

The 2017/18 Pension Protection Levy Consultation Document

September 2016

Foreword

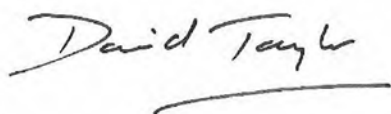
This consultation sets out the basis on which we propose to charge the levy in 2017/18, the final year of the second levy triennium. We are keen to receive comments, by 31 October, and will be publishing our conclusions in December.

At the start of this triennium we introduced, with Experian, our new methodology for assessing insolvency risk. Based on the insolvency experience of the sponsors of DB schemes the new approach aimed to be more predictive and more transparent. We believe it has delivered on those aims and the feedback we have received over the past three years suggests – on the whole – our levy payers and their advisers agree. As a result, in this consultation – as in 2016/17 – we are able to propose only very limited change, meeting our goal to keep the rules stable across the three years of the triennium. Alongside this consultation, we also publish our estimate of the levy that we will collect for 2017/18. Despite a challenging environment, keeping the levy rules stable means our levy estimate of £615m for 2017/18 is unchanged from 2016/17.

Of course, we recognise that we can continue to improve and we take seriously the issues that levy payers raise with us. Where there is clear evidence to support a change and it will not cause significant volatility in levy bills or processes then we make amendments as soon as we can. So, for 2017/18, we intend to address certain impacts of recent changes of accounting standard. Our approach focuses on the impact on those elements of our insolvency risk measure that compare current and historic financials (so-called trend variables).

We also reflect here our proposed approach to charging a levy to an eligible scheme which ceases to have a substantive sponsoring employer following a restructuring of the pension arrangements. Our position is explained in our response to the consultation earlier this year on the British Steel Pension Scheme. In such a scenario, if a scheme remains eligible for PPF protection, we believe we should ensure that such a scheme's levy reflects the true risk the scheme presents and not imply a cross-subsidy from other levy payers.

As indicated in our July statement, we will be looking to review aspects of the Experian model more generally – including through the use of credit ratings where available - as part of work on the levy for the next triennium. We expect to set out our initial thinking on that around the end of the year.



David Taylor
General Counsel

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1. Introduction and Executive Summary

1.1 Introduction

1.1.1 This consultation document sets out the basis on which we intend to charge the Pension Protection Levy for the 2017/18 Levy Year. This includes the levy estimate (our expected total collection); the levy scaling factor; the scheme-based levy multiplier, and associated rules and guidance.

1.2 Overview

1.2.1 A key feature of the levy framework we operate is that we aim to maintain stability in the way in which the levy is calculated, as far as that is possible over a three year period (or triennium). This objective covers both the parameters for the levy, and other aspects of the Levy Rules.

1.2.2 However, although we aim for stability across the triennium, the determination of our Levy Rules and publication of the levy estimate for the year remains an annual process (as required by the Pensions Act 2004). We have, therefore, reviewed the levy parameters used in 2016/17 and concluded they remain appropriate. We have calculated our levy estimate for 2017/18 based on those parameters.

1.2.3 The Levy Rules for 2017/18 will be very substantially the same as for 2016/17 and, indeed, 2015/16. As set out later in this document, the most significant change proposed relates to an adjustment of accounts filed for the first time under the accounting standard FRS 102 (or FRS 101) when certain “trend variables” (referred to in the Levy Rules as Change Variables) are calculated. Other, limited, changes include the treatment of a small number of parent companies which file small companies accounts; the date from which Experian use data to calculate scores when accounts are restated, and clarifications of the scope of areas such as mortgage exclusions and guidance.

1.2.4 The draft Determination under section 175(5) of the Pensions Act 2004 is published alongside this consultation document. These Levy Rules express the Board’s policy in legal form and govern the basis on which we calculate the levy.

1.2.5 The closing date for the consultation is 31 October 2016. We will publish our consultation conclusions before the end of 2016.

1.3 Insolvency Risk measurement

1.3.1 The second triennium saw the introduction of a new PPF-specific insolvency risk scoring methodology, developed with Experian, the Pension Protection Score (PPS) in 2015/16. Our early monitoring suggests the model is operating as expected, and measures of predictiveness are generally good - though as would be expected while

- most stakeholders appear content, some have raised concerns about particular aspects of scoring.
- 1.3.2 We have set out, in our information paper of 28 July, our plans to review the Model for the third triennium (the levy years 2018/19 to 2020/21) – to reflect issues raised with us by stakeholders and the additional evidence now available. There will be no substantial changes to the model methodology in 2017/18, consistent with our policy of maintaining stability within a triennium.
 - 1.3.3 However, we have considered action to address issues caused by recent changes in accounting standards following the move to accounting based on Financial Reporting Standard 102 (FRS102) – and propose limited changes to our rules.
 - 1.3.4 Stakeholders have raised some specific concerns with us, but there has been little evidence on which to develop a robust approach. We have therefore sought to develop a better understanding of the effects – we commissioned PwC to provide us with a report on the possible impacts and have separately examined a sample of over 300 first filers (on FRS 102). Our overall conclusions are that the vast majority of schemes won't see a change in levy band due to the change in standard, but a small number will see a change in levy band (in some cases an improvement, in others a deterioration – and some variables provide examples of employers moving in both directions). For the small proportion of schemes seeing a change our detailed analysis showed a significant range of variables are affected.
 - 1.3.5 We think it reasonable to take the view that the new accounting standard is an improvement on the standard it replaces, and that it is not undermining the relationships seen between the model variables and risks of insolvency (given the limited extent to which it alters the relative ranking of employers). The move to FRS 102 also renders accounts more comparable to those already accounting on International Standards. It would not, therefore, be appropriate to seek to make general changes to reverse the effects – even if that were a practical proposition.
 - 1.3.6 By comparison, we see a stronger case to address the one off effects on trend variables, as raised by stakeholders. Trend variables compare information from the latest accounts with that from an earlier year. Specifically raised were variables affected by the requirement for employers sponsoring multi-employer schemes to reflect the pension deficit in their accounts.
 - 1.3.7 We, therefore, propose to allow certification for entities on the large and complex and not-for-profit scorecards (the only scorecards with trend variables affected by this issue). The certification will be in relation only to data that is used in a trend variable, and where for the comparison year the accounts were drawn up on a different basis (so that data based on FRS 102 accounts is being compared to data from an earlier year not on that basis). The effect will be to remove the impact of the one off change.
 - 1.3.8 We have amended the draft rules so that data in restated accounts is used to recalculate Monthly Scores from the date of the original filing

rather than the date of filing of the restated accounts, as happens at present.

- 1.3.9 Another change we are making in response to stakeholder feedback, is to address the position of ultimate parent companies that prepare small companies accounts on a consolidated basis. This affects around 20 schemes and is set out in section 3.
- 1.3.10 Other changes are limited in scope and affect either the time when data is used in Experian calculations or clarifications of existing rules and guidance.
- 1.3.11 We have also continued to review the customer experience we provide to our stakeholders – in particular, when they engage with insolvency scores using the PPF/Experian web portal. Following feedback from stakeholders we have made improvements to the portal’s log on process. We have also been looking at customer service in general.

1.4 Calculating the levy for schemes with no “genuine” sponsor

- 1.4.1 In our response to the Government’s consultation on the British Steel Pension Scheme (BSPS) we highlighted that where a scheme’s sponsoring employer is a shell or special purpose vehicle (SPV) – rather than a genuine business - then the standard methodology for calculating the levy would not be appropriate.
- 1.4.2 In such circumstances, the risk of a claim being made on the PPF cannot be measured by considering the financial position of the shell or SPV, because a claim would only be likely to be triggered when the funding position of the scheme deteriorated to the extent that it could no longer continue to run on. At that point “employer” insolvency would be triggered causing a PPF assessment period to begin. As a result, in calculating a risk-based levy we would need to focus on:
 - a) The level of scheme underfunding at which PPF entry would subsequently be triggered. As this level of underfunding is in reality the level at which the scheme’s qualifying insolvency event would be triggered, it is the true underfunding risk faced by the PPF, rather than the underfunding as measured from time to time in periodic valuations.
 - b) A measurement of the likelihood of that trigger level of underfunding being reached. This likelihood would be related to the scheme’s investment strategy, as it is the success of that strategy which will determine whether an insolvency event will take place. The measure could be an estimate of the probability of the scheme funding level falling below the trigger level.
- 1.4.3 The immediate need for detailed rules to give effect to this approach is not yet clear. At this stage, therefore, we are simply reiterating our commitment to ensuring the levy is calculated appropriately for schemes in such a position (not least so that we can ensure there is no cross-subsidy from other levy payers). If it becomes necessary we will bring forward specific proposals separately to this consultation.

- 1.4.4 More generally, we remain concerned about the risks posed to PPF levy payers and members. Where schemes are left to run on with a shell or SPV as the sponsoring “employer” the PPF becomes directly exposed to the risk of failure in the scheme’s investment strategy. This is not our intended role (we were established to act as a second line of defence for scheme members after the employer) and we have seen cases where a scheme’s funding - even under supposedly low-risk investment strategies - can deteriorate significantly.
- 1.4.5 Where our agreement is needed to allow such an exceptional situation to arise e.g. as part of special arrangements surrounding a Regulated Apportionment Arrangement (RAA) - we will consider proposals as to the structure of such arrangements on a case by case basis. However – in line with our published principles, we will need to be confident that by accepting the RAA we are putting the PPF in a better position than would be the case were the employer to become insolvent.
- 1.4.6 Where a scheme is running on outside the PPF – ie: with no genuine sponsor – the PPF is exposed to the risk that the funding position deteriorates, since it is in this scenario that entry to the PPF is likely to be triggered (as described above). As a result we would need to be convinced that wider arrangements around the SPV or shell (such as guarantees from group companies or a suitably rated bank) provide a level of covenant that – when taken together with the position of the scheme – means the scheme will be supported in the long term and that a claim on the PPF is highly unlikely (i.e. as it would be with a strong, ongoing employer). The ongoing risk posed to the PPF would then be reflected in the annual levy calculated in the manner described above.

1.5 Other policy areas

- 1.5.1 In 2016/17 we announced simplified requirements for schemes recertifying an asset backed funding structure (ABC), and we are proposing to extend these simplified requirements to 2017/18. We will consider the requirements for the future in the next triennium.
- 1.5.2 For 2016/17, in order to eliminate differing deadlines between ourselves and the Pensions Regulator, we moved the Measurement Time for the submission of scheme data to midnight on 31 March. We confirm that the deadline for the 2017/18 levy will be midnight on 31 March 2017.

1.6 The Levy Estimate

Factors influencing the Levy Estimate

- 1.6.1 The Board is required to publish a levy estimate before it sets the rules for each year. Last year we set a levy estimate of £615 million for 2016/17.
- 1.6.2 Looking ahead to 2017/18, we see a negative impact on funding levels due to the impact of recent market conditions (in particular, low gilt yields) on smoothed funding (our levy formula smoothes funding over a five year period to reduce volatility). However, new valuations submitted over the last year have shown a higher level of funding than might have

been expected purely based on applying market indices to the valuations they have replaced, and payments certified as deficit reductions remain substantial. As a result scheme funding is expected to be at similar levels for the 2017/18 levy as we predicted for last year's estimate.

- 1.6.3 At the same time, improvements in insolvency risk scores on the introduction of the Pension Protection Score methodology in 2015/16 have since tailed off. We have considered the initial evidence gathered about the potential effect of accounting standards changes on scores – and based on sample evidence - consider that the most appropriate assumption is that impacts will not be significant. As a result, we are issuing an unchanged levy estimate for 2017/18 at £615 million.
- 1.6.4 The Board has indicated since 2012/13 that it would only propose to intervene to control the change in levy estimate within a triennium were it to exceed a 25 per cent year on year shift. The Board is, therefore, formally confirming that it does not intend to adjust the levy scaling factor or scheme-based levy multiplier for 2017/18.

1.7 The third Triennium (levy years 2018/19 – 2020/21)

- 1.7.1 The current triennium runs until 2017/18 and our approach is to avoid implementing changes to the levy framework as far as possible within a triennium. Over the next year we will be looking ahead to the third triennium and taking the opportunity to review more significant elements of the risk-based levy calculation.
- 1.7.2 This will be the point at which to fully review the performance of the PPF-specific model and consider whether any changes are needed to the way in which scores are calculated. This will also provide an opportunity for stakeholders to raise wider points regarding the model, for example - though we will continue to base any changes on statistically reliable evidence. In July we published an update on areas we planned to review in the third triennium and this is available on our website. We will publish more detailed proposals for the triennium for consultation around the end of the year, with the consultation on the detailed levy rules following by the autumn of 2017.

2. The Levy Framework, Levy Estimate and Parameters

2.1 The triggers for changing parameters

2.1.1 Our levy framework set a formula for the levy, including the associated levy parameters. Other than in specific limited circumstances, we intend to keep the levy parameters unchanged for the current triennium, i.e. up to and including 2017/18. The circumstances we specified for changing the parameters are where their retention would cause:

- the levy estimate to exceed the levy ceiling, or,
- the scheme-based levy estimate to exceed the statutory maximum of 20 per cent of the total levy estimate, or,
- the levy estimate to vary by more than 25 per cent from the preceding year's estimate; in 2016/17 our published estimate was £615 million.

2.2 Our assumptions for the 2017/18 Levy Estimate

2.2.1 Assumptions are needed because we produce the estimate well in advance of having all the data that will be used in levy invoice calculations. Scheme return data and contingent asset certifications/re-certifications will not be submitted until March 2017; monthly Pension Protection Scores will be used up until March 2017, and schemes can submit other information about deficit reduction contributions (DRCs) and block transfers up to the end of April and June 2017 respectively.

2.2.2 In setting our assumptions we have looked at experience of trends in previous years, market data and also sought input from a number of firms of actuaries, to obtain their views of scheme behaviour in the run up to 2017/18. It is always difficult to judge the setting of individual assumptions but taken together we consider that these assumptions provide a balanced view of the factors that may affect the total levy.

2.2.3 Our assumptions are set out in more detail below and are generally consistent with the approach taken last year, unless otherwise indicated.

Scheme Funding

2.2.4 Each year the measured funding risk of schemes will change as a result of market movements, new s179 valuation submissions and certification of payments to reduce deficits. The assumptions for market movements - which are used when we roll forward and smooth scheme return data for invoicing - are particularly critical as these include the gilt yields used to discount liabilities, as well as the indices used to value assets.

2.2.5 To reduce volatility in levies arising from market movements, the calculation of the underfunding risk smoothes market conditions over a period of five years. As a result, assumptions are required regarding market yields and indices over the period from the date on which the levy estimate is calculated up to 31 March 2017.

2.2.6 In previous years we have derived future yield and index values from the Economic Scenario Generator (ESG). This is a stochastic tool used by the PPF to generate a range of economic scenarios over a number of

years - for example as an input to our Funding Strategy which focuses on the period to 2030. However, these projections may not be appropriate over relatively short periods in times of pronounced market volatility. We have, therefore, used an assumption that yields continue at current levels to 31 March 2017. We consider this to be a pragmatic approach, bearing in mind that markets could recover significantly or experience further falls.

- 2.2.7 We have also allowed for a proportion of schemes to submit new s179 valuations over the year to 31 March 2017, along with consequent changes to certifications of deficit-reduction contributions. In previous years we assumed that the overall impact of these factors would be neutral; however, analysis of recent experience suggests that they serve to improve measured funding levels (and reduce levy collection) relative to a roll-forward of the old valuation data. The levy estimate assumes that new s179s will be submitted by around one-third of schemes (based upon an even allocation of triennial submissions across the levyable universe), giving rise to an average funding level improvement for these schemes in line with actual experience of new submissions in recent years.
- 2.2.8 We assume that schemes that certified DRCs in 2015/16 and/or 2016/17 will also submit a DRC certificate for 2017/18, incorporating new DRCs over the year to 31 March 2017 at the same annual rate as implied by the latest DRC certificate for each scheme. Our assumption is adjusted to exclude DRCs where we have evidence that previously certified amounts are not expected to recur.
- 2.2.9 Taken together, our assumptions in relation to new valuations and deficit reductions act to mitigate the impact of declining yields on smoothed funding.
- 2.2.10 Investment risk forms a part of the assessment of scheme funding. There is little reason to expect a substantial shift in investment strategies amongst the majority of schemes so we have taken the asset mix of each scheme as reported by March 2016 and rolled each constituent part forward to March 2017 in line with actual and projected market indices. We have further assumed that all schemes which submitted a bespoke stress for 2016/17 will do so again for 2017/18 and that the impact of the stress calculations that schemes submit will be unchanged. We have also assumed that new voluntary bespoke stress submissions will have the same impact on levy as the new submissions did for 2016/17.

Insolvency Risk

- 2.2.11 We need to make assumptions about how the Monthly Scores that we use to measure insolvency risk will change over the year to the end of March 2017 and, afterwards - due to data changes and appeals. To do this we have looked at the recent trend – which has been for scores to be stable. As a result we have not assumed any aggregate improvement in scores. This is a change from the 2016/17 levy estimate, which assumed some improvement in scores, which has not been borne out in practice.
- 2.2.12 In addition we have made an assumption for score improvements due to appeals. These assumptions are derived from an extrapolation of actual

experience in respect of 2015/16 and allow for a gradually declining level of appeals as the Experian model beds in.

2.2.13 We have assumed that schemes that benefitted from voluntary certificates in relation to mortgages for 2016/17 will continue to benefit for 2017/18.

2.2.14 We have considered the initial evidence gathered about the potential effect of accounting standards changes on scores. The sample showed that, for most entities, any Pension Protection Score changes did not result in a change in levy band. Of those that did move levy bands, some improved and some worsened. Experian were only able to capture a limited number of accounts which makes it difficult to make a robust estimate of the levy impact. While acknowledging this limitation scaling up the results to the full population expected to move to FRS 102 resulted in a small increase in the levy estimate. However, the policy described in section 3 is expected to offset some of this increase. In the light of the limited data we have decided it is spuriously accurate to adjust the levy estimate for this accounting change.

Changes in Risk Reduction Measures

2.2.15 Modelling the impact of contingent assets is a complex area. The approach we use is to assume that all existing contingent assets remain in place, and then to make global assumptions in relation to rejections, schemes choosing not to recertify and in relation to the putting in place of new arrangements. In each case we base the assumptions on our recent experience.

2.2.16 We have assumed that all schemes which certified an ABC arrangement for 2016/17 will do so again for 2017/18, with the certified values unchanged. We made an assumption for new ABC certifications in 2017/18, which was that they would have the same impact on levy as new submissions did for 2016/17.

2.3 Our Levy Parameters and Levy Estimate for 2017/18

2.3.1 Using the assumptions described above and with unchanged levy parameters from 2016/17, the levy estimate for 2017/18 remains at £615 million.

2.3.2 Our triennial levy framework provides that we will not alter the scaling factor or scheme-based multiplier where maintaining them unchanged results in a levy estimate within a 25 per cent increase/decrease from the previous year's estimate. We are, therefore, setting the levy estimate for 2017/18 at £615 million, with the levy scaling factor and scheme-based levy multiplier remaining at 0.65 and 0.000021 respectively. The risk-based levy cap will also remain at 0.75 per cent of unstressed liabilities.

2.3.3 We have reviewed the other levy parameters (investment risk stress factors, levy rates, etc) as we do annually. We have concluded that these remain appropriate, in the context of our desire to maintain stable rules for the second levy triennium. There will, therefore, be no changes to the parameters.

- 2.3.4 While the levy estimate is unchanged from last year there are a number of moving parts beneath the surface. Section 2.2 above discusses a number of areas where the assumptions that we made for 2016/17 and our experience have diverged. The net effect of these is that we now expect to collect less than we expected when we published the levy estimate for 2016/17. The scale of this divergence, around 6 per cent, is similar in scale to many other years and reflects the difficulties of precisely forecasting the levy in advance of receiving the data on which invoices will be based. There is no impact on the levy in 2017/18 – if we had predicted collection in 2016/17 absolutely accurately, our estimate for 2017/18 would be the same.
- 2.3.5 Schemes will see that the level of underfunding calculated in our levy formula will rise between 2016/17 and 2017/18 due to the effect of falls in yields (the effect is much reduced due to our policy of smoothing asset and liability values). This effect will serve to increase some schemes' levies however for others it will be partially or totally offset by other factors such as putting new risk reduction measures in place, changes in Experian scores and/or submitting updated valuations.

3. The measurement of insolvency risk

3.1 Introduction

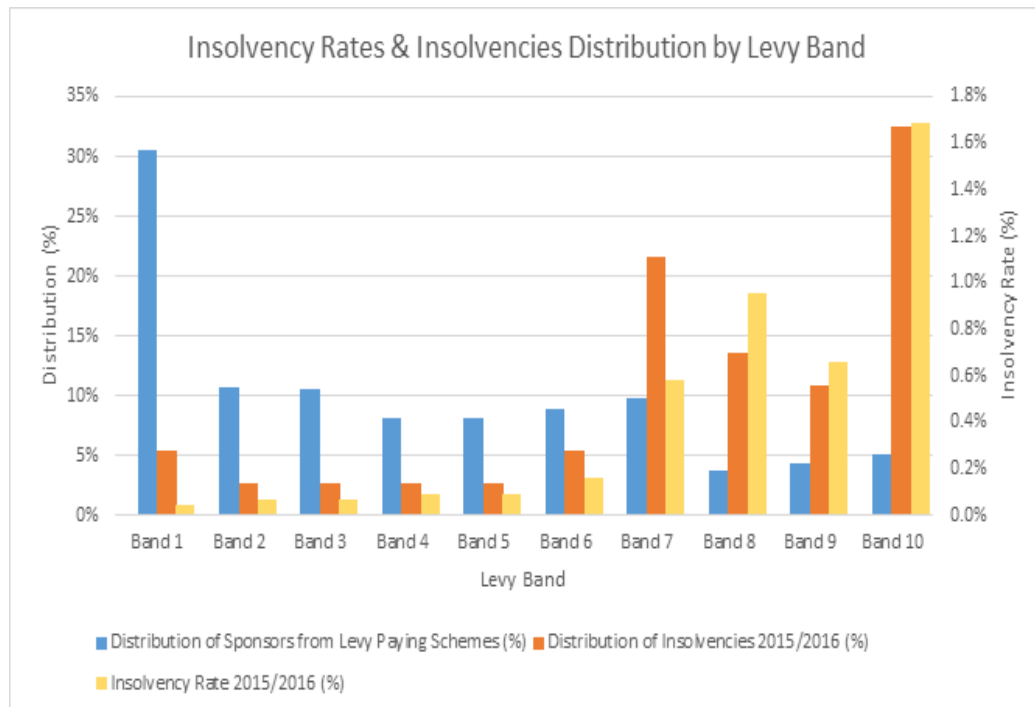
- 3.1.1 Following consultation in 2014, levy year 2015/16 saw the introduction of an insolvency risk model, the Pension Protection Score, which we developed with Experian. This was expected to be both more predictive, and more transparent than off-the-shelf equivalents.
- 3.1.2 Within this section we report briefly on our first full year's experience, review the customer service offering – and planned improvements, and review the evidence on the performance of the model.
- 3.1.3 We continue to receive a low level of comments from stakeholders on the operation of the model, including to make the case for changes in the approach to measurement. Factors such as the lack of an evidence base to support changes along with the desire for stability within a triennium has led us to conclude that these should generally be addressed for the beginning of the third levy triennium, on which we will consult around the end of the year. We do not therefore propose to evaluate detailed points made in this consultation.
- 3.1.4 The only changes in measurement we do propose to make for 2017/18 are to address the change in accounting standards to FRS 102; for a small number of entities that are ultimate parents but file small company accounts to ensure they are scored in a way that reflects the limited data available; and to adjust the date from which restated accounts are used by Experian (together with some relatively minor changes to the immateriality and refinancing mortgage exclusions).

3.2 PPF specific model – summary assessment

- 3.2.1 A fuller assessment of the PPF Specific Model will be included in the consultation document on the third triennium around the end of the year. However, in summary performance to date has been good.
- 3.2.2 The enhanced transparency of the model can be seen reflected in a decline in appeals from 2014/15. The first year's invoicing using the model saw a significant drop in appeals relative to D&B: with around 370 appeals compared to around 560 the previous year¹. This year we have seen a further reduction in appeals prior to the commencement of invoicing. We hope this is a sign that the system is bedding down rather than stakeholders delaying their appeal until they receive their invoice. Our Levy Data Corrections Principles guidance explains that one of the factors that can influence our willingness to allow data corrections is whether the request is made prior to invoicing.
- 3.2.3 When developing a model it is normal to measure predictiveness by looking at its Gini index (an explanation of the Gini coefficient is included

¹ Figures compare appeals to end December, after completion of the great majority of invoicing.

at Appendix A), and preliminary work for the new triennium shows performance remains strong - with an average Gini across all scorecards of 64 per cent (over the period 2013-2016). A simpler analysis along similar lines, appropriate to 2015/16 data in isolation, is to look at the proportion of insolvencies for each levy band, when compared to the proportion of employers in that band.



3.2.4 The above chart shows that, while a large proportion of the total population of employers are in the lowest risk bands (with around 30 per cent in band 1), insolvencies are heavily clustered in bands 7-10 which represent the bottom quartile of employers, with around a third of insolvencies in band 10, though this contains only 5 per cent of employers. This is the pattern that one would expect for a model which is distinguishing well between good and bad risks.

3.2.5 Another way to present the same information is to look at the proportion of companies scored in each band that had an insolvency event. This insolvency rate is shown in yellow on the chart above (see right hand scale). It can be seen that, generally, the insolvency rate for the ten bands rises from left to right.

3.3 Changes in Accounting Standards

3.3.1 The accounting standard FRS 102 (and FRS101 for subsidiaries of listed companies) sets out accounting and reporting requirements for entities not obliged to use International Financial Reporting Standards (IFRS) - primarily unlisted entities. This is not a specifically pensions focused standard and it could affect scores calculated by the PPF-specific model in a number of ways.

- 3.3.2 The introduction of FRS 102 brings the accounting standards for those affected entities into line with IFRS - which apply widely (including to entities listed on EU stock exchanges). At a general level it changes how entities value certain assets and liabilities in their accounts, and so there is a theoretical risk it could weaken the relationship between the historic experience on which the model is built and current insolvency scores. However, as will be seen from the analysis below, the evidence suggests that the impact on scores is limited – which supports our view that historic experience (which is a mixture of UK GAAP and IFRS data) remains valid as a basis for assessing recent accounts.
- 3.3.3 Earlier in 2016 we commissioned PwC to provide a report for us on FRS 102 impacts. A key difficulty for this analysis was the lack of accounts available on the new basis, but a review of companies listing on the stock exchange for the first time (and therefore moving from UK GAAP to IFRS reporting) showed limited impacts from the change in accounting basis. At the same time, PwC noted that a wide range of data items were potentially affected and recommended further analysis.
- 3.3.4 As a result, we asked Experian to look at a sample of those filing accounts on the new standards for the first time as they became available. Of the first entities submitting 2015 accounts, Experian identified a sample of 327 as filing under FRS 102 for the first time. For this sample, Experian compared the restated figures for the prior year's accounts with those same results for the previous published accounts – to show the “before” and “after” impact of the change in standards in isolation. (So, for example, for a set of 31/12/15 accounts, the comparator results at 31/12/14, on the new accounting basis, were compared to original filed accounts for 31/12/14).
- 3.3.5 Initial results suggest that a substantial majority of employers (nearly 85 per cent) will see no substantive impact from the change in standards – with limited numbers seeing an improvement or worsening of score, typically by one band. Of those seeing a change, around two-thirds see a negative impact (most commonly falling a single band), and one-third were positively affected. In part this disparity may reflect the relatively high proportion of schemes on the scorecards considered that are already in band 1, and therefore cannot improve.
- 3.3.6 Experian then conducted an analysis of the accounts of those seeing a move of more than one band to identify what was driving the change. For those seeing a change in levy band a range of factors are involved in the different cases, with no clear overall pattern.
- 3.3.7 In practice, impacts may be even less significant for 2017/18 than the relatively limited effect predicted by this analysis, as typically scores will be affected only for part of the levy year. For companies with accounting year end dates of 31/12/15, the timing of filing is likely to mean that, typically, only the last six months scores for the 2017/18 levy will be based on accounts on the new accounting standard. For employers that have later accounting year-end dates the impacts are likely to be even less. On the other hand, we are also aware of a small number of early adopters, who filed accounts prior to the relevant required date for large companies (accounting periods starting on or after 01/01/15).

- 3.3.8 One limitation of the analysis Experian has been able to do is that the sample was mostly composed of entities on the large and complex scorecard or larger group company scorecards, reflecting the speed of filing of companies. We intend to carry out further analysis in the next few months, as more accounts become available – primarily to inform work on the next triennium. We do not expect to make further changes in relation to this issue for 2017/18, unless there is compelling evidence.

Conclusions

- 3.3.9 The findings of the Experian analysis are consistent with the PwC view that there were a wide range of factors that could affect accounts. This makes it difficult, in principle, to make allowance for any changes – even if this were theoretically justified.
- 3.3.10 We start from the position that FRS 102 offers a better view of a company's financial health and renders different companies' accounts more comparable. So, where the new reporting standard leads to a change in our assessment, it seems reasonable to adopt that new assessment rather than try to unpick the effects. That approach is supported by the sample analysis showing that - on the whole - the effects on our scores are limited, and there is no single cause of the change in scores we are seeing. It is reasonable to conclude that the change in standards is not undermining the relationships seen between the model variables and risks of insolvency given the limited extent to which it alters the relative ranking of employers.
- 3.3.11 In addition, it is important to note that a number of our levy payers have been assessed throughout this triennium on accounts prepared on a similar basis, where they have been reporting on IFRS. From this perspective, the change to accounting on FRS 102 basis represents a movement into line with the basis on which these levy payers have been charged.
- 3.3.12 However, that logic is different for change variables – ie: where the move to a new accounting standard could lead to the inclusion or exclusion of new items in the relevant accounting line for this first time. This would then affect scores in a way that doesn't reflect an improved understanding of employer strength – it is just a consequence of the accounting change. The main example raised with us is the elimination of an exemption from accounting for pension deficits for employers in multi-employer schemes, but there are other changes that could affect the same variables (e.g. preference shares are treated as debt instead of equity).
- 3.3.13 We, therefore, intend to allow employers on the scorecards where we have identified the most significant impacts (the large and complex and the not-for profit scorecards) to certify an adjustment to be made to the figures in the accounts used for change variables. The adjustment will be based upon comparing data from the original and restated accounts in the year prior to the first accounts on the new basis. Any element of restatement not relevant to the accounting standard change will need to be removed from the change reported by the employer. Experian will then apply the reported change to the change variable.

- 3.3.14 This approach has the benefit of using published accounts figures that show the “before” and “after” impact of the change in standards in isolation – which can be checked for accuracy - but still using the most up to date information in the levy calculation. It can also apply for entities moving to the new accounting standards in an earlier year, or those transferring from UK GAAP to IFRS.
- 3.3.15 Making an adjustment to one year’s data based on information drawn from another year, while the most pragmatic solution, may introduce inconsistencies. In particular, where net worth is typically rising over time, adjusting the base year for a percentage increase variable may overstate the impact of an adjustment (and have the opposite effect for those seeing reductions in net worth). We will consider whether it is worthwhile scaling adjustments – e.g. based on the ratio of the variable at N-3 and N-1 or N. We would be interested in views on this.
- 3.3.16 To date, there is no evidence that there are substantial impacts in relation to trend variables on other scorecards. If stakeholders scored on other scorecards do believe they would be significantly affected (i.e. that they expect an employer to move bands purely as a result of a change in accounting standard) then they should flag this as part of the this consultation, and we will assess the case for extending the certification regime in the light of the number of significantly affected entities.
- 3.3.17 We intend to add functionality to the portal to help levy payers assess whether the adjustment they could report would move them a levy band, to assist levy payers in understanding the impact of the accounting change and to reduce unnecessary certification.
- 3.3.18 To certify, Schemes will need to provide Experian with information to indicate that they are affected and how – using a certificate that would be submitted to Experian by 31 March and signed by the Finance Director of the company or other appropriate Officer. A draft certificate is included in Appendix B along with a worked example and additional explanation in the revised Insolvency Risk Guidance. Completion arrangements will be as for mortgage certificates.

3.4 Ultimate parent companies filing small companies accounts

- 3.4.1 A feature of the model’s assessment of insolvency risk of companies in corporate groups is that the strength of the wider group forms part of the assessment of the employer. This recognises that there is a correlation between wider group strength (or weakness) and the risk of insolvency². The accounts of the ultimate parent company are used to assess group strength, as these generally provide a consolidated view of the group – and these accounts are assessed on the large and complex scorecard developed for ultimate parents.

² The existence of a statistical correlation does not mean that the PPF relies upon an ultimate parent standing behind an employer in the absence of a legal obligation to do so, in any particular case. Where a legal obligation, through a parental guarantee is given (in suitable form) this is separately reflected in the levy.

- 3.4.2 We have become aware that there are around 20 companies which, although they are able to file small companies accounts on a consolidated basis themselves and they take advantage of that flexibility, are the parents of employers. The large and complex scorecard is not well suited to measuring such companies as it uses data items not included in small companies accounts, typically resulting in a poor score. We consider it would be more appropriate that these entities are scored on the independent small scorecard (as indeed they already are, for the purposes of their own score if they are, themselves, employers).
- 3.4.3 This proposal will not affect cases where the parent's accounts are unconsolidated (or where there is an ultimate parent for which accounts are not available). In such cases if the ultimate parent's consolidated accounts are unavailable, Experian create consolidated accounts using data of both the parent company and its subsidiaries which is likely to be a better basis for assessment, than the stand-alone accounts of an intermediate holding company. Ultimate Parent Companies, in this situation, will generally have the option of submitting their own accounts, which will provide the most appropriate score based upon the large and complex scorecard.

3.5 Restated Accounts

- 3.5.1 Experian currently use the data contained in restated accounts for the first Monthly Score following their filing (providing they have been able to process them or, if not, one month after their filing). This may be several months after the date the accounts were originally filed.
- 3.5.2 Our new rule will lead to Experian using the restated accounts to recalculate Monthly Scores from the date the original accounts were filed rather than the date of amendment/restatement.

3.6 Mortgage exclusions

- 3.6.1 In their modelling work carried out in 2013, Experian found that the existence of a recent mortgage was highly predictive of the risk of insolvency and so the age of the most recent mortgage is measured on six of the eight scorecards. In finalising the 2015/16 Determination we allowed exclusion (by certification) of some types of mortgages in a limited range of circumstances where it was clear that they were not relevant with respect to insolvency risk.
- 3.6.2 For 2016/17 we sought to simplify arrangements by ensuring that the majority of certifications could be carried forward without a requirement to recertify.
- 3.6.3 For 2017/18, we intend to maintain the same approach as for 2016/17. We will therefore be carrying forward all certificates apart from those for immateriality, or where our testing of credit ratings indicates that the requirements for certification are no longer met.
- 3.6.4 The table below sets out the number of scores affected by certificates, for each type of exclusion for 2015/16 and 2016/17. It shows that, as expected, the decision taken in 2016/17 to allow most categories of

mortgage certificates to roll-over together with our testing of credit-ratings has significantly reduced the need for certification.

Year	Refinance	Pension scheme	Immaterial	Credit rating	Rent deposit
2015/16	45	82	46	797 (Employer: 328 Parent: 469)	11
2016/17	15	16	24	44 (Employer: 20 Parent: 29)	7

3.6.5 We have also been reviewing feedback from stakeholders, more generally, on the 2016/17 certification process, in particular, on the content of the mortgage exclusion certificates and our Mortgage Exclusion Guidance.

3.6.6 We acknowledge that the certification process was not as smooth as it could have been for 2016/17. In particular we have been considering the process around Credit Rating Agency (CRA) certification. Where schemes intend to submit a CRA certificate on behalf of more than one employer, it will be acceptable to submit a single certificate covering all employers, provided that Experian receive confirmation that the certificate signatory is authorised to certify on behalf of each of the employers listed on the certificate or supporting document.

3.6.7 For ease of reference, we are also asking schemes to include, with their refinance or immaterial mortgage submissions, a short covering note listing the relevant highlighted extracts within their submitted mortgage documentation, and the requirement to which each extract relates. We will make finalised forms and certificates available in December.

Evidence of release

3.6.8 We have been asked whether the actual date of release, where it is earlier than the registered date of release, can be used by Experian in establishing the date of the most recent mortgage. Experian use Companies House as the primary basis for establishing the date for both the creation and release of charge information.

3.6.9 In the case of release information, we have existing rules that allow a scheme to appeal to Experian to allow an earlier date to be used where it can be shown that the non-availability of the information (from Companies House) at the earlier date was not due to any action or inaction of the scheme trustees or other appellant. Additionally, it is possible for the company affected by the charge to register the release with Companies House themselves.

Immateriality

- 3.6.10 The existing tests to allow charges to be excluded when assessing the age of the most recent mortgage on the grounds of immateriality focus primarily on credit arrangements and refer to the amount of borrowing (charges over bank accounts can also be certified). We have identified several circumstances where charges may exist that are not connected to an amount of borrowing but for which an amount of money may be recoverable in specified circumstances. An example of this situation is where grant funding may be awarded but with the requirement to repay some or all if specified conditions are not met.
- 3.6.11 We are proposing a rule change that would allow such charges to be considered for exclusion, on the basis of immateriality, providing the usual tests of immateriality are met, but with the assessment being calculated on the basis of the amount which could potentially be required to be repaid.

Refinancing

- 3.6.12 We are proposing a change that would allow mortgages to be counted as a re-finance mortgage where the original mortgage was entered into by one group company and the refinance mortgage by another. Examples we have seen have been connected to group restructuring where, for example, a subsidiary company becomes dormant following the transfer of its business (along with responsibility for any changes) to the ultimate parent company. Providing either the refinance mortgagor was guarantor to the original mortgage or the transfer of the charge is part of a transfer of business and the remaining standard conditions for a refinance mortgage exclusion certificate are met, this will allow such arrangements to be certified.

Mortgage Charge Data Source

- 3.6.13 We have received a request from stakeholders to treat the Financial Conduct Authority (FCA) Mutuals Register as an equivalent data source to Companies House, in determining whether a charge exists, and the age of the most recent mortgage. Entities that do not file charge information with Companies House (or named overseas registries) currently receive a neutral mortgage age score.
- 3.6.14 In considering whether to accept the data held on the Mutuals Register as an alternative data source, we have followed the same approach as when considering the use of overseas registries. A key consideration has been whether it is as comprehensive as the Companies House record.
- 3.6.15 Younger mortgages 'count against' the Experian score more than older ones, with the complete absence of mortgages being the most beneficial. To be able to rely on a data source, therefore, we need to be confident that the absence of any mortgage record for an entity definitively means it has no mortgages, and that if mortgages are recorded then that list is comprehensive. Therefore it is not simply a question about gaining access to that data or choosing to ignore it, but rather can we rely upon the completeness of the data?

- 3.6.16 While a number of the features of the Mutuels Register are similar to those of Companies House there are also important differences. The Register, unlike Companies House, is not intended to provide a comprehensive registration system. While there is a legal requirement for mutuels to record certain types of charge, this only applies in very limited circumstances. Specifically, there is no legal requirement for mutuels to register charges information with the FCA where there is an alternative source of information which could confirm whether a charge exists. This means that a wide range of charges do not need to be registered with the FCA, including:
- Charges over land or real estate
 - Charges over shares and
 - Charges over book debts.
- 3.6.17 For companies, a failure to register a charge with Companies House will mean that the charge is void against third parties such as other creditors. In view of this, there is usually a contractual obligation in the underlying charge agreement to register. This means that there are powerful legal and commercial incentives for companies to register charges data, which do not apply to entities registering charges with the Mutuels Register.
- 3.6.18 We have also considered whether a self-certification process might be appropriate for these entities. However this would suffer from the same weaknesses that we have found when considered in the past:
- a) It would not be possible to verify certifications and
 - b) It would undermine the basis on which the existing neutral score is based, since the assumption would have to be that those not reporting were more likely to have a charge. To protect against manipulation we would need to apply a significantly more negative score. This would mean entities wanting to avoid that worsened score having to certify. In practice this could lead to not simply a zero charge certification but a full listing of any charge information for up to 20 years (the longest period over which mortgage variable scores are calculated). We believe this would create significant new administrative burdens for all in this category, extending to a significant number of employers, and not consistent with our intention of maintaining stability of rules within a triennium where possible.
- 3.6.19 We are not, therefore, proposing any change and Experian will continue to draw charges information from Companies House and those overseas registries already named in the Determination. We appreciate this will be a disappointment to the stakeholders who have raised this with us but, for the scorecards we are considering re-building for the third triennium, we will be reviewing the variables used including the use of mortgage age (those scorecards include the current large and complex, independent full and not-for-profit scorecards).

3.7 Foreign Exchange Rates

- 3.7.1 In the 2016/17 Policy Statement we set out a change we intended to implement for 2017/18 - in the way accounts in a currency other than sterling are converted, for use in the model.
- 3.7.2 We indicated then that we would use the exchange rate as per the balance sheet date of the annual accounts to convert figures. The one exception to this approach being that when calculating a trend variable we will use for the N-3 accounts the same exchange rate as for the date of the most recently filed annual accounts (so that trend variables do not show changes purely due to a movement in exchange rates).
- 3.7.3 We can now confirm that we are implementing this approach for 2017/18. Accordingly, the draft Determination published with this consultation document has been written on that basis (Part 3 of the Insolvency Risk Appendix). Additionally, scores displayed on the portal have been calculated on this basis since April 2016.

3.8 Customer services

- 3.8.1 Schemes continue to engage with insolvency scores using the web portal run jointly by the PPF and Experian: to date³, 77 per cent of schemes have logged on to check the scores that will feed into their levy bills for 2016/17. Following feedback from portal users, we have been looking at ways to improve portal's access. Some stakeholders reported that they found the portal's log in process cumbersome. In particular, users questioned the necessity of accepting multiple terms and conditions every time they logged on, and the fact that they were automatically logged out of the portal after 15 minutes of inactivity. Users also reported that the 60 day period after which inactive users are 'locked out' too short, compared, for example, with the period a user would expect to wait before being locked out of an online bank account.
- 3.8.2 The portal login process was originally designed taking account of concerns about information security. However, we are keen to develop as user-friendly an experience as possible while maintaining effective protection. Accordingly, we have worked with Experian and their developers to make improvements to the portal login process. The terms and conditions for the portal have now been condensed into one statement, requiring users to complete just one tick box to complete – in addition, portal users only need to accept them the first time they log on, and every six months thereafter.
- 3.8.3 These changes address the problems some users have experienced with the portal, without unacceptably compromising the security of the scheme information that can be viewed on it. We have also made changes to our customer support processes in general. We have now removed the option based system, so telephone callers get through to speak to a person directly.

³ Between April 2015 and June 2016

- 3.8.4 We believe that we are providing a high standard of customer service, and this is reflected in the responses we see to our customer survey. This survey is issued following completion of a query raised with the PPF or Experian service desks. Currently, 93 per cent⁴ of people are reporting that they are satisfied with the service provided by the PPF and Experian. This builds upon the level of 88 per cent achieved in the year to 31 March 2016 (90 per cent in the last quarter). However, we recognise that there is always room for improvement. We would welcome comments and other suggestions for ways we can continue to provide an excellent service.
- 3.8.5 Stakeholders have requested that Experian provide at least one Monthly Score for a new guarantor provided their accounts are provided (if not already held by Experian) by 31 March. Where accounts are filed with one of the sources from which Experian collect accounts or where they are submitted voluntarily by 31 March 2017 a score or scores will be calculated for 2017/18.

⁴ April 2016 to August 2016

4. Other policy issues

4.1 Introduction

- 4.1.1 This section sets out our experience of the main non-model areas where policy altered for the second triennium. We have focussed on improving guidance in these areas.

4.2 Levy Bands & Rates

As noted in the previous section, scores have been stable from 2015/16, and there is no case for adjusting either the levy bands or levy rates within the remainder of the second triennium.

4.3 Asset Backed Contributions

- 4.3.1 The 2015/16 Levy Rules introduced a requirement to certify asset backed contributions (“**ABCs**”) via a separate form if their value were to be recognised in the levy. The main change for 2016/17 was to allow for a lighter touch approach to recertification of ABC arrangements, relative to initial certification. This meant, in most cases, no need to produce new legal advice and potentially a lighter-touch valuation.
- 4.3.2 We intend to extend this approach for a further year. We will always expect the trustees to ask a valuer to consider the value (and for that to continue to be based on legal advice about the ABC), but this can be by updating the previous valuation, and legal advice. The valuer will, however, need to owe the same duty of care to the PPF as with the original valuation, and so will have to form a view on what can be relied upon from the previous valuation in that context.
- 4.3.3 We have received no comments on the guidance itself and, therefore, conclude that it remains fit for purpose.

4.4 Guidance on Actuarial Assumptions

- 4.4.1 Stakeholders may be aware that a new version of the s179 valuation assumptions guidance - A8 - has been released for consultation. The consultation period closes on 31 October and it is envisaged that the finalised guidance will come into force before the start of levy year 2017/18.
- 4.4.2 In our second triennium policy statement published in October 2014, we confirmed that version A7 of the s179 valuation assumptions guidance would apply as the output basis for transformations throughout the triennium, and that any s179 valuations submitted on a subsequent version would be transformed back to the A7 assumptions.
- 4.4.3 Consistent with our published policy, we propose to retain version A7 as the output basis for levy year 2017/18. Any s179 valuations prepared

under version A8 and submitted by the Measurement Time for 2017/18 will be transformed back to the A7 assumptions.

- 4.4.4 As A8 is still subject to consultation, we have not documented the corresponding assumptions in the draft Transformation Appendix. Paragraph 4.5.4 covers the situation where a submitted s179 valuation has been prepared on a later version of the assumptions guidance than A7, and provides for the use of the appropriate assumptions in determining the s179 input basis.

4.5 Inclusion of annuities in pension scheme accounts

- 4.5.1 As noted in our 2016/17 levy consultation document, the accounting standard ('Financial Reports of Pension Schemes') requires schemes to include in their accounts the value of any annuities held in the name of the trustees, for accounting years commencing on or after 1 January 2015. Without adjustment, this could lead to inconsistencies between the accounts used for the asset breakdown and those underlying the last submitted s179 valuation, as many schemes have historically not reported annuity values in their accounts.
- 4.5.2 In order to address this, our approach for levy year 2016/17 (as confirmed in our policy statement of December 2015) is to identify any schemes with an asset breakdown date on or after 31 December 2015 and treat the proportion of 'non-accounts insurance assets' as zero.
- 4.5.3 Some respondents suggested changes to this approach to address potential differences between the value of annuity policies as they will appear in scheme accounts and the value calculated as a part of the s179 valuation. We indicated in our 2016/17 policy statement that the number of affected schemes for that levy year was expected to be very small, but that we might reconsider our approach for later levy years.
- 4.5.4 We have gathered evidence from stakeholders concerning the application of the new accounting standard in practice and, as a result, we propose to amend our approach for levy year 2017/18 in order to address the consistency concerns raised last year. The new approach will set the proportion of 'non-accounts insurance assets' to zero for schemes which satisfy both the following conditions:
- an asset breakdown date on or after 31 December 2015, and
 - an s179 accounting date before 31 December 2015.
- 4.5.5 As for levy year 2016/17, we have included an amendment within the draft Transformation Appendix to reflect the change. Schemes will not be required to take any additional action.
- 4.5.6 The practical effect of this change is that the annuity value shown in the scheme accounts will only be used in our asset transformations until such time as the scheme submits an s179 valuation based on accounts prepared under the new accounting standard. Once this point is reached, the asset transformation will revert to using the annuity value calculated as part of the s179 valuation.

4.5.7 We recognise that the use of the annuity value from the scheme accounts gives rise to potential inconsistencies over the short term. However, in view of the limited time horizons involved and the relatively small proportion of total assets represented by annuity policies, we consider that our proposed approach is appropriate as an interim measure.

4.5.8 We would also draw stakeholders' attention to:

- the continued requirement under the PPF Valuation Regulations for scheme actuaries to place an 'appropriate' value on annuities for current and future s179 valuations;
- that the 'appropriate' value could differ from that shown in the accounts; and
- that any difference between the 'appropriate' value and the value shown in the accounts should be recorded in Exchange as part of the s179 submission (using the field 'Proportion of assets held in the form of insurance contracts not included in scheme accounts').

5. Draft Levy Rules 2017/18

5.1 Overview of Determination, Appendices and Guidance

5.1.1 In addition to the changes we have set out elsewhere in this document we have made a number of mainly minor amendments to the Determination, Appendices and Guidance including:

- a) Clarification on what items should be included in the expenses element when calculating the amount of certifiable deficit-reduction contributions.
- b) Inclusion of a worked example of index-linked gilt repos in the "Guidance for Bespoke Stress Calculation for assessing investment risk".
- c) We have included a new definition of "Confirmation Statement" to reflect the fact that these now replace Annual Returns. As the change only took effect in June 2016, we have kept the references to Annual Returns, which may be submitted in the alternative.
- d) Clarifying Rule E2.6 to confirm (a) where Experian receives an employee numbers certificate, this information will be applied from the date the employer's latest accounts were filed, and (b) Experian will use a non-employer Type A guarantor's financial information to calculate its score provided this information is received by the Measurement Time.
- e) Updating the Block Transfer Guidance to confirm our requirements where a scheme makes a partial transfer and subsequently pays out winding up lumps sums or purchases annuities for the remaining members.

5.2 Measurement Time in 2017/18

5.2.1 The standard Measurement Time for the submission of scheme data (including hard copy contingent asset documentation) will be midnight at the end of 31 March 2017. This change, introduced for 2016/17, will not apply to the Measurement Time for certification of DRCs and block transfers – for these, the submission time will remain at 5.00pm on their respective dates.

5.2.2 The midnight deadline would also apply to mortgage exclusion certificates submitted by email to Experian by midnight on 31 March 2017. Stakeholders should be aware that telephone support provided by the PPF and Experian will be available until 5.00pm on 31 March 2017.

5.3 Data corrections

5.3.1 We recently published our Levy Data Correction Principles. We explain that, in considering requests for data corrections, we seek to strike a balance between the general desirability of invoices being based on

correct information, the efficient achieving of this aim, and the need to ensure that the responsibility for providing correct information remains with schemes.

6. Consultation Arrangements and Key Dates

6.1 2017/18 Consultation

6.1.1 The consultation on the 2017/18 Levy Rules runs from 22 September 2016 to 5pm on 31 October 2015. Please ensure that your response reaches us by the deadline. Submissions may be made by email or post, using the details below.

Email: consultation@ppf.gsi.gov.uk

Postal address: Chris Collins
Chief Policy Adviser
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
CR0 2NA

6.1.2 Please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

6.1.3 Under the Freedom of Information Act 2000 (FoIA), all information contained in the response, including personal information may be subject to publication or disclosure. By providing personal information for the purpose of the public consultation exercise, it is understood that a respondent consents to its disclosure and publication.

6.1.4 If this is not the case, the respondent should limit any personal information which is provided, or remove it completely. If a respondent requests that the information given in response to the consultation be kept confidential, this will only be possible if it is consistent with FoIA obligations and general law on this issue. Further information can be found on the website of the Ministry of Justice at:

<https://www.gov.uk/make-a-freedom-of-information-request/the-freedom-of-information-act>

6.1.5 A summary of responses and the Board's final Determination and confirmed policy are planned to be published on the PPF website at:

<http://www.pensionprotectionfund.org.uk> in December 2016.

6.2 Key Dates

6.2.1 We will continue to use information from the annual scheme return that is submitted via the Pension Regulator's Exchange system to calculate levies. The deadline for submission is midnight at the end of Friday 31 March 2017, except as detailed below.

Item	Key dates
Monthly Experian Scores to be used in 2017/18 levy	Between April 2016 and March 2017
Deadline for providing updated information (to Experian) to impact on Monthly Experian Scores	One calendar month prior to the Score Measurement Date
Submit scheme returns on Exchange	By midnight 31 March 2017
Reference period over which funding is smoothed	5-year period to 31 March 2017
Certification of contingent assets	By midnight 31 March 2017
Certification of asset backed contributions	By midnight 31 March 2017
Certification of mortgages and accounting standard changes (emailed to Experian)	By midnight 31 March 2017
Certification of DRCs	By 5pm, 28 April 2017
Certification of full block transfers	By 5pm, 30 June 2017
Invoicing starts	Autumn 2017

6.3 Comments on the Consultation Arrangements

6.3.1 Where the principles are appropriate to our status as a Public Corporation, we aim to conduct our consultations in line with the Cabinet Office's Consultation Principles that can be found on their website at:

<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

6.3.2 The Board would welcome feedback on the consultation process. If you have any comments, please contact:

Richard Williams
Head of Corporate Affairs
Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon, Surrey
CR0 2NA

Email: Richard.williams@ppf.gsi.gov.uk

**Deadline for consultation responses is 5pm on
31 October 2016.**

Appendix A

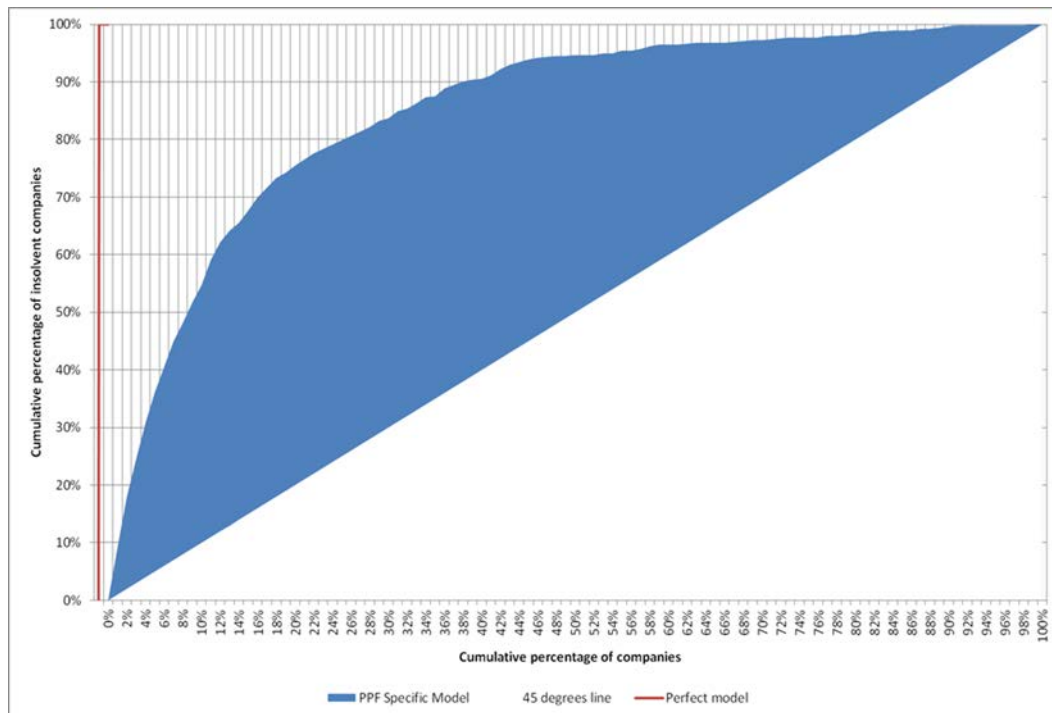
What is the Gini coefficient?

The Gini Coefficient is a measure of statistical dispersion. It measures the inequality among values of a cumulative frequency distribution, in this case the actual distribution of insolvency events and that predicted by the model. The Gini coefficient has been adopted as an industry standard approach to assessing the ability of credit scoring models to discriminate between risks.

The chart below plots the actual distribution of insolvency events in our experience against that predicted by the PPF-specific model (blue curve). It shows the proportion of insolvencies that are predicted by any given proportion of scores, thus it shows that half of the employers that became insolvent are among the 8 per cent of employers with the lowest PPF-specific scores, and 80 per cent of insolvencies had the lowest 25 per cent of scores.

A perfectly accurate model would have given a score of 1 to all employers that then became insolvent – we show this on the chart by the red line. At the other extreme, a model with no predictive power would give only 1 per cent of failures a score of 1, 10 per cent of failures a score of 10 or less and so on - we show this by the diagonal line. The more predictive a model is, the closer its curve will be to the red line and the further it will be from the diagonal line (a model placing 60 per of failures in the bottom 20 per cent of scores is better than one placing only 40 per cent of failures in those scores).

We can also calculate a statistic, the Gini coefficient, to express the accuracy numerically. This simply measures how large the blue area, between the model's curve and the diagonal is as a proportion of the area of the triangle between the perfect model and the diagonal. A Gini coefficient will, therefore, take a value between 0, reflecting no accuracy at all, and 1 for perfect accuracy.



Appendix B

Accounting Standard Change: Net Worth (Large and Complex Scorecard only)



This certificate reports on the impact of a change in accounting standards, and the figures reported must be on a comparable basis apart from the change in accounting standards.

Declaration

I, [REDACTED], hereby certify that I am duly authorised to give this Officer's Certificate on behalf of the Entity listed below.

Company details

Entity being certified: [REDACTED]

Registration number (Companies House / Charities Commission): [REDACTED]

Date of accounting Year-end where standards change: [REDACTED] (F)

Impact of Net Worth

Net worth in Year F-1 as stated in original accounts ¹ for F-1: [REDACTED] (Q_{F-1})

Net worth in Year F-1 as restated for accounts for Year F: [REDACTED] (Q_{F-1adj})

Difference between restated and original accounts: [REDACTED] (Q_{F-1}-Q_{F-1adj})

Either

A. Adjustments made which **DO NOT** reflect the change in accounting standards: [REDACTED] ² (Other_{F-1adj})

Or

B. I confirm that no adjustments were made to the value certified for Net Worth in Year F-1 shown in the accounts for Year F **other than** adjustments to reflect the change in accounting standards.

Adjustments made which reflect the change in accounting standards: [REDACTED] (C)

Accounting adjustments are discounts in Note [REDACTED] of accounts for Year F.

I certify that the information contained within this certificate is complete and accurate. In confirming this, I am aware that it is a criminal offence under section 195 of the Pensions Act 2004 for any person knowingly or recklessly to provide false or misleading information to the PPF Board in circumstances in which the person providing the information intends or could reasonably be expected to know, that it would be used by the Board for the purposes of exercising its functions and acknowledge that the information provided in this Officer's Certificate will be used by the Board for the purposes of exercising its functions.

Signature:

[REDACTED]

Name and Capacity in which signing:

[REDACTED]

Date:

[REDACTED]

¹ Note: where accounts have been previously restated in years n-1, this figure should relate to the accounts which are used as the basis for the reconciliation of accounting standard impacts in Year N

² only complete if you are indicating that part of restatement for F-1 is not Accounting Standard related

Example accounting change adjustment calculation and certificate

Company ABC is scored on the Large & Complex scorecard, so Change in Net Worth is a Trend Variable. Company ABC's net worth in the last four years as stated in its annual accounts from 31 December 2012 to 31 December 2015 are as follows:

Accounting year-end	Notation in Variable Value calculation	Net worth
31 December 2015	Q	£450,000
31 December 2014	Q _{N-1}	£600,000
31 December 2013	Q _{N-2}	£650,000
31 December 2012	Q _{N-3}	£700,000

The Variable Value for this Trend Variable is calculated using the formula $(Q - Q_{N-3}) / Q_{N-3}$. Substituting the figures above into this formula gives $(£450,000 - £700,000) / £700,000 = -35.71$ per cent (to 4 significant figures)

However, Company ABC has switched to filing its latest accounts at 31 December 2015 under FRS 102. It now has to include the deficit in a pension scheme to which it contributes as a liability, which reduces its net worth figure. This means the latest net worth figure at 31 December 2015 (Q) is not directly comparable with the net worth figure at 31 December 2012 (Q_{N-3}), which was filed under UK GAAP where the pension deficit was not treated as a liability.

In its latest accounts at 31 December 2015, Company ABC has restated its accounts for 31 December 2014 (Q_{N-1}) under FRS102. The net worth figures in the last four years of accounts under UK GAAP and FRS 102 are as follows:

Accounting year-end	Notation in Variable Value calculation	Net worth under UK GAAP	Net worth under FRS102
31 December 2015	Q		£450,000
31 December 2014	Q _{N-1}	£600,000	£300,000
31 December 2013	Q _{N-2}	£650,000	
31 December 2012	Q _{N-3}	£700,000	

The notes to the 31 December 2015 accounts state that the restated net worth for 31 December 2014 (Q_{N-1}) is £20,000 lower than the original net worth amount of £600,000 due to a Health and Safety fine that was imposed in the year to 31 December 2014. The value of Other_{F-1 adj} is therefore £20,000.

The effect of switching to FRS 102 is therefore a reduction in net worth by £280,000 from £600,000 to £320,000. The value of C is therefore £280,000.

Utilising the formula in Part 3 paragraph 8.3 of the Insolvency Risk Appendix, the Variable Value of the Change in Net Worth variable removing the impact of the change in accounting standard is calculated as follows:

$$\text{Variable Value} = (Q - Q_{N-3} + C) / (Q_{N-3} - C) = (£450,000 - £700,000 + £280,000) / (£700,000 - £280,000) = 7.14\% \text{ (to 4 decimal places).}$$

Accounting Standard Change: Net Worth (Large and Complex Scorecard only)

This certificate reports on the impact of a change in accounting standards, and the figures reported must be on a comparable basis apart from the change in accounting standards.

Declaration

I, , hereby certify that I am duly authorised to give this Officer's Certificate on behalf of the Entity listed below.

Company details

Entity being certified:

Registration number (Companies House / Charities Commission):

Date of accounting Year-end where standards change: (F)

Impact of Net Worth

Net worth in Year F-1 as stated in original accounts ¹ for F-1: (Q_{F-1})

Net worth in Year F-1 as restated for accounts for Year F: (Q_{F-1adj})

Difference between restated and original accounts: (Q_{F-1}-Q_{F-1adj})

Either

A. Adjustments made which **DO NOT** reflect the change in accounting standards: ² (Other_{F-1adj})

Or

B. I confirm that no adjustments were made to the value certified for Net Worth in Year F-1 shown in the accounts for Year F **other than** adjustments to reflect the change in accounting standards.

Adjustments made which reflect the change in accounting standards: (C)

Accounting adjustments are discounts in Note of accounts for Year F.

I certify that the information contained within this certificate is complete and accurate. In confirming this, I am aware that it is a criminal offence under section 195 of the Pensions Act 2004 for any person knowingly or recklessly to provide false or misleading information to the PPF Board in circumstances in which the person providing the information intends or could reasonably be expected to know, that it would be used by the Board for the purposes of exercising its functions and acknowledge that the information provided in this Officer's Certificate will be used by the Board for the purposes of exercising its functions.

Signature:

Name and Capacity in which signing:

Date:

¹ Note: where accounts have been previously restated in years n-1, this figure should relate to the accounts which are used as the basis for the reconciliation of accounting standard impacts in Year N

² only complete if you are indicating that part of restatement for F-1 is not Accounting Standard related