Pension Protection Fund

The 2015/16 Levy Policy Statement

December 2014

Foreword

I am delighted to introduce our final policy statement, which concludes the consultation on the levy rules for 2015/16. Alongside this document the Board is making its Determination of the Levy Rules for 2015/16.

This marks the culmination of 18 months of work since we selected Experian as our insolvency risk services provider for the next triennium. We set out our main proposals for the next triennium in May and our conclusions on that consultation were published in October. Alongside that, we also published a further consultation on the detailed rules for 2015/16, including the Levy Scaling Factor and our expectation that this would lead us to collect £635 million.

As would be expected, given the previous consultation that so many of our stakeholders engaged with, our final Levy Rules are very substantially as published in draft in October. However, we have listened to our stakeholders and made a number of minor changes in areas where we believe this will enhance the model, such as amending the entry conditions for one of the scorecards and better reflecting the impact of part time employees.

This will mean changes for a limited number of schemes, but stakeholders can be reassured that in substance the model remains much as we set out in October, and the benefits of our switch to a PPF-specific model, in terms of a more predictive and transparent methodology, are maintained.

In addition to those areas where we have made changes, we have also set out in this response why we don't consider it appropriate to make other changes which were proposed by stakeholders.

Once again, I am grateful to our Industry Steering Group and to all those stakeholders who have taken the time and trouble to respond to our various consultations. Without doubt the new PPF-Specific Model, introduced from 2015/16, is much the better for their input.

Alan Rubenstein

Chief Executive

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1. Introduction and Executive Summary

1.1 Introduction

1.1.1 On 6 October we published our Triennium Policy Statement which set out the framework for the levy for the next three years. At the same time, we published our consultation document for 2015/16 and draft Determination (with supporting draft documents) setting out the detailed rules for next year's levy. This included the Levy Estimate for 2015/16, the risk-based scaling factor, the scheme-based levy multiplier and associated rules.

1.1.2 This document summarises the responses we received including on the limited issues we specifically asked for views on – the Asset Backed Contribution (ABC) Appendix and Guidance, the basis for a materiality test for mortgages and the extension of Type C contingent assets to include surety bonds. It also includes other issues raised that we have considered.

1.2 The Levy Rules (the Determination) for 2015/16

1.2.1 The Levy Rules that will govern the calculation of the levies for 2015/16, as specified in the Board's Determination under section 175(5) of the Pensions Act 2004, are published alongside this Policy Statement.

1.2.2 Together with the Levy Rules we have published six documents providing guidance for schemes on how to meet the requirements of the Levy Rules, and to explain how we expect to make use of the areas where the Levy Rules provide us with flexibility. These are:

- Guidance on Asset Backed Contributions
- Guidance on Bespoke Investment Risk Calculation
- Guidance on Block Transfers
- Guidance on Contingent Assets
- Guidance on Officer's certificates certifying secured charges and certain other matters
- The Levy Practice Guide

1.2.3 In addition we are publishing Officer's certificates certifying secured charges and certain other matters alongside this document.

1.3 Summary of Responses

1.3.1 We received a total of 64 responses to the consultation, which closed at 5pm on 13 November 2014. These were considered by the Board in determining the final Levy Rules.

1.3.2 We have set out the key themes raised, and the areas in which we have made changes to our policy below.

1.4 The Board's Levy Estimate

1.4.1 We announced in the consultation document that the Board had set a levy scaling factor of 0.65 and scheme based levy multiplier of 0.000021. We also announced that the Levy Estimate – the amount we estimated these parameters would raise – was £635 million for 2015/16. We also noted that the amount we collect in the second and third years of the levy triennium might be expected to fall if yields and asset values moved in line with expected projections from our modelling.

1.4.2 There were very few comments on the Levy Estimate or the parameters. Since we published our Levy Estimate we have seen the first set of scores collected by Experian for use in the levy and also seen movements in smoothed underfunding. However, we are unlikely to have a materially clearer picture of expected collections until after we have complete data in summer 2015. Accordingly, we are implementing the levy parameters as consulted on, and will keep the impact of the move to Experian and other factors under review for the second and third years of the triennium.

1.5 PPF-specific model

1.5.1 We confirmed in the Triennium Policy Statement that the PPF-specific model would be used as the basis for insolvency risk measurement. At that time, we made adjustments to the entry rules for scorecards and the way in which certain variables operated, to address issues raised with us.

1.5.2 As in the summer, many of the responses came from sponsoring employers of schemes and focused on specific aspects of the model that those responding believe do not reflect the circumstances of their business or sector – rather than challenging the overall approach - which retains wide support.

1.5.3 Whilst many of the points could have been made in response to the earlier consultation, we have given thought to the extent that, even at this late stage, it would be appropriate to take account of them. The main themes of those commenting on the PPF-specific model were:

- The allocation of employers to the eight scorecards - and in particular the entry rules around the Large and Complex Scorecard.
- Specific variables where data was considered to be either unrepresentative of the business or reasonably might be missing. In particular, comments focused on three variables that make use of employee numbers. These are recorded in UK accounts but not in all non-UK accounts. Additionally where numbers can be on a total employees or full-time equivalent (FTE) basis.
- The treatment of mortgages in the model - on which we consulted specifically in relation to materiality.

1.5.4 We have made limited changes to the rules for allocating entities to the Large and Complex Scorecard in response to the issues raised by stakeholders where we believe this will improve the model. This has resulted in us removing from this scorecard businesses that in substance are stand-alone businesses (i.e. all their subsidiaries are dormant), and a limited number of entities for which, because they submit smaller

companies accounts, key data used in the Large and Complex Scorecard is absent. However, as we explain in Chapter 2, the evidence does not support the contention made by some that smaller entities for which the relevant data is available are poorly scored by this scorecard.

1.5.5 In addition, we have arranged with Experian to allow non-UK businesses not having employee numbers captured from their accounts the opportunity to provide the information to Experian, and will allow entities publishing FTE numbers to opt to have these captured.

1.5.6 One of the areas explored in our October statement and consultation was the exclusion of certain types of mortgages from the mortgage age variable calculation (rent deposit deeds, charges in favour of the pension scheme and refinancing on the same or better terms).

1.5.7 We received a number of comments on our proposed exclusion of charges that were clearly refinancing with no increase in risk. Whilst comments received provided examples of "reasonable" refinancings that would not meet our test, it did not prove possible to design a more liberal test which would reflect stakeholder comments, without the risk of excluding charges that are associated with heightened risk. We have not, therefore, significantly altered the approach we set out in October.

1.5.8 We have concluded that we should exclude a charge on the grounds of immateriality in two circumstances:

- Where the company, or wider corporate group, has an investment grade credit rating or,
- Where the amount of the charge (or charges - if more than one is to be excluded) is less than 0.5 per cent of total assets.

1.5.9 Consistent with our policy for the first triennium, we begin from a clear preference for maintaining stable rules for a three year period, but given that 2015/16 will be the first levy year under the new insolvency risk model, if there is evidence of particularly problematic issues in relation to the model we may consider these before the end of the triennium.

1.6 Asset Backed Contributions (ABCs)

1.6.1 In the Triennium Policy Statement we indicated that, rather than restrict recognition of ABCs to those based on property, our approach would focus on ensuring valuation of the ABC was on an appropriate basis and that valuers recognise a duty of care to the PPF in their reports. This change in general approach was widely welcomed.

1.6.2 The draft Levy Rules included a revised ABC Appendix and we also published draft ABC Guidance and a voluntary certificate and specifically sought comment on these.

1.6.3 Around a quarter of those responding to the consultation commented on the approach planned for ABCs, primarily those from the advisory community. The comments focused on the Guidance, but also ranged more widely on the policy we set out in October.

1.6.4 The most commented on issue was the duty of care. A number of responses raised questions on how the duty of care would operate – we

have sought to clarify these in updating the Guidance. In particular we have amended the duty of care to focus more explicitly on the levy impact of an ABC, at the cost of a slightly longer clause.

1.6.5 A minority of responses objected to the principle of a duty of care arguing variously that it was unnecessary because the PPF was protected by the duty of care to the trustees or alternatively that it could be in conflict with that duty. However, our view remains that if the trustees' advisers aren't willing to stand behind their valuation it is reasonable that the ABC receives no recognition.

1.6.6 There were also questions raised about the approach to valuing ABCs for the levy, and what was seen as an implication that the insolvency valuation should be on a worst case basis. We have sought to clarify this in the Guidance, but continue to emphasise the valuation should be balanced and realistic basis – and not exclude adverse scenarios leading to failure.

1.7 Contingent Assets

1.7.1 In the Triennium Policy Statement we confirmed the introduction of 'realisable recovery' as the basis of certification of Type A Contingent Assets (group company guarantees) and a revised certification for trustees. We also confirmed the basis on which guarantors' levy bands would be adjusted to reflect the amount they are guaranteeing, though no adjustment would be made to guarantors who are ultimate parent companies.

1.7.2 A number of responses suggested that we should extend this concession to companies below the top of the corporate group. We have decided against doing so. In part this reflects our experience of reviewing the strength of guarantors, but additionally extending the concession would be complex – particularly in the context of this being a discretionary regime, the costs of which are spread across other schemes.

1.7.3 In this consultation we explained that we were proposing to extend the scope of Type C (ii) Contingent Assets to allow surety bonds to be recognised. This proposal was reflected in the relevant drafts of the Determination and Guidance. Additionally comments were invited on changes that would be required to the Standard Form.

1.7.4 There was support for this and we will be proceeding with recognising these for 2015/16.

1.7.5 We have clarified in the final Levy Rules that guarantees will only be recognised where it is possible to score the guarantor based on its own financial strength.

1.8 Other issues

1.8.1 Although there were only limited areas in which we specifically asked for comments, we received comments on a number of other issues.

1.8.2 These included either repeated or new issues concerning particular variables and on issues such as data hierarchy and transitional protection as well as detailed drafting comments. We have not made any substantive

changes in policy, but have picked up some detailed drafting points in the Determination and Guidance. For example, the date for reply to the scheme structure confirmation for Last Man Standing Schemes has been amended from 31 May to 29 May 2015 (the last working day of the month), which is covered in Chapter 3.

1.8.3 We have also made a change to the Levy Rules to reflect that the FTSE All UK Property Gross TRI will be discontinued at the end of 2014. An index is required for rolling forward the property assets for levy purposes and we have specified that from 1 January 2015 onwards, returns will be measured in line with the IPD UK Property TRI.

2. The PPF-specific model

2.1 Introduction

2.1.1 Our Policy Statement in October confirmed that the PPF-specific model would be used to calculate insolvency risk scores from levy year 2015/16 onwards. We explained that certain changes had been made in areas such as the basis for entry to the Large and Complex scorecard and to the way in which the value of certain variables were calculated in the relevant coefficient.

2.1.2 We made changes to the way in which mortgage age affects scores and decided that certain types of mortgages should be excluded from the calculation (charges in favour of a pension scheme, rent deposit deeds and mortgage refinancing on equal or better terms).

2.1.3 We invited comments on a further exclusion from the mortgage age variable. This was where the mortgage could be considered immaterial either on the basis of comparing the size of the mortgage to the size of the organisation or a test focusing on access to capital markets through an investment grade credit rating.

2.1.4 Although we specifically only asked for comments on this aspect of the model we received further submissions on issues we considered in the May triennium consultation and on new issues.

2.2 Summary of responses

2.2.1 As in the previous consultation there was little challenge to our core proposition that overall the Experian model offers improved predictiveness and greater transparency. The main concerns raised by pension schemes and their sponsors related to the model design and the use of certain variables.

2.2.2 The use and treatment of the mortgage age variable was commented on in 30 responses. We specifically invited comments on how the materiality of a mortgage could be judged, and received further comments on the situations in which we had previously stated that we would exclude charges from the measure (i.e. refinancing on same or better terms, those in favour of the pension schemes, and rental deposit deeds). We also received suggestions of additional exclusions.

2.2.3 Other aspects of the Experian model design received 18 responses, focused primarily on two areas. Firstly, specifically in relation to the Large and Complex Scorecard, responses questioned the appropriateness of the score generated for small and medium sized companies; and we received representations that companies filing consolidated accounts but not meeting the other requirements for the scorecard should still be scored on it. Secondly, particular variables were challenged, particularly those based on profitability and employee numbers.

Mortgage Age: Immateriality Threshold

2.2.4 We specifically invited comments on our proposals to exclude mortgages on the grounds of immateriality and there was widespread support for this.

2.2.5 We acknowledged in our October consultation that there was limited evidence on which to base a threshold below which a mortgage or charge could be assumed to be immaterial. As we also noted, the mortgage age variable is highly predictive and we are therefore only seeking to exclude new or recent mortgages that could not credibly reflect an increase in risk. We therefore chose a relatively conservative figure of 0.5 per cent of total assets.

2.2.6 Whilst a number of responses touched on the immateriality threshold – in most cases this was to note the lack of evidence on which to base a threshold. Some respondents suggested, though, that the proposed threshold of 0.5 per cent of total assets was too low. However, little evidence was offered in support of such arguments.

2.2.7 One alternative source of evidence for the impact of debt on credit risk is the work of credit rating agencies. A comparison with their approach suggests that the 0.5 per cent figure is not unreasonable (see text box).

2.2.8 Given the lack of persuasive evidence we have decided not to alter the materiality threshold.

Materiality: a Credit ratings comparison

We looked at "Debt to Assets" ratios used by external rating agencies as one of their inputs when assigning a credit rating in certain industries.

When using these ratios the rating agencies typically assign an acceptable "range" of scores for a particular generic rating category. Within a broad rating category agencies differentiate between those who are relatively strong, average, and relatively weak (AA+,AA, AA- etc. often referred to as "ratings notches").

An additional amount of debt which results in a change in a rating notch is clearly a material amount of debt. Looking at the debt to asset ratios we observed that the width of a "range" of scores for a broad rating category was typically around 10 per cent, so that a shift between two adjacent ratings notches might be around a third of this. If one assumes scores in a rating category are evenly distributed a change of half this size (1.65 per cent) would move half of entities down a ratings notch.

We are seeking to identify those mortgages that are clearly immaterial suggesting a substantially lower debt to assets figure than 1.65 per cent, and supporting the 0.5 per cent threshold suggested in our consultation.

2.2.9 One further change made has been to address a point raised by a stakeholder in respect of charges may be registered against a business in its role as trustee for SIPP investment products. These can now be certified as immaterial.

Overdraft Facilities

2.2.10 Where there is a mortgage or charge in relation to an overdraft facility it was suggested that for the purpose of the immateriality threshold we should consider only any drawn amount.

2.2.11 It was argued that any undrawn amount provides additional liquidity and so if anything has a positive impact on a company's financial strength. A drawn amount on the other hand constitutes a debt obligation, like a term loan.

2.2.12 We are sympathetic to this argument and have decided that for the purpose of the immateriality test we will look at the maximum amount drawn under the overdraft facility at any time over the past 12 months.

Investment Grade Credit Rating

2.2.13 We asked for views on whether all entities with an investment grade credit rating should have their mortgages disregarded as they were likely to be in respect of ordinary course of business activities with no implications in terms of risk (on the basis that any substantive borrowing would come from capital markets).

2.2.14 The feedback received was mixed, with just over half in favour. Those against excluding mentioned the inconsistency with the general decision not to use credit ratings as a means of assessing the insolvency risk of the largest employers/guarantors and the need to adjust from default risk. Those in favour highlighted the access to liquidity implied by the presence of an investment grade credit rating.

2.2.15 After careful consideration we have taken the view that the presence of an investment grade credit rating does provide a very strong indication of such a company having access to capital markets and, hence, any mortgage or charge being less predictive of insolvency risk.

2.2.16 We are extending the proposal in the consultation (which only applied to entities directly rated) as we recognise that groups might have a designated entity in the group which acts as a treasury centre to access capital markets, and which therefore obtains an external rating. Accordingly, we treat all mortgages as immaterial if:

- The relevant Employer has an investment grade external rating[1], or

[1] We define external rating for a particular entity as a solicited long term unsecured issuer rating provided by one of the three main rating agencies, Standard & Poor's, Fitch ratings and Moody's Investor services. A credit rating is investment grade if it is BBB- or better when the rating agency is S&P or Fitch or Baa3 or better if the agency is Moody's.

- The Employer is not rated but another member of the Employer's Group has an investment grade external rating and there are no rated entities in the group that are sub-investment grade.

2.2.17 Where there are multiple ratings, if two of the rating agencies provide a rating for a particular entity the lower of the two applies, or if three the middle rating. This is a change from the illustrative drafting in the October draft Levy Rules, but is an industry standard approach and is consistent with the approach we proposed when looking at credit ratings as an alternative to the PPF-specific Model in May.

Mortgage Refinancing

2.2.18 There is wide support for the proposal to give special consideration for a situation where an existing mortgage is refinanced as part of a company's ongoing business.

2.2.19 Under the approach set out in October this is judged to be the case if three tests are being met:

- no increase in amount borrowed (relative to the sum released)
- no increase in periodic instalments of the principal and
- no increase in the interest rate applied (looked at immediately before and after the refinancing).

2.2.20 A number of comments were received which argued the above tests were too restrictive. With respect to the change in the amount borrowed some respondents felt that more consideration should be given to its relative size (e.g. by allowing for the growth of the company, adjusting for any cash balances).

2.2.21 With respect to the interest rate test some feedback highlighted that changes in interest rates can be due to factors other than distress (e.g. the general interest rate environment or a change in funding cost of the lender).

2.2.22 As we pointed out in our October statement, the mortgage age variable is highly predictive and we are only seeking to exclude new or recent mortgages that clearly do not in any sense reflect an increase in risk. We have considered whether increased flexibility could be introduced to the tests through for example a company officer's statement that the refinancing is part of the company's on-going business and not a reflection of distress or a deterioration in credit quality. However we found it very difficult to create a specific and robust definition that covers the mortgages we want to cover and excludes those we don't. Such an approach would be subjective and would risk inconsistent treatment depending upon the approach of the person certifying.

2.2.23 We have therefore decided to retain the basis for exclusion that we set out in October, though we accept that this may have limited applicability. We have however defined the interest rate test so that either the interest rate must be the same or better, or the formula governing the interest rate must be the same or better (which may help address fluctuations in benchmark rates in some cases).

Other Mortgage Issues

2.2.24 We noted in our October consultation that we lack data on non-corporates' use of secured charges and were considering whether it was appropriate to apply a neutral score. We received no representations on this. We have concluded that we should apply a neutral score – as we do for overseas entities where it is not practical to source data.

2.3 Large and Complex Scorecard

2.3.1 A couple of comments were received with respect to the Large and Complex scorecard. These mainly concerned circumstances where those responding felt that it was not appropriate for them to be scored on this scorecard but also included some who felt that companies filing consolidated accounts should remain scored under the re-named Large and Complex Scorecard.

Ultimate parent companies

2.3.2 It was questioned whether it was appropriate that an ultimate parent with only dormant subsidiaries is scored under the Large and Complex Scorecard. If an ultimate parent is the sole trading entity in a group (i.e. all directly and indirectly owned subsidiaries are dormant) we have decided that it should be scored on the appropriate independent scorecard.

2.3.3 It was suggested that where any active subsidiaries were very small they should be disregarded and the ultimate parent assessed in its own right as an independent entity. We have decided not to make the change requested as we don't have a sufficient evidence base upon which to test when subsidiaries become material to their parent and so it is unclear what the threshold for small would be. Therefore in these circumstances the ultimate parent will remain scored on the Large and Complex Scorecard.

2.3.4 It was also suggested that where an ultimate parent's sole business activity is to act as a holding company and it directly owns a single operating entity, the ultimate parent should be ignored, with the trading subsidiary treated as the head of the group or an independent business as appropriate. In practice it would be difficult to set an objective test that would identify holding companies that legitimately ought to be excluded – even if such a class exists. For example, we would need to be certain the strength or weakness of the holding company could have no impact on the subsidiary. We therefore think it would be inappropriate to exclude ultimate parents from assessment because they are just holding companies and will continue to assess them on the Large and Complex Scorecard, and score their subsidiaries in accordance with our general rules.

2.3.5 We received feedback in relation to ultimate parents that are scored on the Large and Complex Scorecard but who file abbreviated accounts (defined as SME Accounts in the Determination). These types of accounts do not include turnover/profit figures that are used in several of the variables in the Large and Complex Scorecard.

2.3.6 Currently there are about 150 ultimate parents which file abbreviated accounts and are assessed under the Large and Complex Scorecard. Due

to the absence of information relating to certain variables on the Large and Complex Scorecard we have decided that these companies will be assessed under the Independent Small Scorecard (whilst these entities are clearly part of a group, since they are the ultimate parent, they would also be missing the parent strength data needed for scoring on the Group Small Scorecard).

Scoring of smaller companies

2.3.7 A number of respondents noted that size related variables like Capital Employed (weighting 32.7%) and Turnover (weighting 16.7%) have a material impact on the companies scored on the Large and Complex Scorecard. It was argued that the Large and Complex scorecard discriminates against smaller companies more generally (i.e. not just those that file abbreviated accounts).

2.3.8 We have explored with Experian whether the Large and Complex Scorecard is inappropriately scoring smaller companies. To do this, we compared the observed insolvency rate of companies of different sizes with that predicted by the model for those groups, and Experian also calculated Gini coefficients for different groups. We found that there was no evidence of disproportionately harsh impacts for smaller entities and that Gini coefficients varied from good to excellent[2].

2.3.9 Our conclusion, therefore is that statistically, smaller companies scored under the Large and Complex scorecard are riskier compared to the rest of the population for that scorecard. As such, the lower scores for smaller companies are correctly reflecting their higher risk.

2.3.10 We therefore concluded that the Large and Complex Scorecard is appropriate for scoring companies that are ultimate parents of a group even if they are relatively small.

Employers transferred off Large and Complex Scorecard

2.3.11 Two respondents argued that we should allow companies that had consolidated accounts, but were neither large nor ultimate parents, to remain on the Large and Complex Scorecard.

2.3.12 We explained in the October Policy Statement that we had identified the risk of manipulation as being significant for this scorecard and had therefore decided that consolidating accounts should not, in isolation, allow a scheme to be on the Large and Complex scorecard. We also explained that the change we made had marginally improved the Gini coefficient, suggesting that moving these employers did not mean they were scored less accurately.

2.3.13 We have therefore concluded that the submission of consolidated accounts in isolation should not be a criterion for entry to the Large and Complex Scorecard.

[2] For companies with turnover up to the £6.5 million it was 0.55, compared to 0.68 for the scorecard as a whole. We have not published a full table of Gini coefficients by turnover group as in some ranges the number of failures makes the results of limited statistical value, but this issue does not arise for lower turnover

Non UK Employers and the Large and Complex Scorecard

2.3.14 The development of the model was carried out using UK data. It was, however, anticipated that non UK entities were likely to be appropriately placed on the Large and Complex Scorecard (and its predecessor) by virtue of being an ultimate parent (or above the size threshold). Overseas companies were therefore allocated on a default basis to the Large and Complex Scorecard.

2.3.15 We have reviewed this treatment and decided that it may not be appropriate in all cases so have sought a solution which will allow appropriate scoring for all non-UK companies within the constraints implied by the availability of data for non-UK companies. Accordingly, if the non-UK company provides Experian with evidence in its accounts that it neither meets the size thresholds nor is an ultimate parent and also provides sufficient details to allow Experian to properly assign it and, (where that would be to a group scorecard) properly calculate the parent strength variable (i.e. consolidated accounts of the ultimate parent), then Experian will allocate the company to the appropriate alternate scorecard.

2.4 Not-for-Profit Scorecard

2.4.1 We received a small number of additional comments in relation to the Not-for-Profit (NFP) scorecard, largely relating to the possible inclusion of specific employers or types of employer on the scorecard.

2.4.2 Having considered those comments we have included one new category of NFP employer in Rule E3.1(8)(a) to bring registered political parties and certain related organisations onto the scorecard.

2.4.3 We have also made some minor changes to the drafting of the test under Rule E3.1(8)(b) to allow it to capture employers whose constitutional documents have the effect of preventing the relevant distributions, even if they do not include the express prohibitions previously required.

2.5 Individual Scorecard Variables

Parental Support

2.5.1 The Large and Complex scorecard does not include parental strength as a variable. A number of respondents argued that this disadvantages large companies which are part of an even larger group.

2.5.2 Practically speaking it would be difficult to include a variable focused on parental strength for this population. For most of the companies on the Large and Complex Scorecard the issue does not arise, as they are ultimate parent companies, and as a result we do not have a sufficient evidence base of companies to be able to develop a variable. To include a variable on the strength of extrapolating a presumed effect from that observed amongst smaller businesses would be of doubtful statistical validity, and could also serve to increase levies for other levy-payers – in a circumstance where those levy-payers have no opportunity to comment upon the change. It is not even clear that such a change would benefit all

those in this position (as the parent strength variable can worsen as well as improve an employer's score).

2.5.3 Moreover, if a group does wish the strength of the ultimate parent to be taken into account the Levy rules provide a mechanism for this to be achieved - by putting a parental guarantee in place. Depending on the circumstances of the ultimate parent this could offer a far greater benefit in levy terms – and offer substantial comfort to the trustees – because of the legally binding commitment of the parent.

Employee number related variables

2.5.4 In the model the total number of employees is used as the denominator to calculate three ratios:

- Average Remuneration per Employee (9.1 per cent weight in Group Members £50 million+ turnover Scorecard)
- Capital Employed per Employee (16.7 per cent weight in Group Members £10-50 million Scorecard)
- Sales by Employee (5.4 per cent weight in Large and Complex Scorecard).

2.5.5 Certain sectors employ significant numbers of part-time staff and it has been argued that Full Time Equivalent (FTE) numbers should be used in the calculations. We accept that where accounts include an FTE number there should be an option for the entity being scored to request they are used. The company should apply in writing to Experian.

2.5.6 For entities where employee numbers are not included in the accounts, if the company wishes to certify an employee figure (on a full-time or FTE basis), Experian will accept a certificate from the employer's auditor.

Profit Adjustments

2.5.7 Some respondents argued that exceptional items in their accounts should be disregarded when calculating scores. In particular it was argued that these could negatively affect profit related variables. It was also argued that we should allow adjustment where pre-tax expenses were argued to be equivalent to post-tax dividend payments.

2.5.8 We do not believe this would be appropriate. We are not persuaded that it is generally true that exceptional items are unrelated to the strength of the business. To distinguish between cases where they were connected to business strength and where they weren’t would involve complex and subjective judgements out of keeping with the approach we have taken to developing the model, and inevitably lead to inconsistent treatment. Therefore we are not making changes in relation to these points. Similarly, we consider it would be complex and subjective to seek to add back pre-tax payments to profit.

Creditor Days

2.5.9 Three respondents questioned whether a nil trade creditors figure should result in an unknown score for the creditor days variable. Accounts data difficulties (principally that those submitting data may leave a data item blank when it is zero or report a zero when a data field is blank) mean that it is not possible operationally for Experian to distinguish between cases

of missing data and genuine zero entries in accounts. Although generally, reduced creditor days is seen to be indicative of a reduced risk of insolvency, we do not believe this necessarily means that having no trade creditors means that companies are lowest risk. It suggests that companies such as this are untypical of the general scorecard population and so the treatment of such results as unknown is reasonable.

2.6 Model Assurance

2.6.1 Drafting the levy rules to match the detail of the model calculation was a complex task. As a result we considered it was appropriate to obtain external assurance that the Levy Rules as drafted and the outputs of the model were consistent. We engaged Barnett Wadingham to calculate scores independently – based on the draft Levy Rules – and compare the results with those provided by the Model. Doing so identified a limited number of differences, and these have either been reflected in a redrafting of the Levy Rules or a minor adjustment to the Model.

2.7 The Board's Confirmed Policy

2.7.1 The mortgage immateriality test will be based upon 0.5% of total assets and this will be assessed on the basis of the aggregate value of all mortgages certified. We are also publishing the finalised versions of all mortgage certification forms which should be submitted to Experian by 5pm on 31/03/15. Providing they meet the criteria for any of the exclusions and the guidance has been complied with, scores will be re-calculated for all relevant monthly scores counting for 2015/16 averaging (October 2014 to March 2015).

2.7.2 If there is a mortgage or charge which relates in whole or in part to an overdraft facility, the amount of that overdraft will be assessed by reference to the maximum amount drawn at any one time under such overdraft facilities over the past 12 months. Otherwise, the full amount of the facility will be taken.

2.7.3 Charges will be ignored for the Mortgage Age variable if either (i) the employer has an investment grade rating or (ii) any entity in the group has an investment grade rating and no rated entity in the group has a non-investment grade rating.

2.7.4 A charge will be excluded if the mortgage is being refinanced and there has been no increase in the amount borrowed (compared with the amount outstanding) and the interest rate and regular payments are not higher.

2.7.5 Companies can request that Experian use the company's Full Time Equivalent ("FTE") accounts number to calculate employee related variables. Non-UK companies can provide an auditor's certificate to allow Experian to use total or FTE employee numbers.

2.7.6 If an ultimate parent is the sole trading entity in a group (i.e. all directly and indirectly owned subsidiaries are dormant) it will be scored on the relevant Independent Scorecard instead of the Large and Complex Scorecard.

2.7.7 Ultimate parents which file abbreviated accounts will no longer be assessed under the Large and Complex Scorecard. Instead they will be scored on the Independent Small Scorecard.

2.7.8 The entry rules for NFPs have been adjusted to include political parties. UK non-corporate entities will receive a neutral score on mortgage age.

3. Customer Service

3.1 Experian Portal

3.1.1 In the second triennium Policy Statement we explained that the Experian portal was being re-launched and we explained the timetable that Experian were working to for adding new data sources.

3.1.2 Scheme and employer representatives are continuing to engage with their Pension Protection Score ("PPS") using the PPF/Experian web portal. Experian have now secured financial data from a wider range of sources, meaning that portal users can view scores for not-for-profit bodies including registered charities, universities and housing associations.

3.1.3 Experian have also improved the sourcing of data for non-UK companies, meaning that it is possible to identify and score overseas employers better than before. Countries where data[3] has been sourced include:

- the United States;
- France;
- Germany;
- Netherlands;
- Japan;
- Switzerland;
- Belgium;
- Sweden;
- Luxembourg; and
- Republic of Ireland.

3.1.4 If stakeholders are aware of cases where data is still not being sourced then it is important that they engage with Experian on this. If data is not available from one of the permitted sources from which Experian capture data, stakeholders can submit it by providing accounts. Stakeholders should take particular note that Guarantors will only be scored (and credit given) if accounts for the guarantor itself are available.

3.1.5 We continue to receive requests to be provided with indicative industry averages, suggesting that in some cases consideration is being given to witholding data in the hope of benefitting from an average score. We would reiterate that this is not an appropriate consideration – all schemes should receive a levy that reflects the insolvency risks of their employer(s) and we want to work with schemes and advisers to ensure this happens. In future years, we may take action to ensure that schemes do not benefit from failing to submit data.

3.1.6 Initially, the information on the portal was based on the static dataset of employers and guarantors taken from tPR's Exchange system as at 31

[3] Note, this is not the case for mortgage data, which can only be captured from a small number of countries – see 3.2 below.

March 2014, meaning that scores for employers added since then would not be visible. From October onwards, updates to the employer data on Exchange are being forwarded to Experian on a monthly basis, meaning that changes to employers and guarantors will be reflected on-screen when users log on to the portal.

> If an employer or guarantor is missing from your scheme's report on the portal, or if one has left but is still showing, you should check your scheme's details on Exchange in the first instance and amend them, if necessary, before informing Experian. You should follow the same procedure if the employer's details have changed in some way – for example, if the company name or address has changed.
>
> **Please note that if an employer leaves your scheme and is replaced by another, you should remove the departing employer first, rather than overwriting its record in Exchange with the new employer's name, address and other details. This will help to ensure that the new employer is picked up correctly by Experian.**

3.2 Mortgage age

3.2.1 As we stated in our October Policy Statement, some types of mortgage will now not feed into your scheme employer's PPS. If your scheme employer has a rental deposit that Experian have been able to pick up, the corresponding mortgage age variable will already be disregarded from its PPS, and you will have been able to see this reflected on the web portal.

3.2.2 If you have a secured charge relating to a rental deposit that Experian have not yet excluded, or if you have one of the other categories of excluded mortgages we have identified, you will able to certify this to Experian. Please note that, whilst Experian is seeking to proactively identify rental deposits, it is your responsibility in all cases to ensure that you certify to Experian any mortgages you wish to have excluded, so you should not rely on Experian picking up rental deposits.

3.2.3 For non UK mortgages where mortgage data is not available, and for UK non-corporate employers, portal users will see the word 'Default' in place of the mortgage age value when they use the What If feature. This indicates a 'neutral' value. However from December onwards, Experian will be sourcing mortgage data for the following countries and territories. When received, this new data will initially be reflected in scores going forward but will be retrospectively applied to October and November scores:

- Australia
- Gibraltar
- Hong Kong
- India
- Isle of Man
- Malaysia

- New Zealand
- Singapore
- Ireland

3.2.4 Consultation responses included suggestions about other countries where data might be available, for example the United States. However, our investigations with Experian have indicated that it is only practical to source mortgage data for countries and territories listed above. In particular in the case of the United States, filing requirements differ from state to state, they do not generally show whether any of the properties are under mortgage. Sometimes partial information can be found but overall it will not be of great use as it would not provide a full and current picture.

3.3 Experian data cut off dates

3.3.1 In order to give schemes as much time as possible to voluntarily provide accounts to Experian, the data cut-off date for October 2014 scores was set as 31 October 2014, rather than one calendar month before the cut off as for other monthly scores. Therefore, all data received by 31 October 2014 – whether sourced by Experian or provided by self-submission – will be taken into account in the October scores that feed into the levy calculation. In cases where Experian were not able to process the data before November, scores will be impacted retrospectively, although as with mortgage data, this will not be visible on the portal until it is refreshed.

3.3.2 For all later months the cut-off date for data to be included in a score will be one month prior to the scores measurement date.

3.4 Associated Last Man Standing schemes

3.4.1 Our last Policy Statement announced our new requirement for Last Man Standing (LMS) schemes. For the 2015/16 levy year, we will require them to confirm that they have legal advice confirming their structure. Accordingly after 31 March 2015, all schemes that have been classified as LMS on their scheme returns will receive an email from the Pensions Regulator (tPR), requiring them to confirm that they have received 'Appropriate Legal Advice' from an 'Appropriate Solicitor'[4], confirming that the current scheme rules do not contain any requirement or discretion for the trustees to segregate assets on cessation of participation of an Employer. This will make clear that where Trustees can be required to segregate assets at the option of another party, that this test is not met.

3.4.2 Schemes will have until 29 May 2015[5] to respond to the email. In the event that a scheme has not confirmed that it has received the necessary

[4] See Rule E6.2 of the 2015/16 Determination.

[5] Amended from 31 May 2015 as set out in the Policy Statement on the Second Triennium

legal advice by that date, it will be given a scheme structure factor of 1 for levy calculation purposes[6].

3.5 Measuring customer satisfaction

3.5.1 In October we also began collecting data on customer satisfaction with the Experian service using an independent online survey provided by Satmetrix. We are committed to developing and maintaining an excellent level of customer service, and working closely with Experian to ensure this. We are also engaging with schemes via their advisers, in order to address any potential concerns as they arise.

3.5.2 For the future, we are looking to improve customer satisfaction ratings and will incorporate Experian satisfaction data in our own Key Performance Indicators on customer service for 2015/16.

[6] This is the same scheme structure factor as for a scheme whose rules permit or require segregation on cessation

4. Asset Backed Contributions

4.1 Introduction

4.1.1 In the October Policy Statement we set out our revised approach to incorporating Asset Backed Contribution (ABC) arrangements in to the levy, reflecting responses to the May consultation.

4.1.2 As we indicated then, we remain committed to ensuring that ABCs are not given undue weight in the Levy. Whilst these arrangements may not be employer-related in a narrow legal sense, the insolvency of the employers/those in their group is likely to be highly relevant to their value and the risks associated with investments of this nature are therefore likely to be higher in the PPF context.

4.1.3 Our aim was to ensure the value recognised for levy purposes more closely reflected what the investment might be worth in the situation relevant to the PPF (i.e. where the employers/PPF guarantors have suffered an insolvency event).

4.1.4 Accordingly, in our October consultation document we said that we would expect pension scheme trustees to certify the lower of a value on an insolvency basis and the fair value reported in the most recent scheme accounts. We also indicated that we would allow coupon payments made after the s179 date up to the “as at” date of the most recent accounts to be certified.

4.1.5 We also indicated that there would be no restriction in principle of the type of underlying asset of the ABCs we recognised. However, we set out a required approach to valuation, prepared on a basis on which the pension scheme trustees and the Board can rely, in the absence of which (or in circumstances where the Board considers the value to have been overstated based on its guidance) the value attributed would be zero.

4.1.6 We said we would require the trustees to certify any ABC on the basis of a report on the value of the investment from an appropriate professional, with professional indemnity cover (with limits on liability at an appropriate level) and with input from other professionals, as appropriate.

4.2 Responses to the October consultation

4.2.1 We received 14 responses on the treatment of ABCs through the consultation – primarily from advisers - and in addition captured comments during meetings on ABCs with legal and actuarial firms. The main issues raised were in respect of the proposed duty of care to the Board and the process to be adopted to arrive at an insolvency valuation for an ABC.

Duty of Care

4.2.2 A few responses argued against a requirement for a duty of care. It was suggested that there was already a duty of care to the trustees of the relevant schemes, which would be inherited by the Board if a scheme

transferred to the PPF. However, our primary intention in seeking a duty of care is to protect the PPF (and therefore, indirectly, other levy payers) from losing levy due to the value of the ABC being overstated. We think this is a different loss to any loss the scheme suffers, since the scheme will generally benefit if the levy is lower. And it will certainly provide a more direct obligation, which is likely to be more effective in encouraging prudent valuation.

4.2.3 More generally, we think it is reasonable to expect those providing the valuation for the trustees to stand behind those values, if they are to be used in calculating the scheme's levy.

4.2.4 We received some responses suggesting a duty of care to the PPF could conflict with the duty of care to the trustees or that practically it would be difficult to get clearance for extending a duty of care to the PPF, either from internal risk committees or insurers. However, we consider that the concept of valuers or other advisers providing advice which recognises a duty of care to a third party is a well-established one. It is referred to in RICS Valuation - Professional Standards (the "Red Book")[7] and the PPF has experience of such duties of care being offered both in relation to contingent asset legal opinions and for valuations in an insolvency context.

4.2.5 Requests for clarification of the guidance focused on the scope of the duty of care, how to deal with advice from more than one adviser, and the extent of liability (was it the shortfall in ABC value or the levy lost). We have clarified these in our Guidance.

4.2.6 In particular, whilst we expect a duty of care to apply in relation to all of the information used in producing the valuation (with the exception of a fair value drawn directly from the accounts) we do not wish to be prescriptive about the way in which the provision of advice is structured – and are not necessarily expecting advisers to offer a duty of care for other advisers' inputs. Rather, if they are making use of others' reports to trustees (and do not wish to accept responsibility for them), they must ensure that this advice includes the duty of care to the PPF. We have also addressed the capping of liability that is permissible – and indicated that we will expect it to be consistent with market norms – but that we are likely to look particularly at valuations with liability capped below £1 million.

4.2.7 We consider that a short standard form of words on liability to the Board set out in the ABC Guidance should be used for this purpose, to avoid the Board having to assess individual reliance wording. Following comments on the form of words for the duty of care, we have revised these to be as follows:

1.1.1 [7] The latest edition, January 2014, includes references to duty of care and reports "upon which third parties may rely" in several places. In particular, Professional Standard (PS) 2 "Ethics, competency, objectivity and disclosures" discusses in section 6 "Duty of care to third parties" and section 8.1 covers the "Disclosure requirements"

"We also acknowledge that our advice will or may affect the amount of the PPF Levy which is collected by the PPF Board, and we accept a duty of care to the PPF Board in giving that advice, and further acknowledge that it may be relied upon for the purposes of calculating the PPF Levy (subject to the limits on liability set out at paragraph [X])."

The change in wording is intended to make the duty of care more easily understood by a range of audiences, rather than to alter the obligation created – though it does make explicit that liability to the Board is focused on the PPF levy impact of the ABC.

Valuation

4.2.8 Some responses sought clarification as to whether in practice the insolvency valuation of the ABC had to be assessed on a "worst case" scenario. There were also concerns as to how feasible it would be to assess all insolvency scenarios, and to assess cases where the possibility of imminent insolvency was practically nil.

4.2.9 In drafting the October statement and the Guidance, references to what the trustees could reasonably rely upon receiving were not intended to force a focus on an absolute worst case but to prevent an assumption that insolvency occurs as a result of "benign" circumstances – for example an assumption insolvency is unconnected to the fundamentals of the business.

4.2.10 A few responses argued that double counting might arise as the proposed valuation requires two types of stress, insolvency and our standard adjustment to reflect asset stresses, to be applied to the valuation and it was not clear what and when relevant stresses should be applied. We think there is little need for these aspects of the valuation to overlap, and have adjusted the Guidance to make clear that the issues of insolvency value and asset stressing should be considered separately. We consider the former reflects what an asset is worth in a distressed sale in the current market, the latter how the value of assets may vary over time.

4.2.11 We were asked whether the Board would consider implementing a simplified procedure in the valuation of an over-collateralised asset with a clear market value and strong contractual trustee protections such as step-in rights. We agree that the complexity of the valuation process ought to be strongly influenced by the complexity of the structure and the ABC asset. However, at this stage, we are not minded to seek to design separate valuation processes. We believe that following the standard procedure for an over-collateralised property-based ABC should be straightforward. Our view is that the existing requirements should remain and there is no need at this stage for simplification, which would risk reducing our level of reassurance as to the strength/value of the arrangement.

4.2.12 A few stakeholders suggested that the fair value should be calculated rather than taken from the audited accounts on the basis that the accounts figure could understate value in some cases (i.e. the discount rate being adjusted to reflect employer insolvency risk and also the possibility that coupon payments are suspended due to funding caps having been exceeded).

4.2.13 This would add complexity and cost, but we have taken the view that it should be open to the Trustees to obtain a revised fair value which removes credit risk, without there being an obligation to do so. In such a case the calculation would need to be supported by advice supplied with a duty of care to the PPF as do other components of the ABC valuation. Our view though is that it would be inappropriate to allow credit for more than the fair value in respect of potentially suspended coupon payments as this would allow the construction of arrangements that, in economic effect, were identical with Type B contingent assets without meeting the Board's requirements for Type B contingent assets to be evergreen.

4.2.14 Queries were raised on whether an ABC can be recognised before it has been included in scheme accounts (on the basis that ABCs start protecting the scheme from the day they are in place). We accept that such arrangements should be eligible for recognition and the 'fair value' would be the asset recognition value provided to the trustees at the inception of the arrangements providing an auditor can provide an 'Agreed upon Procedures Report', which is a form of negative confirmation that there is no reason to think the valuation is not reasonable. Alternatively, trustees could commission a special purpose set of accounts. We considered whether we should require fresh accounts to be produced to gain recognition but did not believe this was proportionate, not least since the value will be captured in schemes accounts in the following year. The scheme would still need to obtain the insolvency valuation in the normal way.

Partially Funded ABCs

4.2.15 All the ABCs we are aware of to date have been fully funded by the employer group, but it is conceivable that in the future arrangements may be put in place where part or all of the funding of the SPV comes from existing scheme resources. To the extent that the scheme is funding these, then allowing recognition for these in advance of their being included in a s179 valuation would double count both the investment value and any coupon payments. The complexity of accounting for this accurately has led us to conclude that the most appropriate approach is to provide that such arrangements should not be certified to us in advance of their being included in the s179.

Certifying coupon payments

4.2.16 In our October statement we proposed that coupons could be certified up to the date of the scheme accounts – to allow a return on the asset. The scheme accounts date was chosen since any later payments would be reflected in the ABC's fair value at that date – and there was the potential for double counting the payments. Whilst agreeing that this was generally appropriate, stakeholders asked us to consider whether coupons from ABCs that were certified with nil value could be included on the certificate up to the date of the certificate - since in this case there could be no double counting. Whilst this makes the certificate marginally more complex, we have changed the Levy Rules to allow this.

Other

4.2.17 A few stakeholders raised issues with our stated requirement for security rights in the form of fixed charges over the underlying ABC asset where the ABC structure was a loan note issued by an Employer or group company – which they argued might be inappropriate in that trustees would normally only require negative pledges on adverse dealing with the ABC asset, where the asset was held in an SPV. We have considered this and have removed this requirement. However, we will require legal advisers to look closely at the particular structure in question and whether it provides any extra security to the trustees when giving advice for the purposes of valuation.

4.2.18 A request was made for us to clarify the treatment of DRCs previously certified with an ABC element. Our position remains that where the special contribution made to purchase the investment in the ABC (or any coupon payments) have previously been certified as a DRC, that DRC Certificate will not be carried forward for the 2015/16 Levy year. Any new DRC certificates should not include the special contributions made to purchase the investment in the ABC (since this will not reflect its value as per our requirements), or any coupon payments (since these are not payments from the employer but investment returns to an asset of the scheme and will be dealt with as described above).

4.3 The Board's Confirmed Policy

4.3.1 The Board's requirement that a duty of care from valuers/advisers will continue to be required on the basis that the Board's loss will include levy foregone. The duty of care will need to be given by each adviser/valuer (for their element) directly to the Board in the absence of a lead adviser taking on responsibility and providing a duty of care for all (where there are back to back contractual terms in place). The level of professional indemnity cover and limits of liability in respect of that duty of care to the Board should be in line with industry norms and we will look critically at situations where the cap is less than £1m. The duty of care will not extend to the provider of the "fair value" in the accounts unless the fair value has been adjusted to take out any credit risk.

4.3.2 On the valuation terms, we have clarified in the ABC Guidance the requirements for valuation on the basis that a balanced and realistic basis to calculating the insolvency value does not mean using the lowest possible insolvency value (except where the circumstances warrant it).

4.3.3 We will continue to require the application of the relevant stress factors to that value, and confirm that the investment risk stress should be applied after the insolvency valuation has been calculated. We have added material on appropriate categorisation of underlying assets to the Guidance.

4.3.4 Fair value can be adjusted upwards to take out credit risk but not to remove allowance for coupon payments being suspended.

4.3.5 It will be acceptable to provide an "Agreed upon Procedures Report" signed by an auditor to support the certificate where an ABC is established after

the date of the scheme accounts, so that the ABC can be recognised immediately provided that the funding used in the ABC does not come from the scheme (i.e. it must be 100 per cent from the employer group).

4.3.6 Coupon payments received where a nil value is declared on the ABC Certificate in in respect of an ABC can be included in the certificate up to the date of the certificate, whereas Coupon payments where a positive insolvency value has been included on the certificate can only be given credit for up to the date of the last scheme accounts to avoid double counting.

5. Contingent Assets

5.1 Introduction

5.1.1 Our Triennium Policy Statement confirmed the changes we were introducing for Type A Contingent Assets from 2015/16. These were the introduction of a fixed sum basis of certification (the Realisable Recovery) and the adjustment of guarantor scores (except where the guarantor is an ultimate parent) to reflect the impact the guarantee amount would have on the guarantor's gearing if it was called upon.

5.1.2 These changes, and the work that we are doing to test guarantees that are certified, reflect that we are committed to ensuring that the guarantee regime is not exploited. This should not be interpreted as implying that we wish to dissuade sponsors from putting in place arrangements that are genuinely risk reducing, or that we will not reflect their value in the levy.

5.1.3 We also published revised standard forms and proposed a limited extension to the scope of Type C (ii) Contingent Assets – to allow surety bond based arrangements to be certified.

5.2 Responses to the consultation

Realisable Recovery

5.2.1 Responses to the May consultation were mostly supportive of the proposed change to a "Realisable Recovery" as the basis of certification together with a positive form of wording for the certification.

5.2.2 In this consultation we received a small number of responses commenting that the requirement to certify a fixed amount would make the certification process more burdensome for trustees, who may assume they will need to carry out an insolvency analysis of the guarantor.

5.2.3 One respondent also commented that the proposed certification would increase the cost for schemes as they would need to spend more time considering what fixed amount would be appropriate.

5.2.4 As stated in our Triennium Policy Statement, we do not consider that the move to a "Realisable Recovery" certification will make the certification process more complex or costly for trustees.

5.2.5 Our view is that the proposed change is designed to reflect what trustees should already have been doing in previous levy years when assessing the strength of a guarantor; namely, considering how much that guarantor's obligation is actually worth in monetary terms. That some trustees have fallen short in this regard is demonstrated in the high rate of rejection of contingent assets in recent reviews, and in particular in the frequency with which it appears trustees may be certifying on the evidence of inadequate evidence, judging by the material subsequently provided to us.

5.2.6 We have also updated the Guidance and the Levy Rules to make clear that in order to receive recognition it needs to be possible to score the

guarantor on the basis of its own financial statements. This means that we will not recognise a guarantee where the guarantor would receive an industry average or based on the accounts of a subsidiary. As this has not been flagged previously, the Levy Rule has been drafted to allow ultimate parent company reports provided up to 31 March to be used for prior months' scores where appropriate.

Guarantor strength adjustment

5.2.7 Our Policy Statement for the second triennium explained why we had concluded that we should adjust the guarantor's band based upon the impact on gearing that would result if the guarantee became due. We confirmed that we intended to exclude ultimate parent companies from this adjustment as it was accepted that double counting could occur.

5.2.8 A small number of respondents commented that adjusting the guarantor's levy band would penalise schemes whose trustees had thoroughly investigated the guarantor's financial position before certifying the Realisable Recovery. They suggested that the adjustment should be factored into the trustees' own assessment of the guarantor.

5.2.9 Our view is that the two issues are separate. The Realisable Recovery is set at a sum the guarantor could meet if the employers were insolvent at the time of certification - and is a requirement because it would be unreasonable for the trustees to be seeking levy recognition in respect of a guarantee they were not confident could be paid at certification. The guarantor adjustment is about the impact that having the liability would have on the risk of insolvency of the guarantor if the employer(s) were insolvent - which is the situation in which the guarantor's solvency matters.

5.2.10 We also received a small number of responses which suggested that the exclusion of ultimate parents should be extended to other group companies, on the basis that there were sometimes group companies other than the ultimate parent company who held the full accounting surplus/deficit of the pension scheme on their balance sheet.

5.2.11 We recognise that there may be instances where another group company (aside from the ultimate parent company) contains the entire pension scheme surplus/deficit on its balance sheet and where this feeds in to the assessment of their insolvency risk. However, we have concluded that we should not extend this concession beyond ultimate parents.

5.2.12 In part this reflects the experience we have had in carrying out reviews of the robustness of guarantees – with a much higher "failure rate" for guarantees below the ultimate parent company level. It also reflects that extending the regime to test in individual cases if all of a deficit is taken into account in the score would be complex – particularly in the context that the recognition of contingent assets is a discretionary regime, whose costs are borne by all levy-payers.

Surety bonds

5.2.13 We received a number of comments from respondents on our proposed drafting changes to our standard form Type C(ii) contingent asset agreement in relation to surety bond arrangements. We have considered

these comments and adjusted the standard form agreement to reflect them. One respondent suggested that the definition of "requisite rating" in the standard form agreement (which is drafted on the basis the issuer has long-term unsecured debt instruments) was not reflective of the fact that many insurers do not have a long term unsecured debt rating. They suggested that this definition should be revised to include reference to an insurer's financial strength rating.

5.2.14 We have concluded that the definition should be revised on the above basis, and have updated our draft standard agreements to reflect this.

5.2.15 One respondent suggested that we consider allowing surety bonds to be certified using a modified Type C(i) contingent asset agreement. Demand for this was limited and given other priorities we will consider the case for this in a later year.

5.3 The Board's Confirmed Policy

5.3.1 We have concluded that we should implement our proposals in relation to contingent assets as set out in October.

6. Next Steps for Schemes and Key Dates

6.1 Introduction

6.1.1 This chapter outlines next steps and key dates for the calculation of 2015/16 levies.

6.2 New certificates

6.2.1 2015/16 sees the introduction of new certificates for exclusion of mortgages (where schemes are seeking their exclusion from the mortgage age variable) and for ABCs.

6.2.2 All certificates should be submitted to Experian, except ABC certificates, which should be submitted to the PPF. Confirmation of legal advice relating to LMS schemes should also be sent to the PPF in accordance with instructions given by tPR.

6.3 Key dates

6.3.1 For 2015/16 we will use information from the annual scheme return that is submitted via the Pension Regulator's Exchange system to calculate levies. We will also use other data submitted to either the PPF or Experian as follows

6.3.2 The deadline for submission is 5pm on Tuesday 31 March 2015, except as detailed below. The ABC certificate can be found on the PPF website and the Mortgage Exclusion (Officer's) Certificates are expected to be available on the PPF/Experian portal from 22 December.

Item	Key dates
Monthly Experian Scores	Between 31 October 2014 - 31 March 2015
Deadline for submission of data **to Experian** to impact on Monthly Experian Scores	One calendar month prior to the Score Measurement Date (apart from October 2014 for which the cut off was 31 October)
Submit scheme returns **on Exchange**	By 5pm, 31 March 2015
Reference period over which funding is smoothed	5-year period to 31 March 2015

Item	Key dates
Contingent Asset Certificates to be submitted **on Exchange** and with hard copy documents as necessary **to PPF**	By 5pm, 31 March 2015
ABC Certificate to be sent **to PPF**	By 5pm, 31 March 2015
Mortgage Exclusion (‘Officers’) Certificates and supporting evidence to be sent **to Experian**	By 5pm on 31 March 2015
Deficit-Reduction Contributions Certificates to be submitted **on Exchange**	By 5pm, 30 April 2015
Deadline to confirm legal advice held on LMS status to be sent **to PPF**	By 29 May 2015
Certification of full block transfers to be completed **on Exchange** or sent to PPF (in limited circumstances)	By 5pm, 30 June 2015
Invoicing starts	Autumn 2015