basis? Why? Are there any other liability measures that would be suitable?
- c. Would a liability reference portfolio approach (as a proxy for liabilities) for smaller schemes be more proportionate and practical? If so, how should a small scheme be defined for this purpose (number of members, assets or liabilities)? What would be an appropriate threshold?
- d. Would a reference portfolio consisting of gilts and inflation-linked gilts with a duration similar to the liabilities be appropriate as a proxy for the liabilities for smaller schemes? If not, how would you go about constructing a reference portfolio as a reference point from which to measure risk for smaller schemes?

Part a:

Yes. In aiming to achieve an LTO, we would still expect a liability derived reference point to be suitable for managing investment risk for most pension schemes. This may change as the LTO is reached but it is suitable while moving towards the target.

Part b:

Low dependency is likely to be most consistent with the approach an unconstrained pension scheme would take. Specifically, an unconstrained scheme would likely adopt a liability measure derived from one or two key approaches:

1. With reference to an estimate of long-term bulk annuity insurance pricing – likely linked to pensioner members (rather than non-pensioner members). Clearly variable overtime but a suitable low risk position, which is likely to be consistent with either low dependency or gilts-flat)
2. With reference to an investment portfolio based on the yield on the cashflow matching assets (with a suitable haircut), plus a risk reserve. This would define the investment arrangements underlying a low dependency basis.

Therefore, having an LTO which has consistency and equity across constrained and unconstrained schemes likely has merit.

Part c:

Yes. We would support using a reference portfolio (as a proxy for liabilities) – for all schemes that choose to do so (small or not).

Part d:

The reference portfolio would likely be a proxy of assets that reflect the duration and nature of the pension scheme. For those looking for simplicity (or smaller schemes), this could be a proxy based on gilts/index-linked gilts and potentially corporate bonds (or with the potential of a margin for a spread).

For some schemes, they may look to base a reference portfolio on a combination of yields on gilts, index-linked gilts, swaps, corporate credit and other suitably secure income generating assets (e.g. certain types of alternative credit, infrastructure and property investments). However, this approach would likely require a 'bespoke' route.

Ideally the "small scheme" definition would be based on governance or the nature of the LTO. However, governance is harder to measure, therefore we suggest a 'small scheme' measure based on asset size (reflecting the reduced opportunity set of investments and more likely buy-out LTO).

Two additional thoughts:

- The comment in the consultation around gilts-flat being an appropriate buyout price for a scheme with a mix of actives/deferreds/pensioners may be reasonable today but the CoP also envisages schemes aiming for the LTO over a timeframe such that most schemes would be nearly all pensioners (for which buy-out terms relative to gilts are generally more generous) so higher than gilts-flat may be more appropriate.
 - While gilts/index-linked gilts are low risk, there are still portfolios of corporate bonds and other assets that can be built, diversified and suitably haircut that are low risk and yield more. Hence the reference to corporate credit and alternative assets listed above.
- Therefore, with the two points in mind, 'gilts-flat' may be excessively prudent. This means the comment around 'gilts-flat' being lower risk/more conservative, might not be true. A gilts-flat LTO might cause a scheme to take more investment risk in the short-term to achieve a more prudent measure that is not required which is imprudent.

Question 36: Methodology to measure investment risk in Fast Track

- a. Would a simple stress test to measure investment risk in Fast Track be the most preferable option? If not, why not? Are there other measures of investment risk that are more suitable, taking account of the desire for a relatively simple and objective measure?
- b. Do you agree with the proposed principles for an appropriate pensions stress test, namely a fall in growth assets and a fall in interest rates? If not, what do you suggest?
- c. What are your views on which stress test we should use? Do you think the PPF stress test (Bespoke and simple approach) would be a good starting point?
- d. Which of the ways to measure the impact of the stress would you prefer and why? Is there an alternative method not listed that would work better? If so, please describe it.

Once the LTO position is achieved, and during the journey to LTO, stress testing (similar to a PPF or PRA approach) and default risk scenario testing will likely be two key measures. The latter (as noted in question 14) will be important because of the focus on security of yield (from defaults) rather than mark-to-market risk. A simple 'percentage of growth assets' is likely to be too simplistic and not sufficiently reward schemes for the benefits of diversification – this needs to be considered in using any 'stress test' approach as schemes should not be discouraged from diversifying risk.

Acknowledging that the 'Bespoke' option would allow more sophisticated modelling techniques and, given the need for simplicity under 'Fast Track', a stress testing measure

along the lines of the PPF approach would seem reasonable for Fast Track. However, given many schemes will hold a wider variety of 'matching assets' than simply gilts, the stress should be expanded to have a wider range of investments that would be appropriate for underpinning a low dependency basis (e.g. simply using 'infrastructure' is too broad in this context). This lends itself to a PPF-style approach but augmented by introducing key elements of the PRA methodology (as long as this does not constrain the asset opportunity set). The enhanced stress test could then be used for both LTO and PPF purposes.

For schemes that plan to runoff longer-term, other areas of risk management will be required e.g. cashflow management vs projections, sales / reinvestment, dealing with downgrades, monitoring managers, buying new long-dated issues, LPI / inflation hedging, longevity hedging, collateral management, regulatory change and operational risk. These should not be ignored in the risk framework and the PRA-style approach could be useful here.

One additional point, the consultation mentions a desire not to unduly influence the investment strategy. This would imply setting a relatively high bar for the maximum allowable investment risk under the fast track approach. On this basis, it could be that investment risk to the 'first order' is measured e.g. simply by measures such as "expected return" and "% of LTO shortfall not covered by contributions".

Question 37: Approach to defining maximum levels of investment risk for schemes of different maturities in Fast Track

- a. What are your views on the proposed methodology for setting maximum thresholds for investment risk for significantly mature schemes in Fast Track? If you disagree, what would you suggest?
- b. In relation to acceptable portfolios and consistency with discount rates, is it reasonable to use a best estimate return premium for growth assets over long-term gilts in the range of 3-5% pa?
- c. Should the allowance for prudence be higher for an investment portfolio with a higher level of risk?
- d. What are your views on the considerations we have set out to determine investment limits for immature schemes (journey plan shape, downside risk and covenant)? In particular, should the maximum level of investment risk for immature schemes vary by covenant under Fast Track?

The assertion a low dependency investment portfolio would be consistent with a discount rate of Gilts +0.25% to 0.5% pa is reasonable for most schemes and consistent with 'Fast Track'. Under the 'Bespoke' approach there should be expected to be options with higher returns with more sophisticated portfolios (similar to the experience of insurers), particularly for the largest schemes.

Likewise, in paragraph 386 the sentiment of setting discount rates first then looking at asset allocations, is understandable. However, the discount rate is clearly a function of the investment returns that are achievable on an appropriately low risk asset portfolio. Also, we should distinguish between a portfolio that generates Gilts +1.0% pa (for instance) that is underpinned by 'growth assets' and one which is underpinned by alternative matching assets (that generate a higher yield) and be cognisant of the different types of risks.

In terms of a maximum to growth assets of 20% (for a mature scheme), this is likely to be reasonable as long as the definition of 'growth assets' is clear and allows for investment in those which can be considered matching but with higher yields (suitably haircut). This should satisfy both those schemes that are looking to adopt a simpler approach and those with a more nuanced matching portfolio. The only caveat to this is those schemes that are provided contingent security from a secure sponsor should be afforded more flexibility but we appreciate the question relates to Fast Track and this would fall under the Bespoke arrangement.

The consultation should consider the extent to which this is a hard cap. For instance, if growth assets increased materially or bond assets decreased materially over a short period, and over what period should restorative action need to be taken? For instance, a 20% cap might be applied but with a (say) 5% buffer over a period. It is important that the monitoring criteria are not onerous for schemes and trading not too frequent that investment costs are incurred unnecessarily (e.g. assessed and rebalanced annually).

Noting the assumption of Gilts +3-5% pa for growth assets, this is reasonable (although if just looking at a growth portfolio return, a cash+ measure would also be appropriate).

Higher prudence for higher investment risk would also seem reasonable – or at least some form of risk buffer/mitigation if not prudence.

In terms of the journey plan shape – we would suggest further analysis is undertaken on the 'path dependency' of linear de-risking approaches. While in principle attractive, they can result in significantly more risk upfront for limited risk benefit later on. Likewise, the practicality of stepping down the return target each year is questionable (i.e. requires hitting the exact target each year to justify). That said, some consideration of maturity and covenant should be considered in risk taking over time in the Journey Plan. Covenant input is also a delicate balance of not over burdening a Sponsor with contributions that threaten the covenant versus underwriting investment risk with the covenant – some flexibility or judgement will still need to be allowed for here.

Question 38: Defining guidelines for liquidity and quality of the investment portfolio in Fast Track

- a. Do you think we should define some guidelines around liquidity and quality in Fast Track?
- b. If so, what are your views on the options outlined above? Are there other approaches you favour?
- c. What limits would you set on the above criteria and why?
- d. How would the above change for a more immature plan?

See comments from question 14. Liquidity should be managed but if a runoff objective is the long-term aim of a scheme, illiquid assets that generate cashflows should be supportable and, potentially, attractive. This does mean any measure based on a minimum allocation (e.g. options 2 and 3) are likely too restrictive. Option 1 and 4 should provide benefits but again liquidity issues in pension schemes are rare so we would discourage an approach that is heavily prescribed.

Noting paragraph 408, we should also distinguish between mark-to-market losses (potentially less relevant) and default/downgrades when considering security of assets. We would encourage a more nuanced approach to 'investment grade' assets, focussing more on 6A being the predominant focus and buy-and-maintain structures. Option 6 risks excluding assets that are more secure than corporate bonds but which are not rated (e.g. ground rents – many times collateralised inflation linked rental contract). However, having a minimum quality or giving credit in bond portfolios for higher credit quality has merit. In order to simplify and avoid specification that results in distorted asset portfolios (that are structured purely to meet a security test), this may be better dealt with simply via the overall investment risk assessment.

In terms of maturity, much like in other areas, schemes should be aiming for full compliance by the time they are "mature" (subject to definition). Having a target point for this with a principle of "moving towards" over time but without material restrictions would seem reasonable for immature schemes.

Chapter 11 – Recovery plan (RP)

Question 39: Fast Track guidelines on RP length

- a. What are your views on the principles set out above in relation to RP length under Fast Track? In particular, do you have views on what may be appropriate RP length thresholds for different covenant strengths? Is it helpful to frame these in terms of the typical multiple of valuation cycles (i.e. three years)?
- b. Do you consider it would be more appropriate to have a single maximum guidance RP length and to expect trustees (under the Bespoke framework) to justify any plans that are longer than this?
- c. Do you think Fast Track RP lengths should be shorter for schemes nearing and/or at significant maturity? If so, to what extent?

We do not have a particularly strong view on which of the two proposed approaches is adopted. Setting a maximum recovery period based on covenant group seems more consistent with a Fast Track approach.

We do not think that RP lengths should necessarily be shorter for mature schemes.

Question 40: Fast Track guidelines on RP structure

Should the extent of back-end loading be limited to increases which are in line with inflation (in the absence of appropriate additional support such as a contingent asset being provided)? Or should there be more flexibility subject to a significant proportion of DRCs being committed in the early years of the plan? If inflation-linked increases are acceptable, what measure of inflation do you consider would be an appropriate benchmark?

Limiting the extent of back end loading under Fast Track in the ways proposed seems reasonable.

We suggest that contributions linked to any generally accepted measure of inflation should be acceptable – and that such increases could be fixed based on inflation expectations at the valuation date.

Question 41: Fast Track guidelines on investment outperformance

Should investment outperformance not be allowed in Fast Track RPs? What do you think the impacts may be?

Prohibiting allowance of outperformance in the recovery plan is reasonable in principle under Fast Track but, for the avoidance of doubt, should be allowable under bespoke compliance.

This assumes that the discount rate which can be adopted for technical provisions – which would be the starting point for assessing outperformance – is also reasonable. We do not currently have sufficient information to comment on whether this is the case – as noted above.

Given the impact of COVID-19 since the consultation was launched, this may be an area in which additional flexibility might be allowed under Fast Track for a limited period.

Question 42: Fast Track guidelines on future RPs

In what circumstances should/could outstanding RP payments be re-spread at subsequent valuations? In particular:

- a. If a scheme's funding deficit has reduced (at least) in line with the expectations at the previous valuation, would it be appropriate to maintain the same end date? Or would it be pragmatic to re-spread the remaining deficit over a renewed period?
- b. If a scheme's funding deficit is higher than expected, what guidelines should apply for the appropriate length of the new RP?
- c. Would the idea of 're-spreading' be more acceptable where a scheme has a long period before it becomes significantly mature?

We do not think additional rules on re-spreading are necessary. Each valuation should look at the position with an updated perspective. Re-spreading methodologies introduce unnecessary added complexity for little or no value.

Question 43: Equitability

What are your views on the concept of 'equitability' in respect of how a scheme is treated compared with other stakeholders? Should any requirements be qualitative (in line with the commentary above) or should trustees also be expected to consider a specific metric? If so, what might be an appropriate measure of equitability (for example, comparing the ratio of DRCs to dividends, or the size of scheme deficit to the 'stake' of other stakeholders) and how could this reflect a scheme's superior creditor status over shareholders?

We agree that the focus here should be on covenant groups 3 and 4. In principle ensuring equitability for employers in these covenant groups is appropriate but it not immediately apparent how this might be measured under Fast Track. One possibility is to prohibit excessive dividends, and ideally other forms of material covenant leakage, for employers restricting contributions on the grounds of affordability.

Chapter 12 – Open schemes

Question 44: Treating past service and future service liabilities separately in Fast Track

What are your views on our proposed approach to outlining code guidelines for open schemes. Should any other approach to calculating future service liabilities be considered?

Whilst it is hard to disagree with an open scheme being treated consistently with a closed scheme with similar maturity/covenant strength, including for future accrual, we are mindful of unintended consequences and of making further DB accrual unaffordable in the private sector. This seems contrary to desiring provision of good quality pensions and worthy of further political consideration.

Question 45: Fast Track LTO for open schemes

Should the LTO (low dependency at significant maturity) for an open scheme be the same for a closed scheme? If not, how should they differ?

See our response to question 44.

Question 46: Fast Track TPs for open schemes

What option do you favour and why? Are there other options we should consider?

See our response to question 44.

Question 47: Fast Track guidelines for calculating future service costs

a. Which options do you favour and why? Are there any other options for calculating future service costs which should be considered, for example pre-and post- retirement discount rates?

- b. If Option C (best estimate) were adopted, how should the best estimate return assumption be determined? Are there any options other than those described above that we should consider?
- c. Would our preferred approach (Option B) make it difficult for scheme actuaries to certify schedules of contributions?

Options B to D would only appear to offer a presentational difference over option A, given that the same level of total contributions would be required to achieve full funding at the end of the schedule of contributions.

Question 48: Funding future service using past service surplus

Do you think that this approach to funding future service using past service surplus is reasonable? If not, why not? What else would you suggest?

This seems reasonable. It would also be helpful to state explicitly that DB surpluses can be used to fund DC sections in the same trust, where the rules do not prohibit this approach.

Chapter 13 – Bespoke framework key features

Question 49: Criteria for assessing Bespoke arrangements

What are your views on the criteria we propose to use to assess Bespoke arrangements? If you disagree, what would you change and why? What else should we consider?

Maintaining the current scheme specific funding flexibility (where the approach is suitably evidenced) is vital to support employer sustainable economic growth. We need more detail on how using the flexibility potentially available under Bespoke would be regulated, to provide assurance that the new regime will not be too restrictive.

It is also important for the 'Fast Track' approach not to simply be seen as the 'default' option and for Bespoke to offer a genuine and viable alternative (without being overly onerous) for many pension schemes. Not least because a simple Fast Track approach (with a potentially higher funding hurdle) may lead to false economy 'prudence'. For instance, taking more investment risk in the short-term to achieve a long-term objective that may be higher than needed is not prudent.

We are concerned that there is too much pressure for Fast Track equivalence - with the risk that TPR's s231 powers come into play if TPR considers the divergence from Fast Track too significant, and that a funding solution imposed by TPR will be based on Fast Track. Areas in which we think Bespoke should allow flexibility include -

- Maturity should not over-ride covenant strength in all circumstances. Bespoke should allow for strong covenants to support more mature schemes in maintaining lower Technical Provisions. This would require a more sophisticated approach than being benchmarked against Fast Track.
- Bespoke should allow alternative journey plans/LTOs than Fast Track; demonstrating how the covenant implicitly supports the risks being run. This could mean alternative LTOs (potentially CDI-based or alternative asset-led discount rates) and/or a longer timeframe (shorter remaining maturity) for stronger covenants.

- Bespoke should allow for more flexibility in setting discount rates and extra returns to be assumed in recovery plans.
- The option to demonstrate greater analysis of investment stress testing and risk management of assets (over and above a simple fast track framework). The aim of which would be to allow the additional sophistication offered by enhanced investment strategies (and governance arrangements) to support higher discount rate without the need for additional risk mitigations.

Demonstrating good trustee governance, to manage the scheme and react appropriately to significant changes, is important. This isn't featured in the narrow financial framework but should be within a full IRM evaluation.

It would be helpful to have more examples similar to example 3, where by virtue of a particularly strong covenant alone, a scheme is able to adopt a more flexible approach under Bespoke compliance without the need for specific additional support to be put in place.

Question 50: Bespoke examples

- Do you have any comments on the assessments we have made in the examples above?
- Could you provide other examples (relevant to your own scheme experience or that of schemes you advise) of arrangements which you think will follow the Bespoke route?
Why do you think these arrangements would be compliant?
- In example 2 (LTO – CDI strategy), could it be appropriate, in your view, to be able to use a higher discount rate/lower value of TPs (low dependency basis) than in Fast Track?
If so, in what circumstances and by how much?

It would be helpful for examples to be included covering:

- Expansion of example 3 to cover more typical examples of an employer with a strong covenant
- Insurance policy buy-in of part of a scheme's liabilities
- Synthetic buy-in of part of a scheme's liabilities
- Longevity swap.

Question 51: Stressed schemes

- Assuming that affordability is genuinely constrained, are very long RPs 'appropriate' and therefore compliant with the Act?
- Alternatively, should we make an exception to the principles and allow the trustees of stressed schemes to take unsupported investment risk, or more risk investment risk than other CG4 schemes (schemes with weak employers)? What checks and balances should we put in place in addition to those mentioned above (equitable treatment, risk management)?
- For schemes with unviable RPs, should an exception be made for them in terms of the level of acceptable investment risk?
- Are you aware of situations other than stressed schemes where the trustees and employer would have difficulties meeting the Bespoke compliance principles?

Where the employer is paying the maximum contributions it can afford in respect of a stressed scheme, the question of whether higher risk investment strategies should be allowable is one for the regulator (and the Regulator's objective "to reduce the risk of situations arising that may lead to compensation from the PPF becoming payable" is relevant).

There are certainly situations other than stressed schemes where the trustees and employer would have difficulty meeting the Bespoke compliance principles, if the flexibility is limited to that set out in the examples provided.

Chapter 14 – Additional support

Question 52: Trustees' assessment of additional support in Bespoke arrangements

Do you have any views on the framework we set out for trustees to assess the appropriateness of additional support in Bespoke arrangements? If you disagree, what do you suggest?

The analysis seems reasonable.

Question 53: Accessing additional support

When do you think trustees should be able to access the additional support? Does it depend on the Bespoke arrangement and the type of risk that it supports?

The timing does depend on the bespoke arrangement and the type of risk it supports.

Question 54: Assessing the value of additional support

Should trustees be required to assess the stressed value of any contingent asset? What other guidance do you think we should set out on the recoverable value of contingent asset support?

The stressed value may be important. Again, it depends on the type of arrangement and the risk it supports.

Question 55: Independent valuation

Should trustees always be expected to seek an independent valuation of contingent assets, or should it depend on asset value and/or type? If this should be based on value thresholds, how should these be defined? How frequently should we expect trustees to seek an independent valuation? Should trustees be expected to regularly monitor contingent asset value in the intervening period?

An independent valuation may be required, depending on the type or arrangement and how material it is.

Question 56: Guarantees

- a. Should we treat guarantee support differently to asset backed support?
- b. Should trustees rely on guarantee support to change the covenant grade assessment or do you think in these circumstances the supporting entity should become a statutory employer instead?
- c. Other mitigations – Can you think of any other types or arrangements which can help trustees mitigate risks?

We do not think a guarantor should be required to become a statutory employer. For example, it would not be appropriate to exclude from consideration a guarantee for the period of a recovery plan.

Question 57: Other mitigations Can you think of any other types of arrangements which can help trustees mitigate risks?

No comment.

Question 58: Reporting information on additional support

Is there any reason why it would be unreasonable to expect trustees to undertake the analysis and provide the information outlined above? Is there additional information that should also be provided to us?

This seems reasonable.

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August 2020