

Re: Pensions Protection Fund Risk-based Levy

Does your Company or your Group have a UK defined benefits pension scheme?

Last week the ACT put in comments to the Pension Protection Fund about the proposals for calculating the PPF levy, see <http://www.treasurers.org/technical/papers/pensions.cfm>. Serious issues may arise for scheme sponsors.

Two important issues are how the PPF will deal with support within a Group to a scheme or to a scheme sponsor or with external support (letters of credit, purchase by a scheme of credit default swaps on the sponsor, etc.).

These are difficult questions for the PPF. However, we are very concerned that:

> The PPF should take account of Group relationships and external credit enhancements etc. from the start of the insolvency-risk based levy and not after a year or more delay. Otherwise sponsors will be paying for a perceived credit deficiency which does not exist and this could be very expensive.

> The PPF should not require standard types of support or standard wordings in support arrangements. Existing arrangements are unlikely to incorporate such standardised features and not to give credit for them would again charge for a non-existent deficiency. Furthermore, support arrangements can be costly and companies and their advisers and the financial services industry should be allowed to give their imaginations free reign in producing cost-effective arrangements - and this would be choked by a requirement for standardised arrangements.

>The foregoing are potentially compounded by the intended use of the largest employing sponsor in a multi-sponsor scheme as the determinant of the credit standing for all sponsors in the scheme,
(See in our comments to the PPF re Chapter 5, Question 7 (pp 7-9), re Chapter 6, Question 1 (pp 9-10))

Another import point is that the probability of insolvency for a sponsor will be taken from the Dun and Bradstreet score. While credit rating agencies are required by the IOSCO Code Fundamentals to disclose their rating methodologies, Dunn and Bradstreet are not so required and so not publish their scoring methodology. They will, however, answer questions from a rated company about the rating of that company - contact their Customer Services team on 0870 243 2344. [To get a useful understanding can be time consuming; a quick start is to ask what are the limiting factors on the score.]

If your company has a defined benefit scheme it could be affected by these issues. If so and if the company has not already commented to the PPF, we would urge that it does so now - even though the formal comment period ended on Tuesday 4th October. Urgency is needed as the PPF intend to publish their conclusions at the end of November. The PPF proposals are available at http://www.pensionprotectionfund.org.uk/rbl_consultation.pdf and the ACT has prepared a summary we can send you if that helps.

To avoid confusion within organisations this note is being sent to a restricted number of members, however do please forward it on if pension related matters are dealt with elsewhere in your company.

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