



STATEMENT OF STRATEGY CONSULTATION

Issued 16 April 2024

ICAEW welcomes the opportunity to comment on the Statement of Strategy Consultation published by The Pensions Regulator on 5 March, a copy of which is available from this [link](#).

We appreciate that the Pensions Regulator has tried to make the requirements proportionate in some respects, but are concerned that some of the requirements for information to be disclosed are unrealistic and may require additional work and expense as it is not information normally reported for most schemes. We would urge tPR to consider whether its requirements might be refined accordingly.

This ICAEW response of 16 April 2024 reflects consultation with ICAEW's pensions sub-committee. This is a sub-committee of the Business Law Committee and includes representatives from professional trustee organisations and auditors of pension schemes.

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KEY POINTS

SCOPE OF ICAEW RESPONSE

1. The Statement of Strategy ('SoS'), the completion of which will be a legal requirement, is split into two distinct parts:
 - Part 1 - the Funding and Investment Strategy – which requires sponsor agreement; and
 - Part 2 – supplementary matters – which requires sponsor consultation, not agreement, with the ability for sponsor comments to be incorporated.
2. The principle of proportionality is welcomed, and we note that TPR only wishes 'to ask for information that aligns with legislation and ensures the statement of strategy is useful for trustees and us'. However, the consultation indicates a high volume of information being required (as TPR becomes a data-led organisation), much of which is not currently required to be provided and not all of which is currently available in regular reporting.
3. The ICAEW's interest and expertise in this consultation is, however, principally aligned to the covenant section, recognising that covenant assessment has now been embedded in legislation for the first time, with covenant information now having to be provided as part of the SoS.
4. We are limiting our response to some general themes which we see as arising from that section of the consultation.

TIMING OF THE CONSULTATION

5. It is unfortunate that the new DB Funding Code and the updated covenant guidance were not published ahead of this consultation. We understand that these are not due to be available until June and we hope the final guidance (on statement of strategy, funding code and covenant) will clarify matters of concern. It does, however, mean that we are obliged to respond without all relevant information.

OTHER COMMENTS

6. We note that the information requested to be provided on the templates included in the consultation is being required for regulatory purposes. This reiterates our earlier comment that not all of the information is part of current reporting. It should also be made clear that the covenant information requested does not represent covenant advice that trustees may (need to) take for the purposes of their funding and investment decisions, which will need to take account of the specific complexities of both the sponsor and the scheme.
7. The option of submitting written explanations in relation to matters (such as the approach taken to assessing covenant) in specific text boxes, or by way of separate attachment, is to be welcomed and encouraged throughout the templates. The ability to do so will allow trustees to feel more comfortable with submitting data; the information there will also act as a reference point for TPR if data submissions (of themselves) highlight areas of concern.
8. Where employers and trustees are fully committed to the process of assessing the covenant, and where a professional covenant advisor is engaged to provide support, then sufficient information is usually available to enable a meaningful assessment to be undertaken. A limiting factor in some cases may be:
 - for large, listed groups, there can be issues around the commercial sensitivity and regulatory restrictions in terms of providing forecast information and the audience is unknown - for example, information which could be classed as insider information
 - the fact the information does not exist e.g. forecast information is not provided on a statutory entity basis or not produced beyond the current year's outlook
9. We would note however:

- information is often imperfect and covenant expertise (either within the Trustee Board or third party adviser) will be required in order to interpret the information properly and to form a reasoned view of covenant strength, affordability, and capacity to support risk
 - it is important that trustees are given flexibility to take a pragmatic and proportionate approach to information that is reported unless there is an obvious risk of insolvency, when more granular analysis would be required
 - established Information Sharing Protocols may require re-negotiation and that may be difficult when funding is strong and the trustees have less leverage. This is particularly likely to be the case when the information is only required for SoS purposes and may result in tensions between the trustees and the employer
 - in many multi-employer situations, some explanatory narrative is likely to be necessary; any threshold is arbitrary but 80% seems appropriate, subject to the general reporting challenges noted above. Using any threshold without other associated scheme data however may not capture the inherent covenant risks within a scheme, nor does it necessarily factor in contingent protections (such as guarantees)
10. We agree with the principle that schemes following a Fast Track submission should have to submit less detailed covenant-related information, than for those following Bespoke submissions. The information required for Fast Track will of course require much of the analysis required for Bespoke submissions to be done (albeit not submitted), so will still require time and associated cost.
11. We would also note for 'Bespoke' valuation submissions:
- the requirement to provide various figures for each of the years of the reliability period (such as free cash flows, dividends, investment in sustainable growth) would in many cases create the need for employers to produce forecasts specifically for this purpose (as forecasts typically do not extend that far out) or for trustees to create this data by extrapolating the forecast period; this may lead to inaccurate information being submitted or more likely submitting information which is not agreed by the employer. If the trustees are unwilling to submit information which is not agreed with the employer, then lengthy and costly discussions about these figures may be required
 - the requirement to provide liquid assets (after adjusting for working capital) could be difficult without guidance: we assume this will be covered in the covenant guidance, but we note there could be variances depending on the specific circumstances of individual employers. The consultation infers that this information will be used to assess affordability, but we would note that liquidity alone does not necessarily translate into affordability, particularly where there is a need to maintain certain metrics for credit scoring / rating purposes, or to provide flexibility for downside employer events
 - the information requested in relation to contingent assets generally seems reasonable, but providing the split of the contingent asset value being relied upon for each purpose (support funding/investment risk and, if relevant, to allow for a longer recovery plan for affordability reasons) could be problematic.