

## The Association of Corporate Treasurers

Comments in response to

### ***Pension Protection Fund (PPF) consultation on the Future Development of the Pension Protection Levy (ppl) Consultation***

August 2007

October 2007

### **The Association of Corporate Treasurers (ACT)**

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the end of these comments and on our website [www.treasurers.org](http://www.treasurers.org).

Contact details are also at the end of these comments.

We have canvassed the opinion of our members through our Policy and Technical Committee.

### **General**

We appreciate the opportunity to contribute to this consultation process.

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### **Response**

In principle the ACT welcomes the efforts made by the PPF in responding to levy payers. We recognise the difficulty for the PPF in addressing the needs of an enormously disparate collection of entities with differing skills and approaches to managing pension exposure. In some of the areas of the consultation however, specific comment is justified

- Although stability in the levy is an acceptable goal, the proposal should clarify that making any change in the levy as a result of a change in risk exposure should allow for *positive* improvements in risk as well as *negative* outcomes. It may be that the very largest and most intensively managed schemes will regard lengthening the estimated levy period as benefiting schemes that are unable or unwilling to manage their exposures more efficiently. This particularly apposite both for the levy periods of 08/09 & 09/10 and the general proposal to set the levy 12 months in advance of the start of the respective year. The ACT accepts that there needs to be time allowed after formal accounts are available for the PPF risk assessment process. However we feel that a form of 'fast-track' assessment should be available so that if material risk reduction actions are taken by a sponsor, they can expect to benefit from their action without inefficient time delays.
  
- The issue of the insolvency risk provider is perhaps more about process than selection. Although it is unlikely anyone other than D & B would be able to provide coverage of the 40,000 entities already reviewed, we feel that a number of changes in approach could be of significant benefit to levy payers.
  - 1) Where companies have ratings from recognised agencies they should be allowed to introduce them into their negotiations with either or both of the insolvency risk measurement provider and the PPF. We hold this view irrespective of any contractual relationship between the service provider(s) and the PPF. In our view, direct mapping of ratings into the insolvency probability would be problematic but not unworkable and would enhance stability for larger, more complex groups of businesses.
  - 2) We believe that, as a matter of good practice the service provider should be subject to a similar regime as ratings agencies under the *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies*.
  - 3) The service provider should be required to publish and explain all its relevant methodology and demonstrate its modelling process is fully adapted to the UK financial and business environment. The ACT feels that previous commitments to a transparent risk score and modelling process need updating to reflect the increasing experience of the service provider and the PPF
  - 4) The ACT supports the PPF's intention to move towards increasing the impact of longer term measurements of insolvency probability
  
- The PPF intends to review the scaling factor such that those schemes that present the greatest risk (most likely the largest/most under-funded) will have their levy increased. This is intended to incentivise a risk reduction approach by sponsors. However the consultation is not clear on how this would be achieved nor on how risk reduction would be measured. The ACT is therefore concerned that these schemes may seek to match the reduction process rather than adopt relevant risk reduction measures. We would hope that further consultation would be available on this proposal.

## The Association of Corporate Treasurers

The ACT is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences, publications, including *The Treasurer* magazine and the annual *Treasurer's Handbook*, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce professional service firms.

Further information is available on our website (below).

Our policy with regards to policy and technical matters is available at <http://www.treasurers.org/technical/resources/manifestosept2006.pdf>.

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