Employer Covenant Practitioners Association

News Release

The Employer Covenant Practitioners Association Limited
First Floor, 40 Gracechurch Street, London EC3V 0BT
Telephone: 020 3102 6763 Email: secretariat@ecpa.org.uk Web: https://ecpa.org.uk/

ECPA calls on TPR to review approach taken in Statement of Strategy.

17 April 2024 – The Employer Covenant Practitioners Association (ECPA) has responded to the TPR *Statement of Strategy* consultation calling on TPR to give greater flexibility so employer and scheme specific complexities can be better captured by the approach taken in collecting information.

ECPA Chair, Guy Mander, commented:

"As a general observation it would have been helpful to have sight of the updated covenant guidance and the new DB Funding Code ahead of this consultation. We see several challenges which we hope the final guidance (on statement of strategy, funding code and covenant) will help clarify. We think it is important that these guidance documents dovetail appropriately.

"We also note that the information requested via templates touches on many of the characteristics that good employer covenant advice would cover. However, covenant advice to be used as part of the trustees' funding and investment decisions, must take account of the specific complexities of the employer and of the scheme. It should be made clear that the information required as part of submissions is for "regulatory review" purposes, and not to be taken as (or an alternative to) good and proper covenant advice for trustees."

In its response, ECPA sets out some of the specific complexities of providing consistent and complete covenant information. Given this, and the importance which trustees will take to submitting information to TPR, ECPA says it is essential that there is sufficient space given within the template to submit explanatory narrative to the numbers provided. This is consistent with a set of company financial statements, for example, which rely on additional notes to be read and assessed accurately.

ECPA believes that trustees and advisers will want to ensure the appropriate context is provided for any submission. We understand that TPR's initial consideration of the information will be data driven but we believe that if anomalies are identified, this will cover the first stage of inquiry and may save time and resource from a regulatory perspective. We note that there is the opportunity to submit a pdf document to provide further detail on the assessment of maximum affordable contributions, but believe further options are necessary.

We also note that if additional text boxes are not provided, trustees may feel the need to provide additional explanation in other documentation, which might cause further difficulties for TPR.

On a separate point, subject to further information that we expect will be contained within the anticipated covenant guidance, ECPA says that it continues to have reservations around TPR's concepts of covenant reliability and longevity periods, and the 'reasonably certain' framing embedded in the legislation. Like all estimates of future outcomes, these estimates will naturally rely on subjective assessments of a mixture of qualitative and quantitative evidence, and they are just that – **estimates**.

Guy Mander added:

"We would ask TPR to consider this definition and suggest a more appropriate framing would be to request trustees' reasonable estimate of covenant reliability and covenant longevity, consistent with the approach taken to actuarial and investment estimates of asset returns and liabilities. We hope this will be clarified within the upcoming covenant guidance."

For further details:
Guy Mander – 0121 214 3304 (guy.mander@rsmuk.com)
David Robertson – 020 3102 6763 (secretariat@ecpa.org.uk)

About the Employer Covenant Practitioners Association (ECPA)

The **Employer Covenant Practitioners Association** was originally established in 2012 as the Employer Covenant Working Group (ECWG) to discuss issues relevant to providing financial advice to clients on matters connected with the employer covenant, to participate in discussions with bodies such as the Pensions Regulator and Pension Protection Fund and to raise standards in the employer covenant financial advisory industry generally.

As well as making representations to Government and other bodies on covenant issues arising from proposed changes in regulation and legislation, the Association has produced a number of guides for advisers and sponsors, including principles of covenant assessment for scheme valuations; guidance on transactions in distressed and non-distressed environments and developing best practise on Integrated Risk Management. All guides and a list of members are available at the Association's website https://ecpa.org.uk/