

9 January 2012

Dear Sirs

Recertification of Type C(i) and C(ii) Contingent Assets:

I am writing to you, and to all other levy payers who have a type C (i) or C(ii) contingent asset, to draw your attention to the requirements in relation to certification of these contingent assets. These are set out contingent asset appendix of the 2012/13 Levy rules published on 13th December 2011.

In particular, to certify a new or existing type C contingent asset it is necessary for the institution providing the letter of credit or bank guarantee to have a credit rating of AA-strength (or equivalent, such as Aa3).

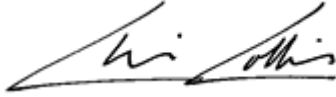
We recognise that, as a result of the current economic situation, some institutions have seen a decline in their credit rating – though the majority of type C contingent assets recognised for the 2011/12 levy could be re-certified at the time of writing.

In our consultation exercise on the 2012/13 determination, which closed on 2 November, we did not receive any representations about this requirement – though we did receive a question about this after the consultation ended.

The approach we take in recognising type C contingent assets essentially treats a letter of credit or bank guarantee as if it were cash in the scheme's account. By comparison security over a building has a stress applied to its value, and a group company guarantee is assessed for the risk of failure of the guarantor. In our view this generous treatment becomes untenable once the risk of a default is no longer minimal. This has led to our conclusion this we should continue to require AA- status for 2012/13, and the Levy Rules published on 13th December reflect this.

If, after reading the Levy Rules and guidance, you have any questions about this letter, you can email them to information@ppf.gsi.gov.uk. I hope that this information is helpful to you.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Chris Collins', written over a horizontal line.

Chris Collins
Chief Policy Adviser