Pension
Protection
Fund

Policy Statement

2011/12 Pension Protection Levy Consultation Policy Statement: Insolvency Risk

January 2010

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1. Introduction and background

1.1 The 2011/12 Pension Protection Levy consultation

1.1.1 The 2011/12 pension protection levy consultation set out our proposals for altering the way insolvency risk is measured for the 2011/12 levy year. The proposals build on practice from previous years, ahead of potentially more substantial changes in future years.

1.1.2 The consultation noted that in 2009 D&B updated its Failure Score methodology (in part to reflect the points raised by stakeholders over the past two years) and the insolvency probabilities it associates with individual Failure Scores. This new methodology will have an impact on the levy for the first time in 2011/12, as insolvency probabilities measured in March 2010 are used for the 2011/12 levy. We therefore consulted on whether to adopt D&B's revised probabilities of insolvency for our purposes for the 2011/12 levy year.

1.1.3 At the same time we took the opportunity to consider a number of issues raised by stakeholders, where limited departures from the standard D&B methodology might be of benefit in the particular circumstances of the PPF universe. The proposals included several changes to the way D&B measure insolvency risk, and a new method for D&B to collect information from the not-for-profit sector.

1.1.4 The consultation invited respondents to provide their comments in reply to key questions in each section of the document. Overall our proposals to alter elements of the Failure Score methodology were supported, as was the proposal for D&B to proactively collect accounts from the Charity Commission. However, there were some concerns about the adoption of the revised probabilities of insolvency table, particularly the way in which it will affect the strongest employers.

1.1.5 This document will outline the main points raised in the responses we received, and confirm the Board's policy.

1.1.6 We would like to thank everyone who responded to the 2011/12 levy consultation.

1.2 The Board's view and intended next steps

1.2.1 In light of the responses received, and its own analysis, the Board confirms its intention **to adopt the following proposals:**

- To adopt a new UK probability of insolvency table;
- To request that D&B proactively collect accounts from the Charity Commission and investigate a limited number of other sources that may be used in future years;

- To restrict employers' ability to inappropriately improve their Failure Scores by manipulating elements of the scoring system; and

- To cap the Failure Score of a subsidiary company at the lower of the level of its ultimate global or domestic parent, when one or both are at substantial risk of insolvency (D&B score 1-10).

1.2.2 In some areas, respondents suggested that the reach of our proposals should be extended. In particular respondents suggested going further in recognising 'Nationwide' status for companies and in the types of charges over assets that D&B will disregard for the purposes of calculating Failure Scores. There are practical difficulties in making these additional changes suggested by respondents in time for the 2011/12 levy year. However, we will look into these suggestions further and consider whether it is feasible to adopt them in future years.

1.2.3 A further consultation on the levy for 2011/12 will be carried out in autumn 2010, which will include the levy estimate, levy scaling factor and the draft determination for 2011/12.

2. Insolvency risk: Changes to the D&B methodology and the PPF's assumed probabilities of insolvency

2.1 Summary of the proposals

2.1.1 In June 2009, D&B introduced a revised method for calculating Failure Scores as part of a periodic review. The revised method includes making greater use of interim financial accounts, to reflect the potential for sudden change, and gives greater weight to changes in payment behaviour, reflecting the lessons learned from the recession's impact on short-term cash flow.

2.1.2 Alongside the changes to the Failure Score methodology, D&B also updated the insolvency risk probabilities they assign to UK Failure Scores. The new probabilities were strongly influenced by the recent economic changes and reflect the increased level of business failures being seen in the UK, most particularly among companies generally regarded as low risk. Consequently, there will be an increase in the probability of insolvency for all Failure Scores, with proportionately higher increases for the better Failure Scores.

2.1.3 Our analysis suggests that adopting the new insolvency risk table, along with D&B's new Failure Score methodology, will bring the predicted pattern of insolvencies 15 per cent closer to our experience to date. Two thirds of this improvement will come from the move to the new Failure Score methodology and the other third from the move to the new insolvency probability table. The new approach is likely therefore to be a fairer reflection of the risks to the PPF.

2.1.4 The Board proposed to adopt the updated table of probabilities of insolvency for the 2011/12 levy year and stakeholders were asked whether they agreed that we should adopt this table.

2.2 Responses

2.2.1 This proposal received the most responses, with respondents almost equally divided between those in favour and those against the adoption of the table. A number of responses identified that the increase in probabilities would be proportionately greater for the highest Failure Scores. Concerns were expressed that this would re-distribute the levy in a counter intuitive manner, as levies would increase more for the strongest schemes than for the weaker schemes.

2.2.2 A few respondents also noted that the new table would have an effect on the Levy Scaling Factor (LSF), and asked that we provide further information on what that effect might be.

2.2.3 A number of respondents expressed their concerns that the new probabilities were calculated on data collected over a short period of time,

which would be influenced by the recession, and not reflective of normal market conditions. There were suggestions that the PPF should use an 'average' insolvency risk, rather than one reflecting recent rates of failure.

2.2.4 A couple of respondents commented that the change to the scoring methodology could lead to an increase in volatility in a scheme's levy, which is contradictory to the PPF's aim to promote stability. They suggested that basing the insolvency probabilities that are applied to Failure Scores on longer term risk would reduce volatility.

2.3 The Board's confirmed policy

2.3.1 Despite the concerns outlined above, the Board feels that there are strong arguments for implementing the revised table as proposed.

2.3.2 Firstly, adoption of the revised table will ensure consistency with the change D&B has made to the Failure Score methodology. The old risk table was calculated using the old D&B Failure Score methodology. To continue to use the old table once D&B has changed over to using the new methodology could produce anomalous results. It is therefore appropriate to have a new table that matches the new methodology.

2.3.3 More significantly, we have analysed the data and found that the new table produces a better match with our experience of insolvencies over four years – three of which precede the recession. If anything, our analysis shows that the scores produced by D&B are still below the true level of short-term risk a company represents, particularly for the best Failure Scores. This is likely to reflect differences between our universe and the wider universe that D&B bases its assessment of risks on, including different incentives to manage Failure Scores. For the longer term, as part of work on the future of the levy, this can be considered more generally, but for 2011/12 adopting the D&B insolvency risks is a step in the right direction. D&B will continue to monitor probabilities of insolvency in the light of significant changes to the economic situation.

Increase in Failure Scores and the effect on the Levy Scaling Factor

2.3.4 The new table reflects recent experience of insolvencies, so the probability of insolvency for each D&B score is higher than for the existing table, particularly for the highest Failure Scores. This pattern is as we would expect and is consistent with the findings of credit rating agencies (which show insolvency rates rise fastest for those with a very low chance of insolvency prior to the recession).

2.3.5 While some stakeholders expressed their concerns about the degree to which levies would increase with higher Failure Scores, our analysis suggests that the impact will be less than they expect. Schemes with higher Failure Scores will pay proportionately more under the new table, however, all other factors being equal, this will be significantly mitigated by a reduction in the levy scaling factor. If the 2010/11 LSF had been set

using the new table it would have been barely more than half of the level being used for 2010/11[1].

Should we move to using an average insolvency risk?

2.3.6 In response to points about the table being based on limited experience, the distinction should be drawn between D&B's method of determining the reasons for failure overall, which is based on experience over a long period, and the adjustments made to how these factors lead to the final score, and what the insolvency probability for that score will be, which have been made as a result of the recession.

2.3.7 A similar distinction is relevant to claims that our analysis of the new table is based on a limited number of insolvencies: D&B's new table is based on insolvency events for its entire universe, but our testing of it is based on PPF-specific experience. While we had data on only 415 insolvencies at the time of publication, that is the sum of the PPF's experience and we felt it necessary to test the table against that.

2.3.8 In principle, the suggestion that the PPF should be looking for an assessment of insolvency risk that uses an average measure rather than a point in time estimate of risk has its attractions. As some responses noted, it would be less subject to change over time (an issue that may become more salient if the standard D&B methodology develops to become more responsive to changes in risk). It would also avoid the issue of using a D&B assessment of insolvency risk a year in arrears: while this allows a scheme's levy to be more predictable, it means that in practice insolvency rates may have changed by the time they are being used in the levy.

2.3.9 However, it would be difficult to introduce an average measure for the 2011/12 levy year, since it would take time to develop. There would be difficult issues around how much weight to give to recent events, and whether to allow for the fact that the PPF's experience of insolvency rates implies rates of insolvency are higher in the PPF universe than might be expected based on D&B data for their whole universe[2]. A delay in developing this measure would delay publication of the final rules, which would leave little time for schemes to respond to any implications it would have.

2.3.10 Averaging insolvency risks applied to Failure Scores would also fit uneasily with other aspects of the levy, which are focused on measurement at a point in time.

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[1] We have calculated an LSF based on data and assumptions used for the 2010/11 levy year using the new table instead of the table actually used in 2010/11. This results in an LSF of 0.92 compared to the actual scaling factor of 1.64.

[2] There are a number of possible explanations for this. Employers who sponsor defined benefit (DB) schemes are atypical of the D&B universe, being relatively large, long-lived and concentrated in particular sectors of the economy. DB scheme sponsors also have an incentive to seek to manage their score, to reduce their levy, which is largely absent for non-PPF employers. Whatever the reason, if a bespoke measure is created it would be reasonable to reflect what appears to be a significant difference in insolvency experience.

2.3.11 Taking these points together, the Board has concluded that it would be more appropriate for such a radical change to the measurement of insolvency to be considered as part of the work on the long-term future of the levy.

2.3.12 The issue of long term risk measurement is being considered by the PPF along with the Steering Group set up following the publication of the response to the future of the levy consultation, last summer. One aspect of this work is developing a 'through-the-cycle' measure of insolvency risk that would smooth out the levy over a number of years. This would tackle the concerns stakeholders have expressed about the possibility of insolvency risks varying between years, and causing volatility in bills, along with meeting PPF concerns that the distribution fairly reflects risks over time.

Volatility of individual levy bills

2.3.13 The potential for increased volatility in Failure Scores was raised in a couple of responses. It is possible that the introduction of the new D&B Failure Score methodology may lead to changes in scores for 2011/12 when compared to the previous year, since any change in methodology is bound to lead to shifts in scores. It may also increase the possibility that an employer's Failure Score may change (either an improvement or a worsening in score) in the run-up to the year end, as D&B say the scores will be more responsive to changing circumstances.

2.3.14 D&B's monitoring to date suggests that the changes to scores remain at reasonable levels, given an environment where new information about the impact of the recession on individual businesses is emerging on a regular basis. In a recent three month analysis just over half of scores were the same at the end of the three month period as at the beginning, with only one in 10 employers seeing more than two changes in score. Changes in Failure Score can however make a very large difference to levy bills, given the wide range of insolvency probabilities then applied. Possible methods of reducing the volatility of individual levy bills will be considered as part of the work on the future of the levy.

3. Changes to D&B scorecard elements

3.1 Introduction

3.1.1 We have considered a range of issues about Failure Scores that had been raised with us by stakeholders. These included concerns that some components of Failure Scores can be an inaccurate reflection of a company's risk, that employers are able to make inappropriate changes to manipulate their score, and that providing a contingent asset can have a negative effect on the score of the employer. We identified several areas where changes could be made to lead to a fairer measure of insolvency risk, and to make certain elements more resistant to manipulation. We made the following proposals:

- That D&B asks for appropriate evidence when employers seek to change certain information used in assessing their risk – particularly seeking to alter their industry sector or geographic information;
- That D&B introduces a 'Nationwide' attribute for scoring the geographic location of a company, to more accurately reflect the risk faced by companies located within three or more regions;
- That the scoring methodology in respect of Directors, Principals and Associations remain unchanged;
- That D&B excludes PPF-compliant contingent assets when judging whether charges on a company's assets have a negative effect on its insolvency risk; and
- That when assessing the Failure Score of a subsidiary company whose ultimate global or UK parent company is at substantial risk of failure, the score of the subsidiary is not higher than the score of the parent.

3.1.2 We asked stakeholders for their views on the proposed changes, whether the changes went far enough to make the D&B methodology more resistant to artificial change, and for suggestions on additional areas that could be reviewed in the future.

3.1.3 For the most part, these proposals were supported by stakeholders. The Board will ask D&B to implement the restrictions and modifications proposed.

3.2 Industry sector and geographic information

Summary of the proposals

3.2.1 When calculating insolvency risk, D&B considers the primary industry sector in which an employer operates, and the geographic region in which a business's main trading address is located. This is because some industry sectors and geographic regions are considered to have a lower risk of insolvency than others. Concerns have been raised with us that some

employers may have substituted their original data to improve their Failure Score by being classified as operating in a lower risk industry or geographic region. It was proposed that to improve fairness for all employers, and to prevent this from happening, D&B will require employers to provide more stringent evidence to demonstrate that their primary industry sector or main trading address has changed.

Responses

3.2.2 There was no opposition to the proposal that D&B ask for evidence from employers changing their industry sector or geographic information. Respondents felt that this would assist in making the scores more resistant to artificial manipulation; however some asked whether there would be rules specifying the types of evidence required to support a change.

The Board's confirmed policy

3.2.3 The Board will instruct D&B to adopt this policy as proposed. D&B have confirmed that stronger evidence will be required and they will communicate the details of how employers can satisfy these new requirements.

3.3 Introduction of a 'Nationwide' location category

Summary of the proposals

3.3.1 While we were reviewing the issue of geographic location, we identified an additional issue of fairness affecting companies located in more than one region. We noted the possibility of a multi-location company with its main trading address in a lower risk area having a better Failure Score than a similar company whose main trading address is in a higher risk region.

3.3.2 D&B is satisfied that companies based in three or more regions have a lower statistical risk of failing over the course of the next 12 months than those based in one or two regions. It therefore proposed to us that companies with branches in three or more different regions could be considered 'Nationwide' and their Failure Score be adjusted to reflect this decrease in risk.

Responses

3.3.3 The introduction of a Nationwide attribute was well received by respondents. Respondents asked for more information on how this process would operate, how 'branches' would be defined by D&B, and the effect this would have on the Failure Scores of those employers affected.

3.3.4 A few respondents suggested that the category should be expanded to other companies that are not exposed to local risks, including global companies, internet based companies and single site companies with national distribution.

The Board's confirmed policy

3.3.5 The Board has decided to adopt the proposal that companies with branches in three or more different regions should be classified as Nationwide, to better reflect the level of risk they present and reduce inappropriate manipulation of scores based on company location. We will ask D&B to implement this change in 2011/12.

3.3.6 D&B's assessment of Nationwide status will be based on branch data collected in their normal course of business. D&B has analysed the data available to them and identified which employers of defined benefit pension schemes they believe have branches in three or more regions.

3.3.7 It will be possible for employers to check whether they have been classified as Nationwide for 2011/12 from the date of publication of this document, up until 30 March 2010. Businesses that think they should be classified as Nationwide are encouraged to contact the D&B Customer Service PPF helpline on 0870 850 6209, before the measurement date, to confirm their status.

3.3.8 Employers who find that they are not currently classed as being Nationwide but consider that they should be because they have branches in three or more regions, should send evidence of this to **D&B Customer Services, Suite 5.3, Building 8, Exchange Quay, Salford, Greater Manchester, M5 3EJ**, or send as PDF attachments to customerhelp@dnb.com (quoting 'PPF' in the subject line)[3]. Employers will be able to submit such evidence up to 30 March 2010.

3.3.9 It is the responsibility of the employer to confirm that they are included on the list before the measurement date. Employers will be unable to successfully appeal to change their status after the measurement date, if D&B have not been provided with appropriate evidence before the deadline.

3.3.10 D&B will not be introducing a Nationwide categorisation across its whole universe at this time, and the Nationwide adjustment will not affect the published D&B score, as published in D&B's Business Information Reports, but will affect the score delivered to the PPF for calculating the pension protection levy. The Failure Score for those companies deemed to be Nationwide will be adjusted according to D&B's statistical modelling rules, so the precise improvement in score will depend on the circumstances of the employer.

3.3.11 To assess the impact that Nationwide status has on their score, companies can contact the D&B Customer Service PPF helpline on 0870 850 6209 to obtain a PPF score as at that date. If other factors that feed in to their score change between that point and 30 March, then the impact of the Nationwide adjustment could be a little different. Whilst this will mean that

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[3] Information on the definition of regions and the evidence required is set out in our FAQs on the PPF website at the address http://www.pensionprotectionfund.org.uk/FAQs/Pages/FAQSearch.aspx

some employers will have two D&B scores, the impact will generally be positive, and the scale of impact possible to estimate.

3.3.12 The PPF and D&B appreciate the point made by some respondents that regional risk is also less significant for businesses that trade nationally or globally from one location. However, D&B would have difficulty collecting the data necessary to identify which companies would fall into these categories.

3.3.13 D&B plan to review the effect of geographical business location as part of their normal scorecard development process, though any change would depend on what their analysis shows for their universe (it should be noted that the solution for the PPF was a limited exercise modelled on the PPF universe, with some extension to like businesses, and might not be valid generally).

3.3.14 This is an area that we will continue to look into and work with D&B on, with a view to resolving the issue in future years.

3.4 Directors, Principals and Associations

Summary of the proposals

3.4.1 In response to stakeholder concerns that this element of the Failure Score model is unnecessary and vulnerable to manipulation by companies, we reviewed this area. However, reflecting D&B's advice, we proposed that the method for considering Directors, Principals and Associations should remain unchanged.

Responses

3.4.2 This proposal received a mixed response. While a number of respondents agreed with maintaining the status quo, a couple argued that without change, this area is still vulnerable to artificial change, which can potentially have a significant impact in reducing a scheme's levy. One suggested that this field should be excluded from the calculation of insolvency risk entirely because it is still open to manipulation.

The Board's confirmed policy

3.4.3 The Board has decided to proceed as proposed on this point so that D&B will continue to use data on Directors and Principals in producing scores for the PPF. We remain satisfied that the number of Directors a company has and their previous experience are key factors in a business's likelihood of insolvency and that larger, more experienced boards do, on average, reduce risks. This should therefore remain an area that is considered when calculating a company's Failure Score.

3.4.4 We also think that the legal responsibilities of becoming a Director (such as possible liability for wrongful or fraudulent trading) should generally be a significant deterrent to artificial appointments made to manipulate a score.

3.4.5 However, in response to respondents' concerns that manipulation is occurring, we will look at whether the opportunity for manipulation can be gauged and, if we find that it is substantial, we will consider whether there is anything else that can be done in the future to prevent it.

3.5 Disregard of contingent assets

Summary of the proposals

3.5.1 Another area of concern previously raised with us by stakeholders is the negative effect that a Type B contingent asset (security over an asset of the employer) can have on the score of the sponsoring employer subject to that charge. Stakeholders identified that while contingent assets are promoted as beneficial to reduce the PPF levy, by putting this arrangement in place a legal charge is filed on the sponsoring company. D&B then consider this along with other charges as weakening the security of the sponsor, reducing their Failure Score and, potentially resulting in an increase to their risk-based levy. We agree that this contradictory effect is undesirable, so we proposed that D&B exclude PPF-compliant contingent assets when considering the list of charges against the company. The impact of any other registered charges will still be considered when calculating the Score.

Responses

3.5.2 This proposal gained a very favourable reception: all respondents who commented on this point supported the change. A few respondents suggested that we should go further and exclude all charges that benefit the pension scheme from the Failure Score calculation, whether or not they are correctly certified with us.

The Board's confirmed policy

3.5.3 The Board has decided to implement the proposal so that PPF compliant contingent assets will no longer be viewed as a charge against a company.

3.5.4 The PPF will provide D&B with a list of the Type B contingent assets that have been certified with us. This information will be used by D&B to recalculate the D&B Failure Score for any company that has PPF compliant contingent assets; this recalculated score will appear as the public D&B Failure Score (as published in D&B Business Information Reports).

3.5.5 The Board recognises that there is an argument for extending this exclusion to all charges that benefit the pension scheme, including those that are not compliant with PPF requirements, such as charges recognised as part of a Recovery Plan. However this would raise a range of issues needing further consideration and the practicalities necessary to implement this could not be finalised before the data measurement date of 31 March 2010. We will therefore implement the current proposal, to disregard certified Type B contingent assets only, and will work with D&B to investigate the implications of extending the policy in the future to other charges in favour of the pension scheme.

3.5.6 D&B will aim to have built this adjustment into their standard Failure Score methodology, for affected employers, ahead of the 31 March 2010 deadline for contingent assets that have already been registered with the PPF. Stakeholders can contact the D&B Customer Service PPF helpline to check if a particular contingent asset has been ignored for Failure Score purposes. For contingent assets certified to the PPF in the run-up to 31 March 2010, a further exercise will be carried out after 31 March to ensure they are ignored for failure score purposes.

3.6 Parental risk override

Summary of the proposals

3.6.1 In their normal course of business D&B produces a standard override for the Failure Score of any subsidiary company whose parent is at substantial risk of insolvency (indicated by a UK D&B score of 1-10 or equivalent). Currently, we instruct D&B to disregard this override, following stakeholder comments that it was too severe and to ensure we measure the insolvency risk of the subsidiary not the parent. However, experience has shown that weak parent companies can drag down seemingly stronger subsidiaries. We therefore proposed to adopt a revised override, where the Failure Score of a subsidiary is capped at the lower of the levels of the global ultimate parent and/or domestic ultimate parent company, in circumstances where D&B's override would normally be applied. This override differs from the standard D&B approach, as it will use the parent company's score rather than an automatic score of 1, and will not be triggered for intermediate holding companies, but will still recognise the impact of parental risk on a subsidiary.

Responses

3.6.2 Opinions on the parental risk override proposal were divided with equal degrees of support and opposition and some requests for further explanation.

3.6.3 A couple of respondents questioned the fairness of this policy, as it does not operate in reverse, to improve a subsidiary's score where there is a stronger parent to protect it. One challenged our proposition that parental weakness was a risk factor for subsidiaries that should be reflected in their levy.

The Board's confirmed policy

3.6.4 The Board has decided to implement the approach as proposed. This override to an employer's score reflects the reality that the failure of a weak parent can cause the failure of an apparently stronger subsidiary as a result of cross guarantees, the use of the subsidiary's assets as collateral or the inter-company debt position. In their normal course of business, D&B will report parental weakness when providing a score for a subsidiary. We have sought to build this, in modified form, into our levy charging, as excluding it would be to ignore an increased risk of an insolvency event occurring. We recognise this measure is being applied asymmetrically as it would automatically recognise parental weakness but not strength. However it is

worth noting that the D&B scoring system for a subsidiary already takes account in a general way of the benefits of being in a group rather than a stand–alone company, to the extent statistically justified. The Board also provides a subsidiary with a strong parent company with the possibility of having this strength recognised, as the stronger parent could provide a Type A guarantee for its subsidiary's pension scheme, which would provide further security and substitute the insolvency risk otherwise used in calculating the levy for that of the parent.

3.6.5 It has been agreed that where an employer's domestic or global ultimate parent company is considered high risk (i.e. in the UK, where it has a Failure Score of 1-10), this risk will also be reflected at the employer level. As such, the employer will be assigned the same Failure Score (or UK equivalent) as the domestic or global ultimate parent company. This cascading of parental risk is normal practice within D&B: where a parent company is at high risk of failure, its subsidiaries have frequently also been shown to have a high risk of failure.

3.6.6 The over-ride will be applied to Failure Scores by D&B on 31 March 2010. Because the PPF policy will differ from the standard D&B over-ride, it will not always be possible for D&B to identify in advance where a score is at risk of being over-ridden for PPF purposes. They will however be able to flag where they would apply their standard over-ride in their normal course of business. Additionally they will provide a monitoring service on parent companies (though this latter would be a charged for service). The Board takes the view that it will be rare in practice for a business not to know that its ultimate parent is at severe risk of insolvency, and notes that its policy of capping the insolvency risk of schemes at three per cent will soften the impact of this change.

3.7 Additional issues raised

3.7.1 In addition to the changes we proposed, respondents helpfully suggested further areas that should be reviewed in the future to improve the transparency and fairness of Failure Scores.

3.7.2 Two respondents expressed concerns about the trade information presented in D&B reports, and used in calculating the Failure Score. They suggested that the process used to collect the data should be made more transparent, and companies should be able to formally query the data held by D&B and provide further evidence where necessary.

3.7.3 D&B are satisfied that trade patterns are a significant factor when assessing insolvency risk. Deteriorating trade patterns (where a company lengthens the time it takes to pay its suppliers, without the agreement of its suppliers) often provide an early indicator that companies are experiencing cash flow pressures. The vast majority of businesses that subsequently fail exhibit lengthening payment habits.

3.7.4 D&B collects trade data to provide an independent snap-shot of how a company is paying some of its suppliers. In collecting this data, D&B aims to ensure that the information is supplied from as wide a base as possible

and that the information supplied is accurate (i.e. that it relates to the correct company and is not in dispute).

3.7.5 Where a company is concerned that there are too few trade experiences being reported, or reported experience is inaccurate, D&B can work with that company to seek to improve the picture, without charge. This could include seeking to gather more information from suppliers by recruiting them to the D&B trade programme. That said, D&B cannot guarantee that suppliers will qualify for the trade programme or will be willing to share their data, and the process typically takes some time to yield results.

4. Data sources used by D&B for measuring insolvency risk: Non-commercial accounts

4.1 Summary of the proposals

4.1.1 D&B automatically collects all account information filed at Companies House. However, it does not actively seek accounts from any other sources for those organisations that are not required to file accounts at Companies House. While 75 per cent of charities have voluntarily provided audited accounts to D&B as an alternative, stakeholders have expressed their concerns that by not automatically collecting the accounts of non-commercial employers, these employers are not treated equally with their commercial counterparts. There is also a risk that a non-commercial employer could choose not to submit their accounts if they are financially weak and would receive a low score, as this would be worse than the default neutral score they would receive otherwise.

4.1.2 To address these concerns, it was proposed that D&B would identify those charities that have not already provided audited accounts to D&B in the weeks leading up to 31 March 2010. Where available, D&B would then obtain the financial data from the Charity Commission website. Stakeholders were asked whether they agreed with the proposal to proactively collect accounts for charities from the Charity Commission.

4.1.3 We understand that there are other non-commercial employers who are not charities, and would also benefit from D&B actively collecting their accounts from a central source, where this exists. Stakeholders were asked whether they felt we should investigate alternative possibilities for collecting accounts, in a similar manner to the system proposed for the Charity Commission. In addition, we asked stakeholders to suggest organisations that we could approach for this information.

4.2 Responses

4.2.1 The proposal for D&B to proactively collect audited accounts from the Charity Commission in the lead up to 31 March 2010 was very well received. Respondents supported this change, on the grounds that it will be fairer, increase the consistency and transparency of scores, and provide a better assessment of insolvency risk. One respondent asked that we provide more details about the collection process and grounds for appeal.

4.2.2 There were some suggestions that collecting the accounts so close to the data measurement deadline would prevent charities from knowing what impact the additional information will have on their scores, sufficiently in advance to be able to take steps to improve it.

4.2.3 A number of respondents felt that we should also actively collect information on other entities that don't provide accounts to Companies House, such as trade unions, employer associations and limited liability partnerships, to ensure that insolvency risk is measured consistently and fairly across all organisations.

4.2.4 Respondents also suggested that additional information about not-for-profit accounts could be obtained from the Industrial Provident Registry and the Certification Officer for trade unions and employers' associations.

4.3 The Board's confirmed policy

4.3.1 The Board will instruct D&B to collect accounts from the Charity Commission in March 2010 for the 2011/12 levy year.

4.3.2 In relation to the timing of the collection of information, we believe that collecting data during March ensures that the most up-to-date financial information about a charity is obtained. At this stage, obtaining information in a regular feed from the Charity Commission is not feasible, and if information is collected at an earlier point, the collection process would need to be repeated closer to the measurement date to ensure the information is correct.

4.3.3 We have discussed the alternative information sources that were suggested by respondents with D&B. D&B is committed to obtaining the best information it can in the most cost effective manner. While it will not be possible for D&B to collect information from these sources by 31 March 2010 for the 2011/12 levy year, the Board will ask D&B to take these suggestions into consideration for future years and to continue to investigate collecting accounts from alternative sources for future years.

5. Data deadlines and measurement dates for the 2011/12 levy

5.1.1 The measurement date for underfunding (the date to which the PPF transforms section 179 valuations) and for insolvency risk is 31 March 2010. The following deadlines are applicable for submission of relevant information:

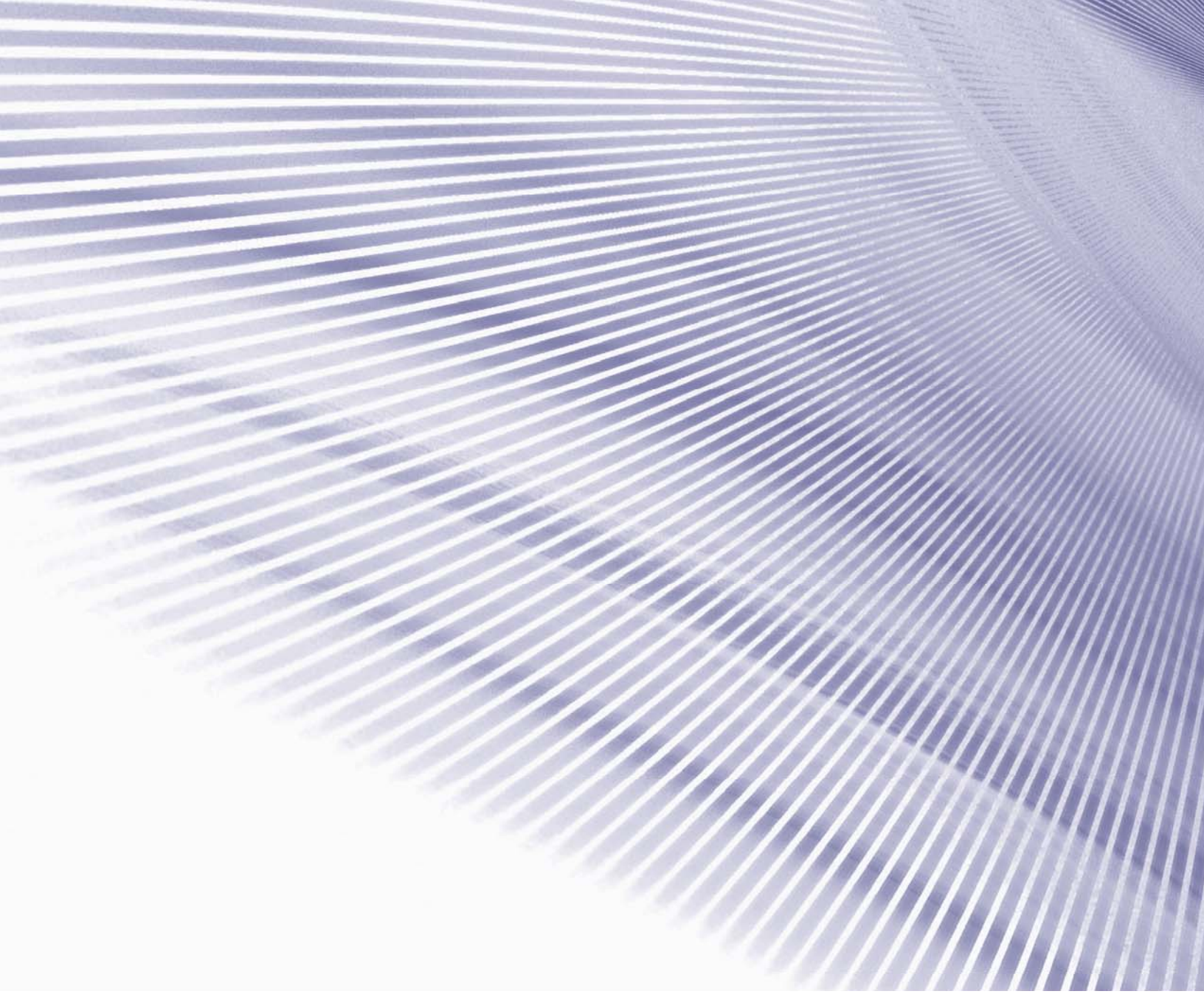
2010

- 5pm on 31 March 2010 for updating Exchange with levy-related information (except where set out below)
- 5pm on 30 March 2010 for providing information to D&B to be taken into account in sponsoring employers' failure scores, including evidence supporting Nationwide status
- 5pm on 30 June 2010 for certification of partial block transfers that have taken place up to and including 31 March 2010

2011

- 5pm on 31 March 2011 for certification/re-certification of contingent assets
- 5pm on 7 April 2011 for certification of deficit reduction contributions and
- 5pm on 30 June 2011 for certification of full block transfers that have taken place up to and including 31 March 2011 (note: this is a single deadline for full certification, which differs from the approach in 2009/10).

5.1.2 Further details on the data deadlines and measurement dates can be found on the PPF website at the address: http://www.pensionprotectionfund.org.uk/levy/Pages/PensionProtectionLevy.aspx

6. Table of Assumed Probabilities of Insolvency

Failure Score	Probability of Insolvency	Failure Score	Probability of Insolvency	Failure Score	Probability of Insolvency	Failure Score	Probability of Insolvency
1	55.74%	26	2.41%	51	1.31%	76	0.59%
2	16.80%	27	2.33%	52	1.26%	77	0.56%
3	11.26%	28	2.27%	53	1.23%	78	0.54%
4	9.03%	29	2.24%	54	1.21%	79	0.51%
5	7.58%	30	2.16%	55	1.18%	80	0.48%
6	6.65%	31	2.07%	56	1.14%	81	0.46%
7	6.03%	32	2.00%	57	1.10%	82	0.44%
8	5.47%	33	1.95%	58	1.07%	83	0.42%
9	5.04%	34	1.92%	59	1.03%	84	0.40%
10	4.68%	35	1.89%	60	1.00%	85	0.38%
11	4.34%	36	1.84%	61	0.98%	86	0.36%
12	4.09%	37	1.79%	62	0.95%	87	0.34%
13	3.90%	38	1.75%	63	0.94%	88	0.32%
14	3.74%	39	1.69%	64	0.91%	89	0.30%
15	3.61%	40	1.65%	65	0.88%	90	0.28%
16	3.52%	41	1.62%	66	0.85%	91	0.26%
17	3.44%	42	1.59%	67	0.82%	92	0.24%
18	3.30%	43	1.56%	68	0.80%	93	0.21%
19	3.13%	44	1.53%	69	0.78%	94	0.20%
20	2.98%	45	1.47%	70	0.76%	95	0.18%
21	2.88%	46	1.44%	71	0.72%	96	0.16%
22	2.79%	47	1.41%	72	0.69%	97	0.13%
23	2.67%	48	1.39%	73	0.66%	98	0.10%
24	2.56%	49	1.37%	74	0.65%	99	0.08%
25	2.48%	50	1.34%	75	0.62%	100	0.03%