LCP INSIGHT CLARITY ADVICE

Life through a lens

Focused business decisions in a pensions world

November 2021

Helping corporate sponsors

Every business decision through a pensions lens?

The tumultuous events of the last two years have given business leaders a full agenda simply keeping the business afloat. Words like 'lockdown' and 'furlough' were barely used until recently but have now become everyday parts of the national conversation. Against that backdrop, it would be easy for focus to drift away from the company pension scheme.

But, as Section 1 of this report shows, recent legislation means that pensions now need to be front of mind right to the top of firms. Indeed, I would say that as a result of the Pension Schemes Act 2021, every business decision needs to be seen through a "pensions lens". And, the way the new rules are drafted means that even robust employers with well-funded schemes need to be aware of what has changed.

How can we justify such a claim?

Because, in simple terms, every business decision potentially affects the ability of a business to meet its pension promises. And, scarred by high-profile corporate collapses such as BHS and Carillion, politicians have decided that pensions now need to be front and centre of business thinking. Firms who take decisions, whether on dividends, corporate restructuring or investments, will have to show that they thought through the impact of those decisions on the likelihood of pensions being paid. And those who fall foul of the new rules can face financial penalties or, in extreme cases, criminal sanctions including imprisonment. The scope of these rules includes companies where the actual risk of insolvency may be low and/or those companies whoses schemes are relatively well funded at present.

But the reasons for paying attention to the pension scheme are far from all negative.

As this report also highlights, so much is changing in the financing of pensions that sponsors who keep a close eye on their scheme can seize opportunities that might otherwise be missed:

- The risks from rising inflation can be dealt with by hedging the investments to the "right" target (section 2 of the report shows that a headline "100% hedging level" can still be risky);
- Market movements can make 'buying out' your pension liabilities once and for all a more viable option, provided that you are ready to seize the chance;
- New ways of consolidating pension schemes, including into new 'superfunds', are finally making regulatory progress; for schemes where buyout is not on the horizon this could be an alternative way of getting the scheme off your books whilst doing right by the members;
- Use of 'contingent assets' can help avoid locking up money unnecessarily in the pension scheme and can also help reduce levies paid to the Pension Protection Fund.

If you want to know more about the changes which are most relevant to your business and your pension scheme, I would be very happy to begin that conversation with you.

Sir Steve Webb

Partner at LCP and Pensions Minister 2010-15

Contents

Pensions Regulator powers: what's new?

The Pension Schemes Act 2021 established tougher new powers for The Pensions Regulator ('TPR'), introducing new risks for company directors.

The majority of these new powers came into force from 1 October 2021. The new regulatory penalties are high, with an increased threat of TPR imposing the requirement to contribute to a scheme, and the threat of severe civil or criminal penalties.

A final TPR Policy and Code issued on 29 September provided some more practical context on how TPR intends to use its new powers. However, even with these helpful examples and practical considerations, it is still not clear where the new regulatory boundaries will lie, particularly when it comes to what many might call ordinary commercial activity – for example moving cash funds around a group of companies or a parent company paying a dividend. We also have no real idea of how "materiality" will be interpreted, a concept underlying the new contribution notice tests.

With the new powers raising the bar when it comes to TPR's oversight of corporate activity, companies need to tread carefully to avoid falling foul of the rules. There are also new considerations for trustees. Companies and trustee boards will need to be aware of the new powers, TPR guidance and regulations and have robust governance processes in place to identify corporate activity that may be drawn into the new regulatory net, take appropriate action, and ensure they have clear contemporaneous records of decision-making.

The Pension Schemes Act 2021 brings about the most significant change in The Pensions Regulator's powers in the last 15 years. It's already having an impact on the behaviours of sponsors and trustees - and not just in the context of high profile M&A activity (where trustees arguably now have greater leverage), but also with day-to-day business activities.

Laura Amin *Principal, LCP*

We set out an overview of the new powers and you can read more on details behind the new regulations and guidance on the 'TPR powers' section of our Pension Schemes Act hub – click the link below:

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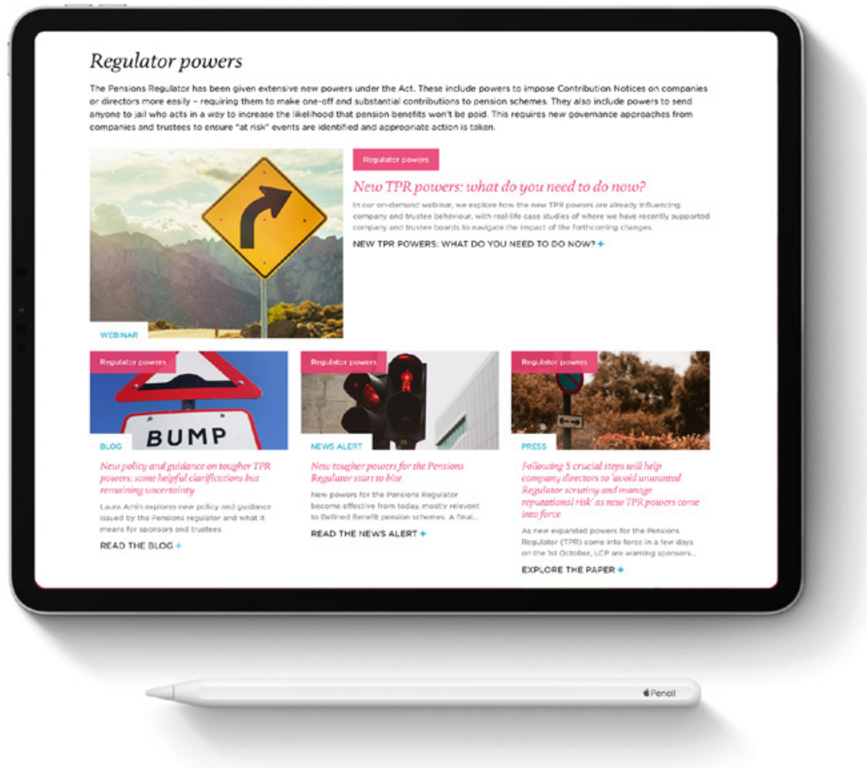


Pensions Regulator powers: what's new? Continued

What's new?	*Details*
Two new criminal offences and new financial penalties	Two new offences in respect of 'Conduct risking accrued benefits' and 'Avoidance of Employer Debt'. The first could be triggered through corporate behaviour that weakens a DB scheme's sponsoring employer. Criminal penalties include unlimited fines and up to seven years in jail. There's also a new civil financial penalty (up to £1m fine) as an alternative to the criminal penalty.
Two new Contribution Notice tests	The new tests are expected to trigger in a far wider range of circumstances. If corporate activity does trigger them, without the payment of appropriate mitigation to the scheme, this may lead TPR to require a connected company, shareholder or director to make a cash payment to the scheme. The new tests are conducted in the context of the scheme's buyout (or 'section 75') deficit. The tests can be triggered by 'business as usual' corporate activity (for example dividend payments, refinancing and internal restructuring).
New reporting requirements	Currently, the law requires certain events to be notified to TPR. Regulations are expected to add two new events: the sale of a material proportion of an employer's business or assets, and granting of security ranking ahead of a scheme. These two events, alongside the current notification requirement for 'sale of a controlling interest in an employer' will also be subject to new 'Statement of Intent' requirements. This will require the company to share information in advance with trustees and with TPR.
New inspection and interview powers	Greater TPR information gathering, inspection and interview powers are being introduced. Any person may be compelled to attend an interview with TPR about anything in relation to TPR's functions (including trustees, sponsors and professional advisers).
Financial penalties	TPR have new powers to fine various parties, up to £1m – including sponsors, trustees and advisers – eg for providing misleading information, failing to pay a contribution notice by its due date or failing to notify TPR of a notifiable event.

New Pensions Regulator powers: what will they mean in practice?

For most sponsors understanding the practical implications (rather than the full technical detail) will be key – on the right, we set out 5 crucial steps to help company directors avoid unwanted TPR scrutiny and manage reputational risk.

The impact of the new powers is already starting to be felt in terms of the discussions between trustees and sponsors on 'normal business activity' (eg dividends) and in M&A activity. Over the following pages, we set out two case studies which demonstrate this point.

Corporates need to understand the new regulatory boundaries and have robust governance processes including records of decision-making. Board training and reviewing how the pension scheme is factored into corporate decision making are two key initial steps for this.

Phil Cuddeford Partner, LCP

Steps 1-5	*Details*
Company Board training on the new powers	Ensure the Company Board is aware of the new TPR powers and requirements – especially the additional corporate and personal risks of the new criminal offences, financial penalties and Contribution Notice tests.
Review corporate governance procedures around key business decisions	Put in place checks around key 'normal' (eg cash pooling arrangements, refinancing, dividends); and more 'ad-hoc' (eg group restructuring/M&A) business decisions which may impact on the covenant support to the pension scheme. This may involve seeking external specialist pension covenant support, to ensure that management is in a position to assess the impact of key business decisions on the pension scheme in advance.
Consider how documentation and record keeping will work	Consider how the outcome of the impact assessment of the business decision on the scheme will be documented and communicated to key decision makers within the business and to the trustees. The recently issued guidance from TPR is clear that contemporaneous records of how the scheme has been considered in decision-making will be critical in the context of any regulatory investigation.
Review any information sharing agreements with trustees	Review the information sharing agreement with the trustees (or introduce one if not already in place) to ensure that the company is providing the right information to trustees at the right time. The agreements should cover notification of upcoming 'at risk' events with timescales for sharing the information, as well as the provision of ongoing covenant metrics (balance sheet, P&L info, cash forecasts etc).
Ensure you have processes in place to meet Regulatory reporting requirements	Be aware of the new Notifiable Event and Statement of Intent requirements – and ensure that company directors understand the thresholds for notification to TPR and the required timescales.

Pensions Regulator powers: spotlight on dividends

Testing of dividend policy

Dividends paid post 1 October 2021 are potentially in scope of the new Insolvency Test – which is one of the two new contribution notice tests in TPR's expanded set of powers.

This includes: ongoing regular dividends; inter-group dividends paid by companies that form part of the covenant to a DB pension scheme; and special dividends, for example those which might be paid following a transaction.

In practice this may mean that when companies wish to pay dividends, or make other distributions (eg transfers of non-cash assets within the group) - they will also need to analyse the impact on the scheme through the lens of the new insolvency test – at least initially to then understand where the boundaries lie.

In specific terms this involves working through the steps outlined in the flow chart to the right and culminates in a note to the Company Board which sets out the process followed and is presented to the Board as part of the approval process for regular dividends.

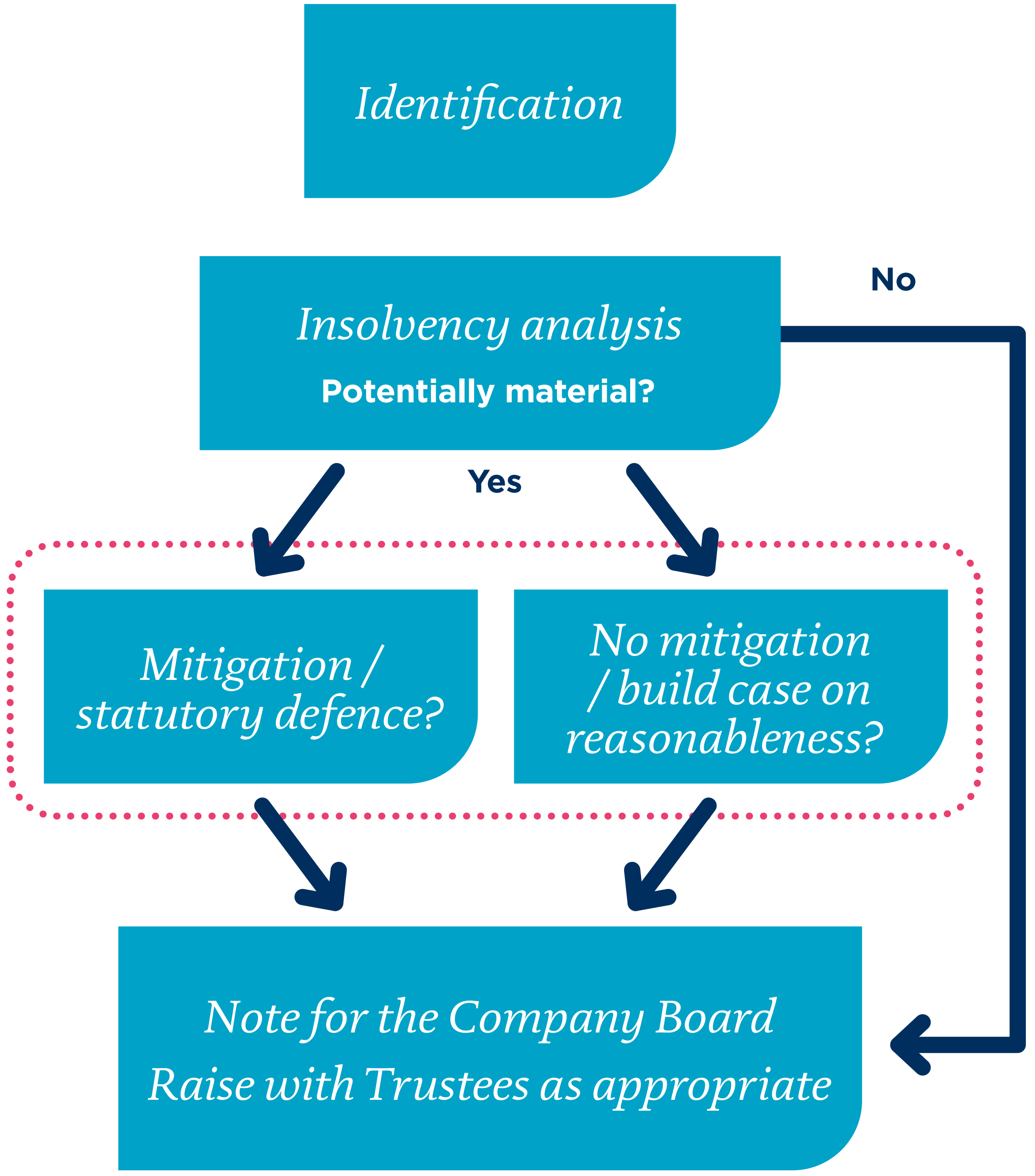
The insolvency analysis conducted as part of this process needs to factor in priority ordering of creditors, likely realisations in insolvency and potentially the wider group structure (and any intra group guarantees or lending arrangements) – which means that this insolvency analysis can be quite complex for a number of groups (and may need specialist pension covenant support).

Where the insolvency analysis shows that the impact on the scheme is clearly material, or where there is a concern that TPR could view the impact as material, the company directors should consider:

- Building a case for the file as to why, in the company directors' view, it would be unreasonable for TPR to take regulatory action (there are various reasons why this might be the case); and/or
- Raising with the trustees and agreeing mitigation for the scheme - which could help support a 'statutory defence' of the company's actions.

It will be important to have a clear audit trail of the analysis conducted and rationale for the conclusions drawn, including details of any discussion/engagement with the trustees. This should be appropriately reported to the company board. The aim of this would be to reduce regulatory risk in case this was ever required, to protect the company and directors from Contribution Notices, civil or criminal charges, and reputational risk.

Even where the impact on the scheme is considered to be immaterial, it will still be important to keep evidential records as a defence against future TPR action (and the company may wish to consider what should be shared with the trustees in respect of the process undertaken by the company).



For more on the new regulatory risks around dividends, see our note: **Pensions and dividends: New risks for companies**

Pensions Regulator powers: spotlight on M&A

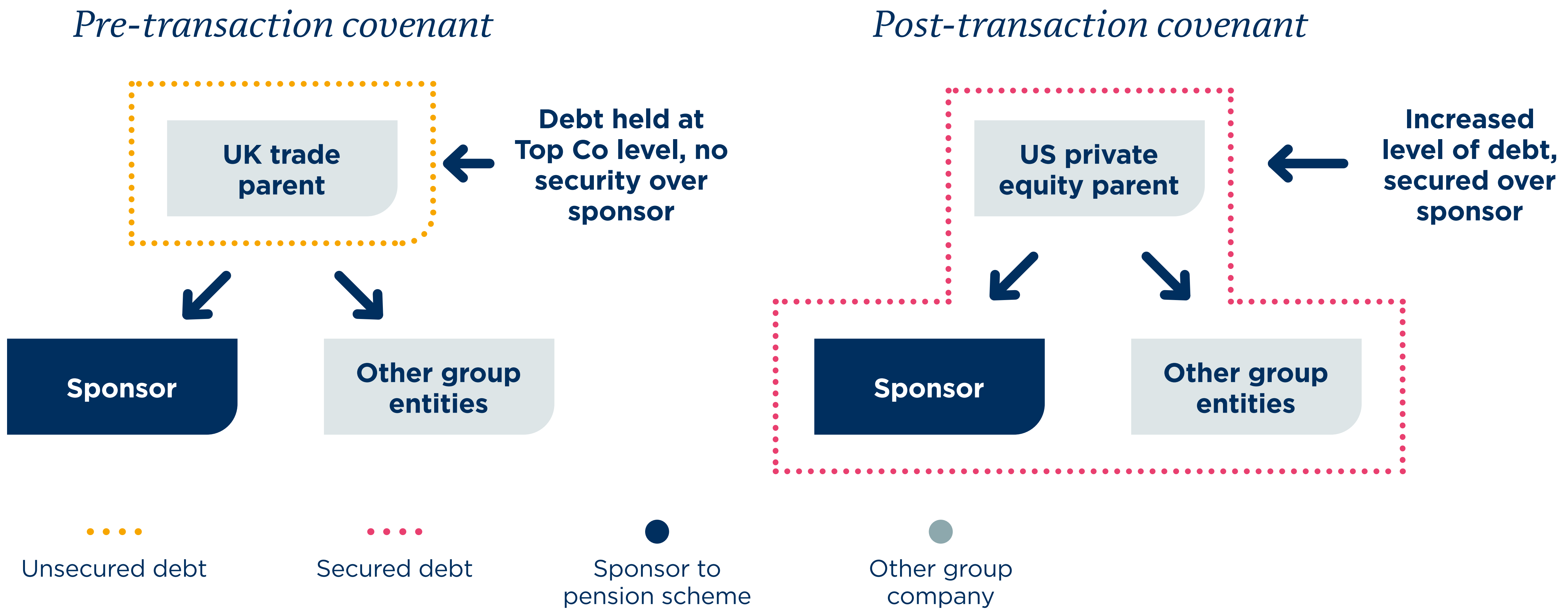
Changing the dynamic of Trustee/ Company negotiations

We are already seeing the new powers have substantial implications on the dynamic of negotiations between trustees and sponsors – which are highlighted by this case study below in relation to a recent transaction.

Scheme circumstances: Large scheme with over £1bn in assets, a long term funding target of gilts + 0.5% pa, and a maturing member population. Covenant was independently assessed as tending to strong.

Transaction overview: In summer 2021, the Trustees were informed by the sponsor that the Group had received an acquisition approach by a private equity house.

The acquisition would involve taking the listed company private, and would be partially financed by secured debt with the potential for substantial restructuring or sale of some of the group highly likely over the medium term.



Pensions Regulator powers: spotlight on M&A. Continued

Impact of the new powers: The Company Directors and Trustees were mindful that they needed to consider the transaction by reference to the new TPR powers – and specifically the two new Contribution Notice tests. As the Scheme is an unsecured creditor, the introduction of secured debt ranking ahead of the Scheme's claim in an insolvency scenario meant that the covenant was likely to be materially weakened after the transaction.

Analysis was performed to identify the level of detriment that the new debt structure was likely to have on the Scheme's hypothetical insolvency recovery, and identified that there would be a material reduction in the expected recovery to the scheme – i.e. the new Insolvency Test was very clearly breached.

As the acquisition was expected to complete after 1 October 2021, by which time the new powers are in force, this gave the trustees increased leverage in negotiating mitigation. In order for the trustees, the sponsor, the acquirer and TPR to get comfortable with the transaction, the following suite of mitigation and protections was agreed:

- **Cash, long-term target and de-risking:** Upfront cash, a strengthening of the scheme's long term funding target (closer to buy-out), and some de-risking of the Scheme's investment strategy.
- **Contingent support to provide protection where needed while retaining company resources:** A detailed agreement, setting out the mitigation that would be provided in the event that a material business or asset was removed from the sponsor group in the future.
- **Improved information sharing, reporting frameworks and governance arrangements** to provide the trustees with greater visibility over the covenant and the information needed to undertake regular monitoring.

Take home message for corporates: The new powers may provide trustees with greater leverage in transaction scenarios. With the higher personal stakes for trustees (who are in scope of the new criminal sanctions), we have seen trustees push for more mitigation for the scheme than they may have felt compelled to in the past. For sponsors, it will be important to have worked through the impact of a proposed transaction on the scheme, and formed clear mitigation proposals for the trustees, at an early stage of transaction planning. As well as affecting the process that a seller or borrower in a transaction must follow, companies, buyers and lenders are also likely to approach transactions with increased caution, seeking specialist advice to ensure that they are also not in breach of the new requirements.

Sponsors will also need to be aware of the new reporting requirements – with notification to TPR required in respect of certain events once a decision has been made 'in principle' (including the sale of a 'material proportion' of the business.). And an 'Accompanying Statement' will need to be issued to Trustees and to TPR once the 'main terms have been agreed.' The regulations underlying these requirements are being finalised with the consultation that closed on 27 October 2021, with the new reporting requirements expected to become effective from Spring 2022.

The Pension Schemes Act 2021 is already having a huge impact on covenant discussions where corporate activity is planned. The two new Contribution Notice tests are being used as benchmarks by trustees and it's important that companies are ready to show how their proposals stack up against these new standards.

Helen Abbott Partner, LCP

How to better protect against rising inflation

In general, we have a positive view on using investments such as LDI to remove the inflation and interest rate risks. This can help stabilise the funding position, avoid dramatic swings on the sponsor's balance sheet, and reduce the risk of future contribution requirements. Given the uncertain outlook for long-term inflation, there's never been a more important time to make sure you've got the right hedging in place.

Case study – increase hedging to cover deficit contributions

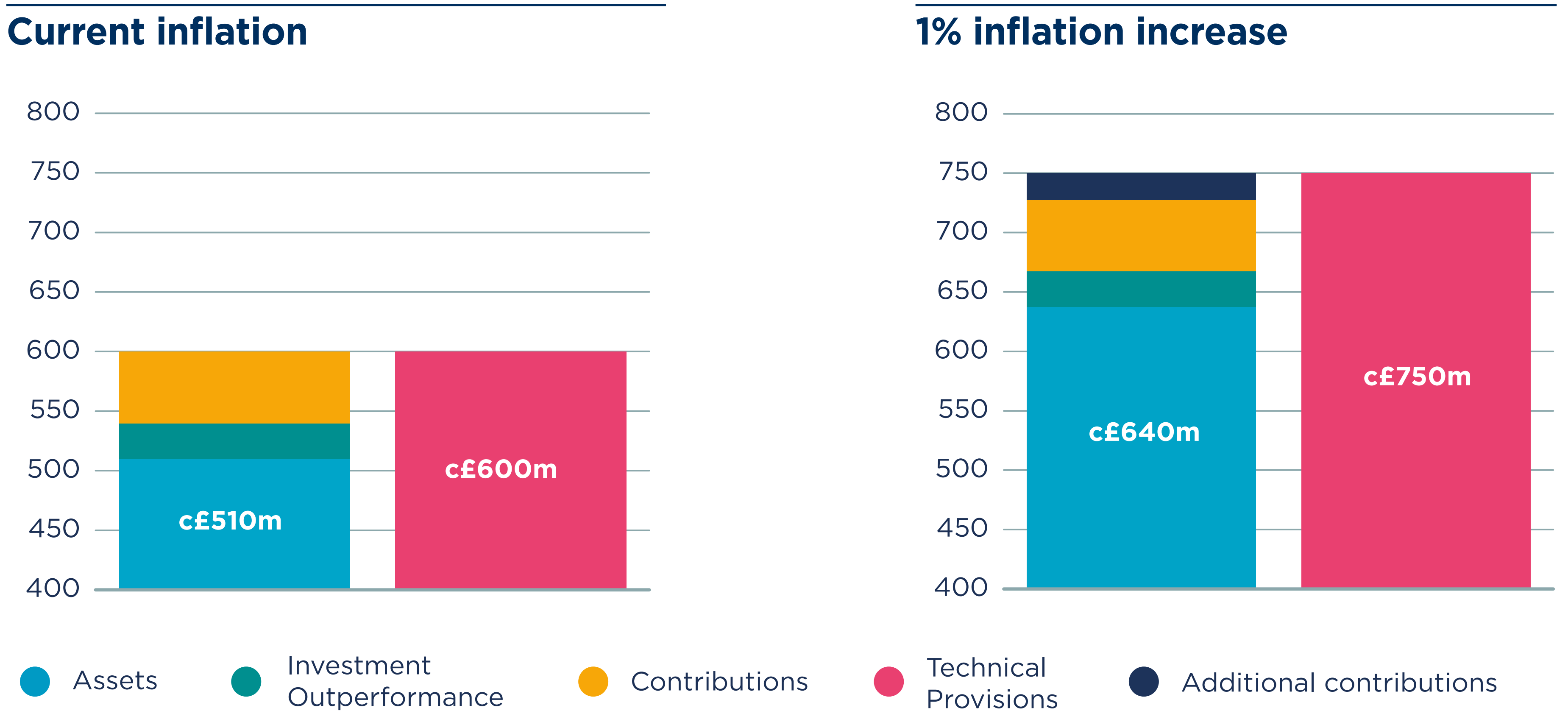
Circumstances: £600m scheme, 85% funded on Technical Provisions, 10 year recovery plan

Background

The Trustee's hedge ratio was described as "100%". Job done. Or so they thought...

When reading the detail, the scheme's policy was to "hedge 100% of assets" (or put another way, 100% of the funded liabilities). But what about the deficit (or the unfunded liabilities)? Well, that wasn't hedged at all. While this sounds alarming, it is common practice for UK DB schemes and in some circumstances could result in the sponsor having to significantly increase their contributions if inflation rises.

This chart shows the impact that a 1% pa rise in inflation expectations could have on this sponsor's contributions – an increase of over £20m despite being "100% hedged"!



Over 2021 we've seen rising inflation, climate risks race up agendas, the emergence of capital-backed journey plans and continued investment de-risking. Each of these can have a major influence on a pension scheme and the support needed from its sponsor. Managing these risks and opportunities appropriately will make a significant difference to a sponsor's bottom line.

David Wrigley *Partner, LCP*

How to better protect against rising inflation. Continued

The solution

By increasing the hedging to also cover the agreed contributions, the sponsor got greater certainty on what it will need to pay in the future. The Trustee was also able to stabilise its longer term journey, reducing the risk of needing to ask for additional contributions (or re-risk the investments) if inflation were to rise. For this company, for the greater certainty achieved it was worth giving up the potential upside if inflation expectations were to fall.

So is "hedging 100% of liabilities" always the right answer? No. Care needs to be taken to: hedge the appropriate liability measure; allow for outperformance assumed in the recovery plan; allow for experience since the contributions were set; allow for the sensitivity of the contribution schedule to changes in interest rate and inflation expectations. In this case the right balance was to hedge 95% of the funding liabilities, or around 120% of the assets (or funded liabilities).

Monitoring your inflation hedge accuracy is massively important at the moment

When inflation expectations rise (as we've seen over the past year) pension schemes become less sensitive to inflation - if a scheme's inflation-linked benefit increases are capped at 5%, and inflation is at 4.9%, there's not much room for further movement.

But LDI portfolios generally won't account for this, meaning your inflation hedging ratio has likely drifted upwards. Revisiting the hedge, and rebalancing back to target, is a great opportunity to lock-in some of the profits made over the past year.

Shortage of inflation hedging assets?

As schemes mature and become better funded, hedging index-linked liabilities becomes more attractive – and what better hedging asset than a guarantee from the government in the form of an index-linked gilt ("ILG"). Over the past decade, UK pension scheme assets have aggressively increased their holdings in ILGs up to just under £600bn, with UK pension schemes now the largest ILG investor.

With index-linked liabilities of around £1.6tr, there could be significant uptick in the demand for these assets from pension schemes in the future. Whilst the numbers are not the complete picture, the overall trend is clear and in our view is likely to place upward pressure on prices (especially given there are currently only c£800bn of ILGs in issuance). As such, if you've been holding off increasing your inflation hedging, or haven't been hedging the investment of future contributions too, now might be time to consider bringing forward this decision.

Shortage of inflation hedging assets?

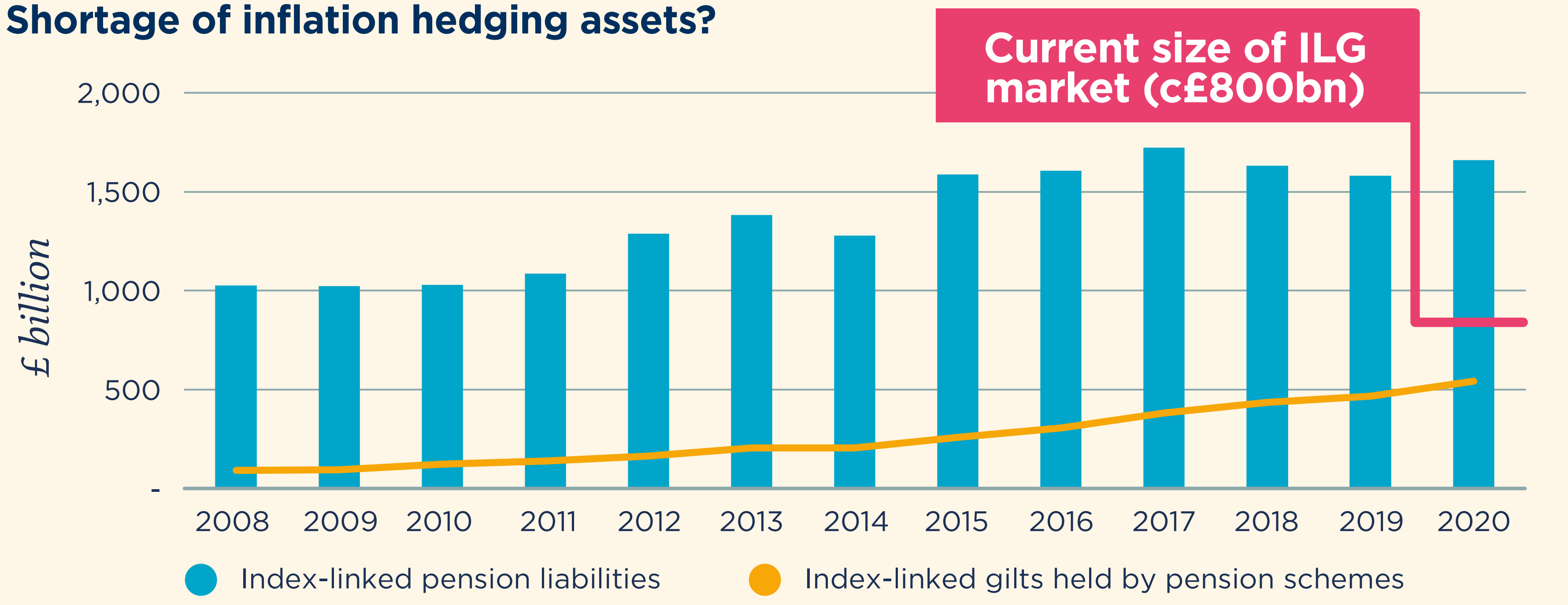


Chart: estimated based on data from the Pension Protection Fund's 2020 Purple Book

Based on gilts in issue and market values in March 2021

Is Value at Risk ("VaR") getting in the way of effectively assessing "risk"?

Many investment metrics used in the industry (eg VaR) are somewhat abstract and don't address the fundamental purpose of pension schemes – making sure members get their benefits.

We support investment de-risking in many cases. But we strongly believe that you should be sure you are actually reducing risk in the pension scheme, rather than just reducing expected return and VaR.

We've seen several cases where trustees have proposed de-risking their investment strategy in order to obtain a lower VaR. However, the "side effect" of cutting expected returns can sometimes be far more important than reducing VaR, in the sense that it reduces benefit security for members and increases reliance and strain on the sponsor.

Our thoughts

Taking a step back, the only scenario in which members don't get all their benefits is if there is a combination of:

- sponsor insolvency; and
- the scheme having insufficient assets to secure all the members' benefits (usually with an insurance company).

Ultimately, members always receive full benefits if the corporate sponsor remains solvent and is able to pay into the scheme. And members are generally in a good position if decent investment returns are generated over long periods.

Of course from a sponsor perspective, it's desirable to reduce volatility in the pension scheme. However, this needs to be balanced against paying contributions that could otherwise have been avoided.

We find that aiming to reduce VaR in the name of "de-risking" can sometimes put members in a worse expected position. This is because (unless the Scheme has a very inefficient starting strategy), a reduction in VaR often comes with a reduction in investment return and the following side effects:

- Increasing sponsor contributions (perhaps in turn weakening the covenant)
- Lowering the Scheme's expected asset value over the years ahead, thus reducing members' expected security in the event of sponsor insolvency.

Often, we find that a more balanced overall strategy is to retain a modest level of investment return. This avoids the situation where a scheme is "de-risked" to a point where the trustees (and members) place all their reliance on one single investment, their covenant.

Case study

Circumstances: £3.2bn scheme, 80% funded on buy-out basis, 8 year recovery plan.

By putting forward long-term modelling to the Trustees, the company (our client) was able to rigorously show that an (even further) de-risked investment strategy was likely to result in worse outcomes for everyone involved.

Our analysis indicated that a moderate increase in return seeking assets increased VaR by 15% (relatively small in the context of the scheme) – this shortened the expected time to reach full funding on Technical Provisions by 5 years, on a buy-out basis by nearly 15 years, and ultimately improved the security of members' benefits.

The key question we therefore raised was: would you like to run a "downside risk" of £200m for 25 years, or a "downside risk" of £230m for 10 years?

Ultimately, the company and trustees worked together to increase the targeted investment return, which in turn improved the expected outcomes for both the sponsor and the scheme members. This reduced the expected recovery plan payment by around £75m, and significantly brought forward the date where the company (and members) can view pension scheme risk as a thing of the past.

From the company's perspective, it was able to let the scheme's existing assets do the heavy lifting through compounding investment returns, whilst making fewer contributions (and therefore investing more back into its business and improving the covenant for the benefit of the scheme members).

Is Value at Risk ("VaR") getting in the way of effectively assessing "risk"? Continued

LCP Triangulate – Easy to understand modelling from our investment and covenant teams

LCP Triangulate, our recently launched service, extends our traditional models to assess interaction between the Scheme funding plan, investment strategy and the strength of covenant support. It provides easy to understand metrics – for example, the "probability of paying members' benefits". In our view, particularly given the new regulations from the Pension Schemes Act 2021, this type of metric should be a key consideration for any significant investment decision. Having investment and covenant teams in-house at LCP means that we're able to provide this modelling in a joined-up manner.

For some schemes, LCP Triangulate shows that excessively de-risking their investment strategy (which in some cases follows conventional wisdom) actually reduces the chance of paying members benefits. We think it's vital to challenge conventional thinking and make sure "traditional" approaches remain the right answer.

Click here to read more case studies on using **LCP Triangulate**

Aside: general tips for generating higher returns

Avoid overly large allocations to LDI – most schemes can hedge all their liabilities with around 30-40% of the assets invested in LDI.

Don't discard all your equities – they are likely to be the best long-term return-seeking investment for a pension scheme (and day-to-day volatility of a sensible allocation shouldn't matter).

Think carefully about the size of your corporate bond investment and explore higher yielding alternatives, such as asset-backed securities and private credit.

VaR was a helpful tool to manage "de-risking" from mostly equity strategies to mostly bond strategies. But for those with little or no equity I worry that a VaR focus is now driving schemes into "de-returning" for the sake of it - actually making member benefits less secure and driving up costs for scheme sponsors.

Steve Hodder Partner, LCP

Climate change – time to engage (and of course don't forget about the other ESG risks)

Whenever I think of climate change risks, I think of flooding, forest fires, vast parts of the world becoming uninhabitable and I cross my fingers and hope those events are a long time away.

But what's becoming more obvious is that the transition risks can be over a much shorter timeframe. How might governments and society change over the coming years to support a transition to a greener economy and what companies / sectors may be most exposed? With a blank sheet of paper, I'd probably prefer a portfolio with lower carbon emissions, lower fossil fuel reserves and full of investments in companies with credible science-backed reduction targets.

With focus on this area increasing, and the risk of reputational damage for sponsors, it's a great time to speak to your pension scheme trustees and ensure they have sensible policies in place that align with your values. We have a checklist here providing a step by step guide for sponsors on how to approach this topic.

Some of the high level questions you might want to ask yourself and the trustees are:

Objectives

Should we have formal, public climate change objectives – for example to achieve Net Zero by 2050 or to reduce certain climate intensity metrics? What are the risks and complications of doing so (and of not doing so)?

Statements & policies – is what we say publicly on climate change (e.g. in SIP and Implementation Statement etc) consistent with our beliefs, and can we demonstrate that we follow these in practice? Are our policies considered and strong enough, or do we risk being viewed as taking a "boilerplate" approach?

Portfolio design

Should we change the scheme's investments to make them less exposed to climate change risk, and/or focussed on companies with strong transition plans that may offer really good returns over the years ahead?

Engagement with investments

Do we receive the information we need to monitor our exposure to climate risk, and monitor how our managers are engaging with carbon-intensive businesses?

Compliance

Are we on track to comply, efficiently, with latest regulations and expectations? E.g. TCFD, Scenario modelling and metric monitoring and targets.

Balance

Are we overly-focussed on climate change risks, compared to other ESG risks? Many schemes have "catching up" to do on how they think about climate change, but what else should we be considering?

Steve Hodder
Partner, LCP

Click here to read The tip of the iceberg: How UK institutional investors are responding to climate risks

CLICK HERE

Click here to read Aligning the Stars: Asset owners and energy investment toward Net Zero

CLICK HERE

Capital backed journey plans – why not do it yourself?

An insurance company buy-out is the ultimate destination for many schemes. The strong protections and the high capital means that this is a relatively expensive option. But competition has forced insurance companies to be innovative in reducing the cost. Typically they take in a portfolio of gilts, invest them in higher returning assets and use the additional return to meet the cost of the extra capital they have to hold. History shows many schemes are prepared to transact at this pricing level.

Given the increasing demand for insurance, it's no surprise that providers have been seeking to develop solutions with less rigid restrictions, resulting in the recent emergence of DB superfunds and capital-backed journey plans.

From the solutions we've seen there is a high degree of commonality:

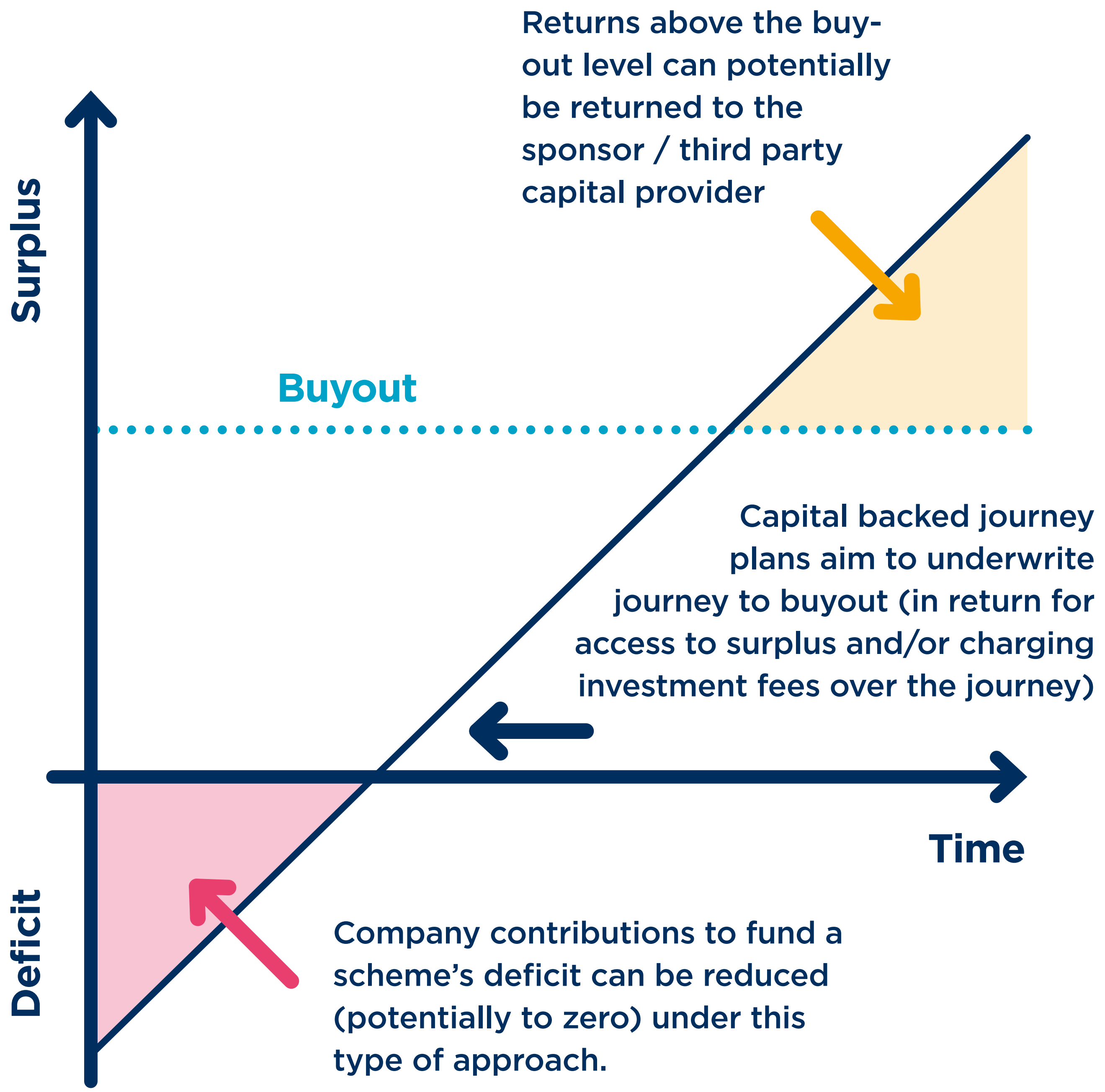
- Liabilities are hedged to changes in interest rates and inflation
- The non-hedging assets are invested largely in credit-based and private market investments to pick up a significant return vs investing in low yielding gilts
- Third party capital provides a buffer for adverse investment experience
- No buy-out until a pre-agreed trigger point is reached

These are fairly straightforward steps that many large pension schemes could consider doing themselves. The key to "unlocking" them for many schemes is likely to be the availability of third party capital.

However, rather than employing third party capital, could sponsors provide the capital themselves with the potential for surplus to be returned to shareholders over time, and/or reduce any company contribution requirements into the scheme? Clearly a scheme's trustees need to carefully consider the security aspects of this approach.

This is where contingent assets come in. By the sponsor providing extra security over and above the funding within the scheme, it becomes much easier for trustees to agree to the type of investment strategy described above. Here are three examples (there are many more) of how a sponsor could use wider corporate assets as external capital to underpin a scheme's journey plan:

- Guarantees from other companies in the wider group, particularly if the wider group does not provide direct covenant support
- Charges over corporate assets that more than cover the buyout deficit in the event of corporate insolvency
- Holding contributions in escrow, on the basis that these would be returned to the corporate as and when the pension scheme winds down.



In summary, insurers, DB superfund and capital-backed journey plan providers are all entering the market to make returns by providing external capital to underwrite the risks. Many companies may be able to do this themselves.

Important changes in the pensions landscape for corporates – 2021

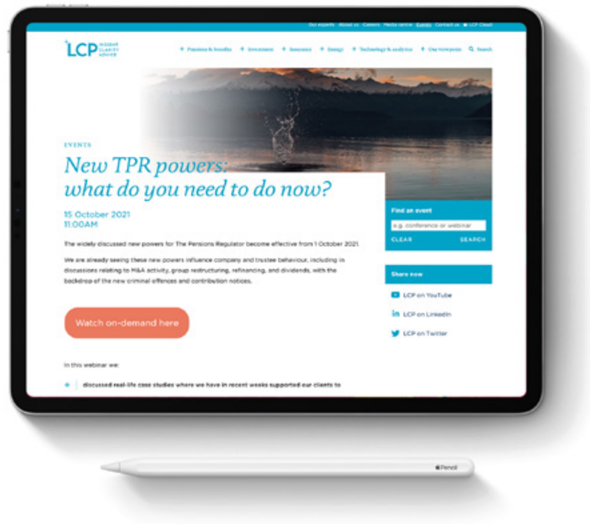
Here are some of the key developments that corporate pension sponsors need to be aware of and ready to react to.

Company directors must protect themselves against new criminal sanctions, civil penalties and contribution demands.

Most of the Pension Schemes Act's provisions relating to new powers for the Pensions Regulator became effective from 1 October 2021. These are discussed in section 1 of this report.

So what?

We suggest sponsors consider the five steps we outline in section 1 of this report, to ensure in scope activity is identified and appropriate action taken, so as to protect themselves and others against these risks. Further information on key actions can be found **here** and you can watch the recording of our recent **webinar** on this subject to find out more.



The new funding code – delayed but not to be forgotten

The Regulator is still working on its second consultation on the new funding regime, which promises to be the biggest shake up in DB funding in two decades. Delays mean the new regime is not likely to be in force for valuations prior to 31 December 2022, and perhaps even later. However when it does come into force it will likely mean higher deficits and shorter recovery plans for many schemes, regardless of whether they choose to be "Fast Track" or "Bespoke". The latest expected timings for the second consultation are early 2022, which will include more details on enforcement, Fast Track parameters and the nature and extent of linkage between Fast Track and Bespoke.

So what?

Sponsors currently engaged in valuations need to have an eye on their subsequent valuation which will be the first one under the new regime, noting there is still considerable uncertainty about exactly what the new regime will look like.

In the meantime, the focus will be on agreeing journey plans with trustees with a common sponsor objective being to ensure these are as flexible as possible. Find out more **here**.

There has been a vast array of pensions legal, regulatory and market developments in recent months and unfortunately this shows no sign of slowing down. But as well as plenty of risks that need to be managed, there are real opportunities for sponsors willing to engage with their DB pension schemes. The challenge as ever is making the time to do so, but the rewards in terms of enhanced member outcomes and increased shareholder value can be significant.

Jon Forsyth *Partner, LCP*

Important changes in the pensions landscape for corporates – 2021. Continued

Long term pension scheme strategy

As a result of the Pension Schemes Act 2021, trustees will need to agree with the employer a long-term "funding and investment strategy". What this means in practice is still uncertain, but it could potentially mean sponsors having more power in negotiations and more reasons to take the initiative.

So what?

Sponsors should be proactive with trustees regarding the long-term funding and investment strategy for the scheme – doing so helps to ensure the sponsor's objectives are reflected in the strategy, and can help reduce pension costs significantly as a result. The new Pension Schemes Act requirement is a good trigger but sponsors should be doing this anyway.

Inflation becomes a real hot topic

Following confirmation in November 2020 that RPI will be aligned with CPIH from 2030, many pension schemes have been revising their inflation approaches for both funding and accounting.

Indeed RPI reform affects almost everything in pensions – as well as actuarial valuations and company accounting, it impacts long-term funding targets and journey planning, member option exercises or communications, investment strategy, buy-ins, buy-outs, GMP equalisation, and of course the index actually used for pension increases. And the impact is not always obvious: some sponsors will have found their pension costs go down, others up.

We've seen renewed interest in changing indexation for pension increases from RPI to CPI now that RPI has effectively been discontinued as a measure in its historical form. And we've seen the Court of Appeal overturn a High Court ruling for the Britvic Pension Plan – meaning they are now able to move to CPI.

More generally, inflation has significantly increased to its highest level since 2011, with RPI inflation currently (November 2021) approaching 5% pa . It remains to be seen if inflation increases further or rebounds to more historically normal levels, but in the meantime this means higher pension increases and so higher costs to companies sponsoring DB schemes.

So what?

Sponsors of schemes still using RPI for pension increases should consider reinvestigating whether there is scope to change the index used – this could save on up to 9 years of the difference between RPI and CPI, which could be 1% pa or more, with the "wedge" being close to historical highs.

Recent high inflation has highlighted the benefits of inflation hedging, and sponsors should consider engaging with trustees on this issue too – to make sure they are comfortable with the target levels of hedging but also because the recent market movements may have moved the hedging levels away from those targets. You can read more on this topic **here**.

Important changes in the pensions landscape for corporates – 2021. Continued

GMP equalisation

Equalising GMPs often means considerable logistical complexity, and some uncertainties remain particularly in relation to pensions tax issues under the conversion option. However the Pensions Administration Standards Association (PASA) has issued helpful guidance in a number of areas, and we are seeing more and more schemes grasping the nettle and beginning the process of equalising GMPs. Click **here** for more details.

So what?

Sponsors should be understanding the impact of different options and engaging with their trustees on the best options to focus on. As well as managing the considerable costs and risks involved, there are opportunities for those who consider this carefully, including the possibility of reshaping benefits and/or combining with certain member options.

Member options – the transfer advice gap

For a number of reasons, including the ban on contingent charging on pension transfer advice from 1 October 2020 and increased professional indemnity insurance costs, we have seen a marked reduction in the number of financial advisers in this market. This will make it harder for members to access affordable advice, and was explored in our recent **webinar** with Sir Steve Webb.

The good news is that more and more schemes are putting in place IFAs for their schemes to assist members in making important decisions in relation to transferring their DB pension.

So what?

Offering IFA support to members can be done well or badly, and involves significant reputational risk if done badly. We have arguably reached a tipping point where the risks of not facilitating such advice are greater than the risks of providing it.

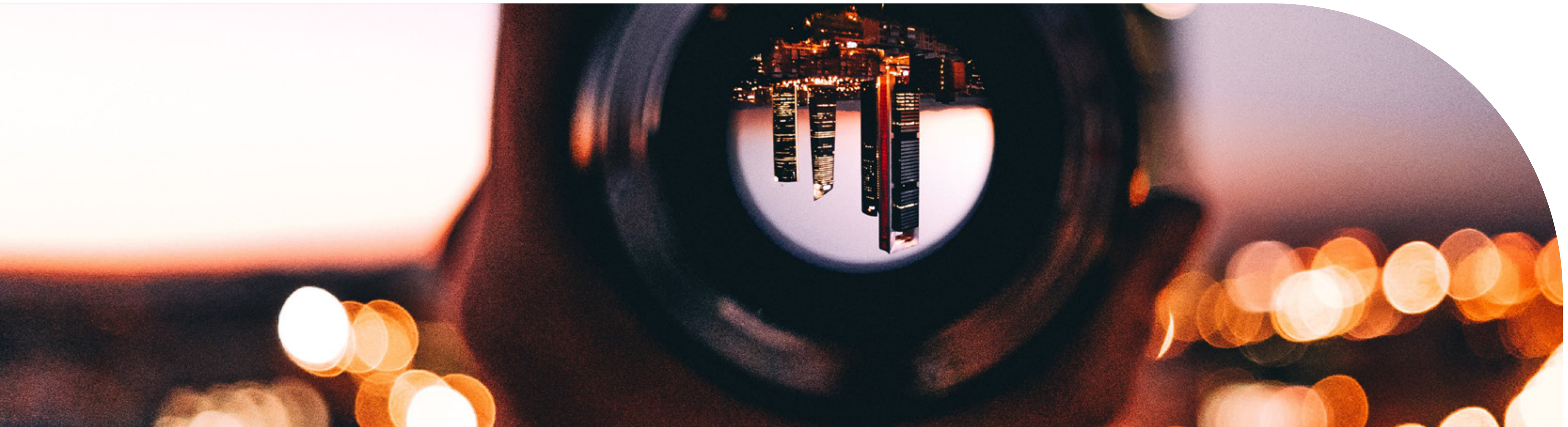
Covid-19 and DB pensions

Following the vaccine rollout and most restrictions ending in mid 2021, many companies will hopefully soon be able to get back to "normal". However in some sectors the impacts of Covid-19 have been close to catastrophic, and some companies are still struggling with short-term affordability issues.

The Regulator's guidance on such situations has been pragmatic and its 2021 Annual Funding Statement contains useful information on what is expected, for example suitable mitigations to be agreed where companies request deferrals to contributions or lower contributions as part of a revised recovery plan.

So what?

For many it is back to business as usual. But sponsors with affordability concerns will need to be proactive and open with their trustees, and have a clear plan on how their DB pension fits into their wider short-term commercial strategy. This depends on company specifics and Brexit, and in some cases could involve the use of contingent funding. Read more **here**.



Important changes in the pensions landscape for corporates – 2021. Continued

Climate risk management and disclosures, and net zero

The only topic that has been able to compete with Covid-19 for number of headlines this year is climate change, and the pace of change is accelerating. In the pensions industry, schemes over £5bn are now having to produce disclosures in line with TCFD (Task Force on Climate-Related Financial Disclosures) requirements, and this will be extended to schemes above £1bn from 1 October 2022, and perhaps smaller schemes in due course.

More and more schemes are announcing net zero targets, and this is being encouraged by the Regulator. And the Government is encouraging pension schemes to invest in long term infrastructure projects to support the UK's wider transition to net zero.

So what?

This will remain an area of fast evolving disclosure requirements and associated reputational risks, and it is important for sponsor and trustee considerations to be joined up.

Climate change results in significant risks but also opportunities in pension funding and investments, and sponsors should ensure that trustees are taking these into account and remaining on top of developments.

DB consolidators – first transactions expected imminently

After much delay we expect the Regulator to soon approve the business model for the first two DB consolidators – Clara Pensions and the Pension SuperFund. We expect the first transactions to be announced in the coming weeks and months.

So what?

This is relevant not just to sponsors who are near the "sweet spot" to transact today, but also for a much wider range of sponsors in terms of considering an appropriate Long Term Objective under the new funding regime mentioned above.

Third party capital solutions

As well as DB consolidators, we are seeing more and more innovative solutions involving the use of third party capital. Some of these were discussed in last year's report, but even more are now available.

So what?

When setting a long term objective, sponsors and trustees have more options to consider than just buy-out, consolidator or low dependency, thanks to these emerging new solutions. See for example the "do it yourself" page of the Investment section of this report.

Collective Defined Contribution (CDC)

As well as the areas of Regulator powers, scheme funding and climate change mentioned above, the Pension Schemes Act 2021 brought in the legislation to allow CDC schemes to be set up. The first such scheme is highly likely to be the Royal Mail scheme which is continuing at pace, with a member consultation already underway. Currently there are restrictions on the types of CDC scheme that can be set up, but further legislation is expected next year to enable a wider array of these sorts of schemes. You can read more about our thoughts on this **here**.

So what?

CDC schemes may be worth exploring for those organisations that are keen to offer a target benefit without the risks resulting from DB guarantees, are culturally comfortable with the concept of pooling risks amongst different members, and have the necessary scale (and expected longevity and patience) to implement such a solution.

Important changes in the pensions landscape for corporates – 2021. Continued

Contingent funding solutions – a win-win for sponsors and trustees

Contingent funding solutions for DB pension schemes can be a great way to protect member benefits as well as other stakeholders of the sponsoring employer. There are many reasons for the growing use of these approaches, including the regulatory direction on funding requirements, the effects of Covid-19, Brexit and other matters on cashflow and business outlook, the increasing risk of overfunding for some, the need for escrow type solutions to manage deferred premium structures for full buy-ins, and the likely greater PPF levy benefits for some, among others. Click **here** for details of the options available and how they can be used in practice.

So what?

These approaches can balance the needs of sponsors and trustees across a wide range of objectives and situations (not just valuations) – there's real value in sponsors understanding the options available. And these are no longer just solutions for larger schemes – the **LCP Streamlined Escrow** being one example of a solution that can be put in place quickly and at low cost.

Contingent funding approaches are growing in popularity due to the combined effect of pressures on sponsor resources, regulatory pressures, and the genuine desire of sponsors to do right by their members. I predict the Pension Schemes Act 2021 will be yet another catalyst for further growth in this area.

Phil Cuddeford Partner, LCP

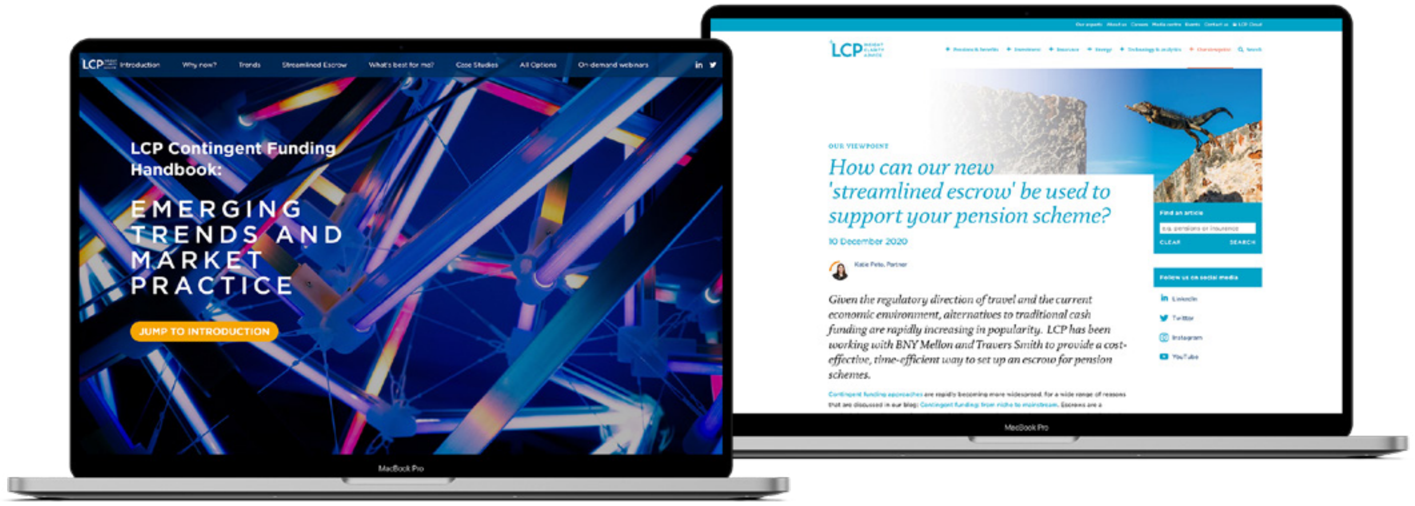
Pension scheme governance

With more and more on trustee agendas and growing difficulties in finding candidates for trustees (especially Member Nominated Trustees), the market for professional trustees is growing – as is the number of schemes moving to a Professional Corporate Sole Trustee (PCST). You can read more about the growth of this market and further details **here**.

With further governance requirements coming next year from the Regulator's new "single code", this direction of travel is likely to continue.

So what?

A PCST model will not be right for all schemes, but can offer streamlined decision making and access to the professional trustee's experience of a wide range of schemes and circumstances.



Important changes in the pensions landscape for corporates – 2021. Continued

And much more…

As if the list above weren't enough, this table gives a quick summary of some other pension developments that sponsors shouldn't lose sight of.

Development	So what
Executive pensions – the level of remuneration paid to company executives remains a focus of attention in the face of strengthened guidance from the Investment Association. You can read more about this in our **2021 Accounting for Pensions report**.	To avoid the risk of a "red-top", and for wider reputational reasons, companies who have not already made progress in this area should look to do so soon.
ESG more widely – it's not just climate change that is getting increased attention – ESG more widely is a huge hot topic, including **social issues** which are starting to get more focus.	Sponsors should be engaging with trustees to make sure the investment strategy of the pension scheme is aligned with the company's values, and that risks are being managed and opportunities explored in this area.
Corporate Insolvency and Governance Act (CIGA) – amended regulations came into force on 29 September 2021 giving more help to smaller companies in financial difficulty.	Smaller sponsors near this territory may have a better chance of survival from these new arrangements, but they will need to factor in the pension implications carefully.
Brexit – no specific pensions developments, but trustees will be mindful of the impact on sponsor covenants.	Sponsors will need to factor in the knock-on effect of business outlook, covenant and investment on pensions, as well as making sure information sharing arrangements with the trustees remain appropriate. Corporate-facing covenant advice will add value for many.
Diversity & Inclusion – there is an increasing focus in the industry on D&I issues, and it is high on TPR's agenda.	Sponsors should be considering if the make-up of their trustee boards is promoting or limiting effective decision making, and D&I is a big part of that.

Important changes in the pensions landscape for corporates – 2021. Continued

Development	*So what*
PPF levies – the PPF has announced that the total levy for 2022/23 is expected to be £415m, down from £520m in 2021/22. This is good news for sponsors in aggregate, but it is worth being aware that where sponsors' insolvency scores have worsened over the Covid period individual levies could increase substantially. Another recent development is that the PPF compensation cap has been ruled unlawful, which might mean higher levies in future.	Where the PPF levy is material, sponsors should seek estimates for budgeting purposes, and make sure any mitigating actions are being explored – including in relation to optimising insolvency scores.
Pensions tax – recent statistics show more and more people are being caught by both the Annual Allowance and Lifetime Allowance.	This trend is worth being aware of, especially where sponsors are providing alternative compensation for members who opt out of the pension scheme to avoid incurring a tax charge.
Mortality assumptions – there have been many recent headlines about life expectancies falling in certain parts of the UK, and the long term impact of Covid-19 is still uncertain.	Mortality is a key assumption and can have a big impact on both funding and accounting figures. It is worth thinking through what appropriate assumptions are – many are already making some allowance for the long-term impact of Covid-19, especially for accounting purposes. See section 4 of this report.
DC and financial wellbeing – not the subject of this report but lots going on, including on climate change, governance, value for money requirements, and getting data ready for the Pensions Dashboard.	Corporates should keep up to date on the latest trends to make sure they are on top of everything, and that their offering remains competitive and valued by employees. **See here** for our new DC report covering the results of our survey and what it means for the outlook of DC, and check out our latest **report on financial wellbeing**.

There is so much change in how pension schemes are regulated and protected. With many companies now having more bandwidth it's a pivotal time to assess the corporate pensions strategy to ensure the pension scheme and new rules don't become the next millstone around their business' neck.

Gordon Watchorn *Partner & Head of Corporate Consulting, LCP*

Key accounting issues

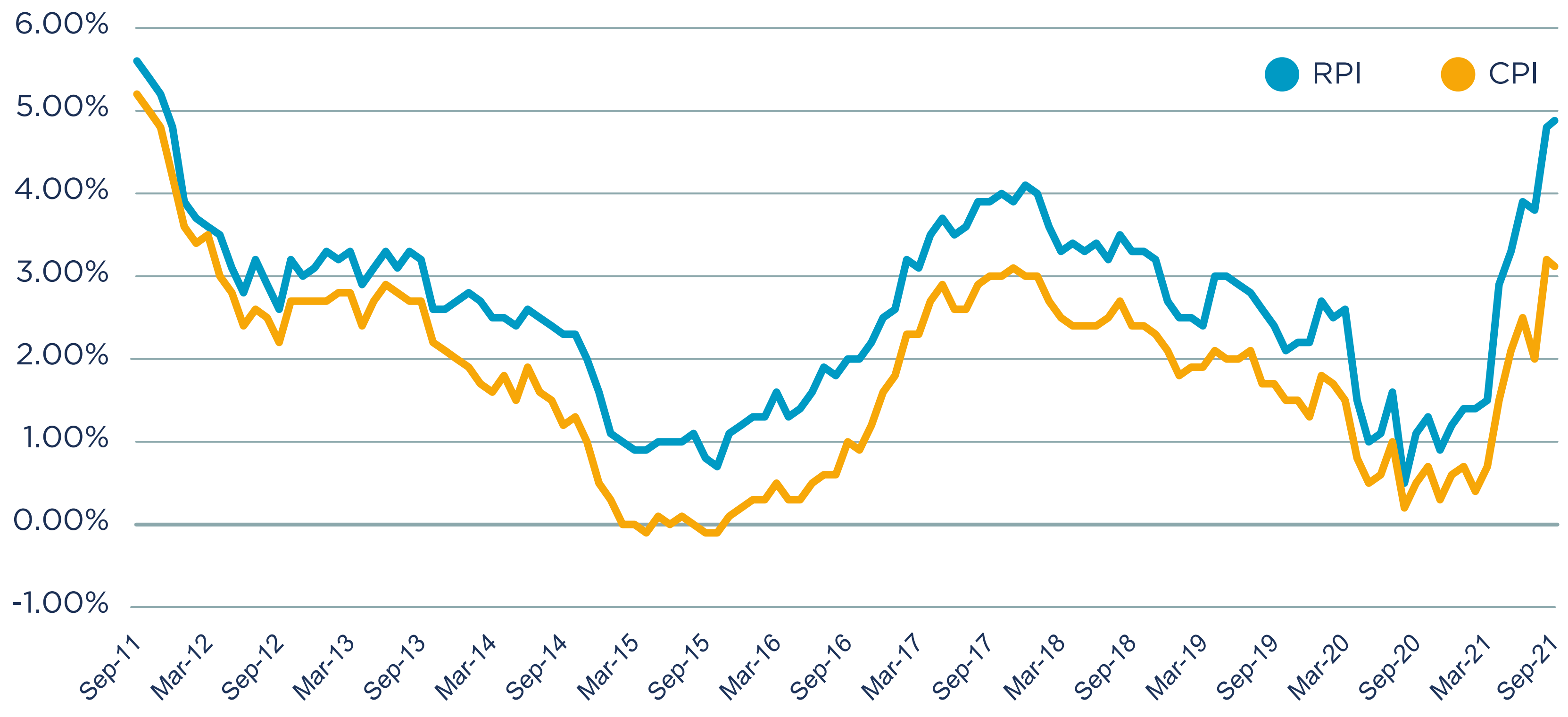
Preparing for the 2021 year-end

Companies face a busy time in the run up to the 2021 calendar year end. Those with accounting year-ends then will need to quickly consider the following hot topics noting that decisions taken over pensions accounting could have a material knock-on impact on banking covenants, credit ratings, PPF levies, valuation discussions and more.

2021 inflation – highest for a decade

As has been widely reported in the media, there has been a sharp increase in inflation levels in 2021. This will impact the increases granted to pensions (both in payment and in the period to retirement), in turn affecting the ultimate cost of providing the benefits. This could also impact the year-end figures as accounting liabilities typically reflect any known increases - to the extent that they are different to what has been assumed at the start of the accounting period, this is reflected through an experience item in OCI.

Monthly disclosed inflation figures



Source: Office for National Statistics

Join our webinar

There's lots going on and we are holding a webinar on Tuesday 16 November at 11am covering key issues for pension scheme sponsors ahead of the 2021 year-end. Register your place **here**.

Figures disclosed at the 2020 year-end suggest an average RPI assumption of 2.9% pa and CPI assumption of 2.2% pa. This compares to the disclosed September inflation figures of 4.9% and 3.1% respectively. These inflation figures underpin the statutory increases granted to pensions, and so could lead to an increase in balance sheet liabilities of up to £15bn. The actual end impact for each company will depend on the pension scheme's investments (and the extent inflation is hedged) as well as the interaction of the various maximum and minimum increases for each tranche of pension. Companies should consider the impact for their scheme now so there are no surprises at the year end. We also expect a higher than usual degree of scrutiny on the calculation of this impact at the upcoming year end.

The sharp rise in inflation will increase pension liabilities, both through higher levels of pensions in payment and higher assumed pension increases in future. A 0.25% rise in inflation expectations increases liabilities for an average scheme by around 4%, before the effects of caps and hedging.

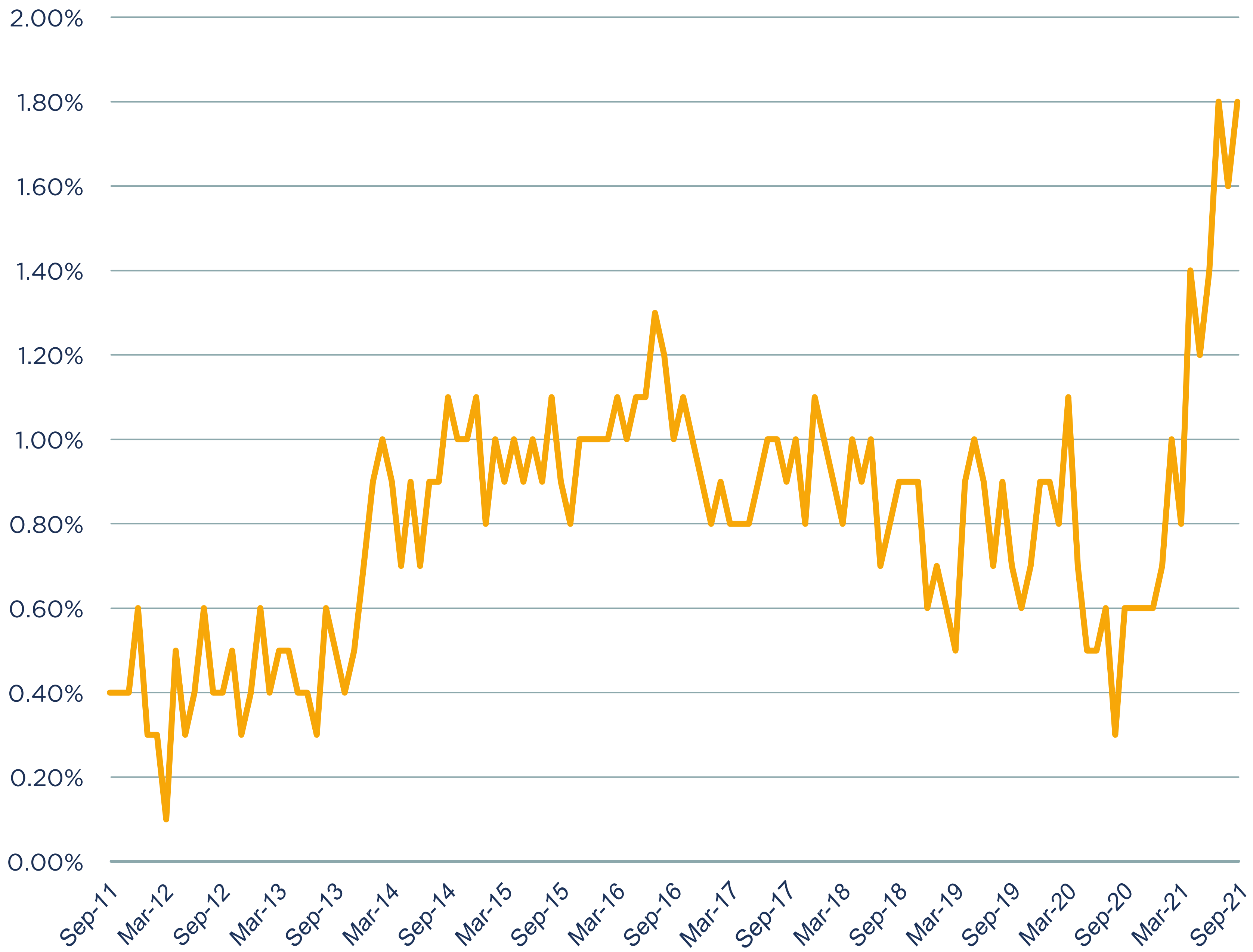
Helen Draper Partner, LCP

Preparing for the 2021 year-end. Continued

Over recent months, there has also been a divergence between the two inflation measures as shown in the chart on the right. The gap is currently close to 2% - double the average over the past decade. This presents two key challenges:

- RPI-linked assets are typically used to hedge CPI-linked liabilities. To the extent that the gap between RPI and CPI varies, this means the actual level of hedging provided to the pension scheme will vary and could lead to schemes being over or under hedged against inflation, in some cases materially. It will be important for companies to check and ensure that the appropriate level of protection is being applied or that it hasn't been allowed to drift.
- Is RPI (or indeed CPI) the appropriate inflation index to use as a base for pension increases? Whilst Trustees and sponsors may see this as a short term problem as the indices are going to be aligned more closely from 2030, a 2% pa difference for 9 years could lead to a very material difference in end cost of providing the benefits. Companies should look at their scheme and establish which inflation index is currently used, whether that is the "right" index, and also what the impact is on both the scheme's and members' finances.

Gap between disclosed monthly RPI and CPI inflation figures



Source: Office for National Statistics

Preparing for the 2021 year-end. Continued

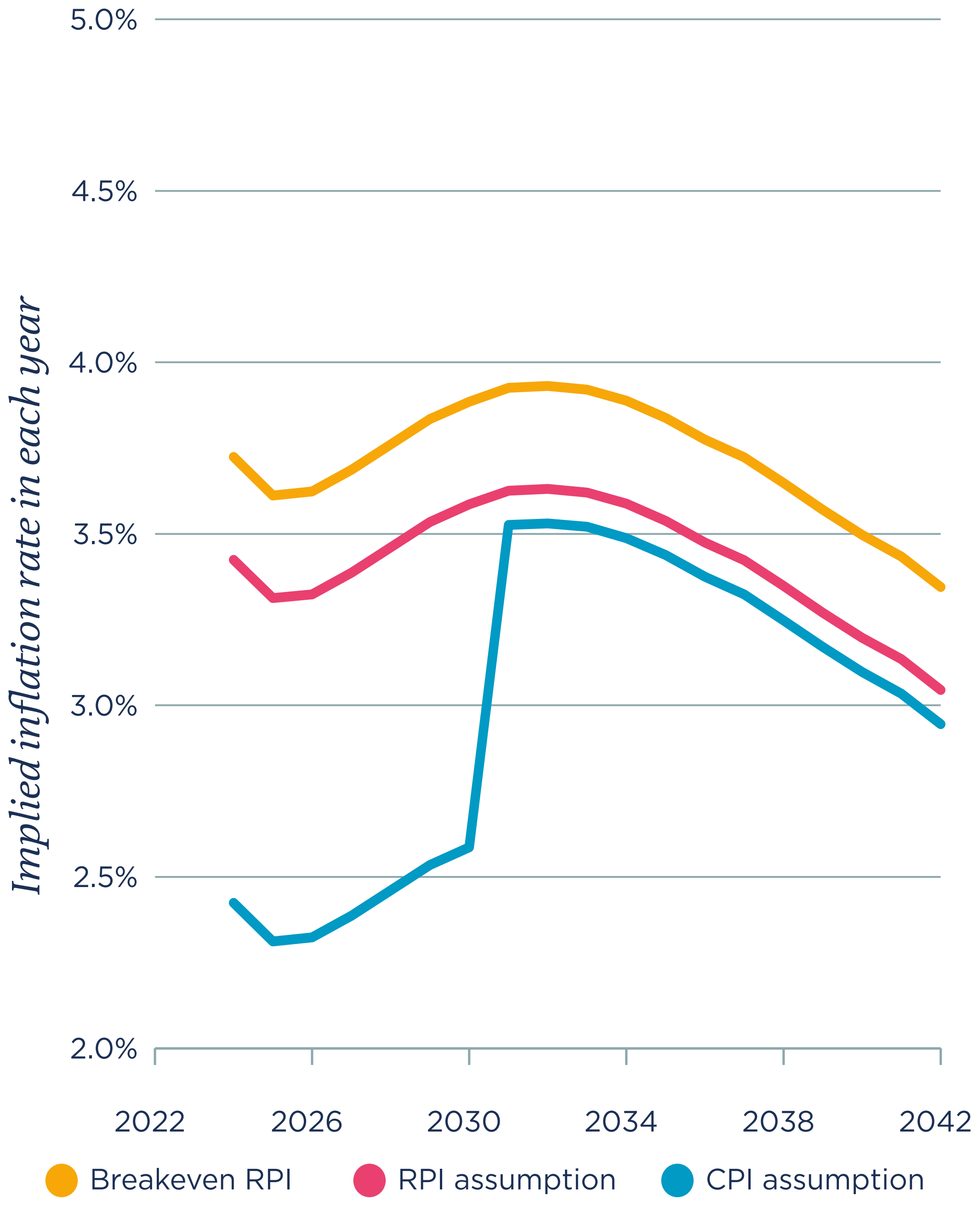
How can RPI reform make CPI look so wrong?

Companies typically base their assumptions for future RPI inflation on the difference between the market yields on RPI linked gilts and fixed interest gilts (this is the "breakeven RPI" rate). Common market practice is to deduct an "inflation risk premium" or "IRP" to reflect the additional yield on fixed interest bonds that investors require given they are subject to inflation risks. As highlighted within our **Accounting for Pensions report** earlier this year, the IRP deduction made by FTSE 100 companies in 2020 ranged from 0.0% pa to 0.4% pa, with the majority adopting an IRP of 0.2% pa to 0.3% pa.

CPI inflation is then typically derived by taking a deduction from the RPI assumption to reflect structural differences between the two inflation measures – the so called "RPI-CPI wedge". Following the announcements in November 2020 that confirmed the planned changes to reform RPI inflation, RPI is expected to be brought into line with the CPIH index (a variant of CPI) from 2030, implying the wedge would reduce to close to zero and there would be a fall in RPI inflation from 2030.

The chart opposite shows the typical build-up and derivation of inflation assumptions. The initial breakeven RPI curve (yellow line) is based on information published by the Bank of England. An IRP is then deducted from this curve to give the RPI assumption (pink line). It is common to use or disclose a single equivalent RPI assumption that gives the same liabilities as if the curve were to be used. The assumed RPI-CPI wedge is then deducted from the RPI assumption to give

Typical build-up and derivation of RPI and CPI inflation assumptions



Source: curves derived based on data published by Bank of England

the CPI assumption (blue line) – in this case we have assumed a wedge of 1.0% pa before 2030, and then 0.1% pa from 2030 to reflect differences between CPIH and CPI. This chart is based on market conditions as at 30 September 2021.

This standard method used to construct the CPI assumption as described above now leads to an implied CPI curve that appears to make little sense. It predicts a large one-off step-up of around 1% in annual CPI in 2030, even though the planned inflation reform has absolutely no effect on the CPI index (it's RPI that's changing in 2030, not CPI).

For companies where the CPI inflation assumption beyond 2030 is material, directors and their advisers will need to consider this assumption in detail and establish whether an alternative approach may be more appropriate.

Is a sudden 1% jump in CPI in 2030 realistic? Is it really a "best estimate" for IAS19 purposes? In my view, the answer to both questions is no, yet it's the assumption that underpins the majority of corporate accounts.

Jonathan Griffith *Partner, LCP*

Preparing for the 2021 year-end. Continued

Life expectancy

Setting an assumption for life expectancy is hard at the best of times, and even more so at the current time. Whilst the initial short-term impact of Covid can be measured, the longer-term impact is completely unknown. The interaction of factors like the **huge increase in hospital waiting times**, the greater public focus on health, increased research into vaccines and other medications, as well as the wider economic and societal impacts could lead to a very wide range of outcomes potentially increasing or decreasing life expectancies in the long run.

Our **Accounting for Pensions report** indicated there was potentially a £100bn range of outcomes for UK pension schemes. Whilst this sum of money is huge in absolute terms, it represents just over a one-year difference in future assumed life expectancy for all pension scheme members and highlights why this assumption is so important.

Companies typically have an established approach to setting this assumption, which may not change much year-on-year other than to:

- Follow a mortality study as part of the Trustee's triennial valuation, updating the base table to be in line with the current best estimate. This updates the assumption about current life expectancy.
- Update the projections for improvements in life expectancy to use the latest available (currently the "CMI2020" projections). This is used to assess how life expectancies are going to change in the future.

From time-to-time companies may kick the tyres on their overall approach and on longer term factors. For example, many set the "long term rate" of improvements several years ago when annual improvements had been running at much higher rates than they have over the last decade.

This year-end, there are two new factors to consider when setting the life expectancy assumption:

1. The CMI2020 projections contain a new parameter ("w2020") to decide how much weighting to place on the mortality data in 2020. The default is to ignore 2020 data completely. Given 2020 was such an unusual year, this may be a reasonable approach and appears to be what most have done based on the market practice we have seen to date. However, company directors will soon have to decide what this means for the w2021 parameter (expected to be introduced as part of next year's CMI2021 projections).
2. Has Covid changed the longer-term view on life expectancy so that a "turn-the-handle" type approach to setting the assumption is no longer appropriate? There has been a gradual "herding" of the assumptions used by companies, strongly influenced by the questions "what are my peers doing?" and "what does my auditor say?".

The direct impact of Covid-19 on excess deaths has been well captured to date. The potentially enduring indirect impacts of the pandemic however, including effects of disruption to care pathways for chronic diseases such as cancer and diabetes, are much less clear. These impacts will be felt over variable time periods by different age and population groups and any current estimates hold a high degree of uncertainty.

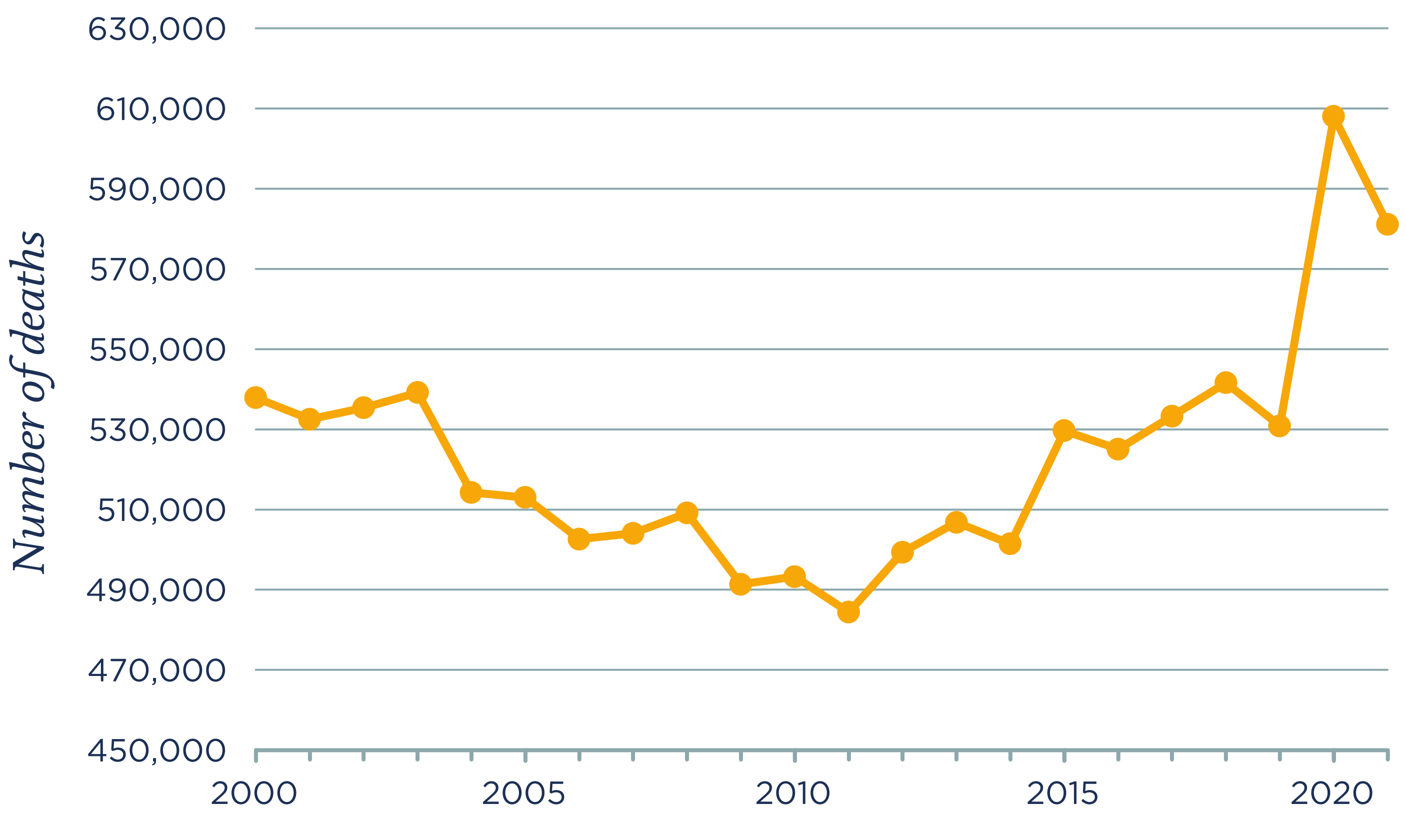
Dr Jonny Pearson-Stuttard

Head of LCP's Health Analytics and Chair-elect of the Royal Society for Public Health

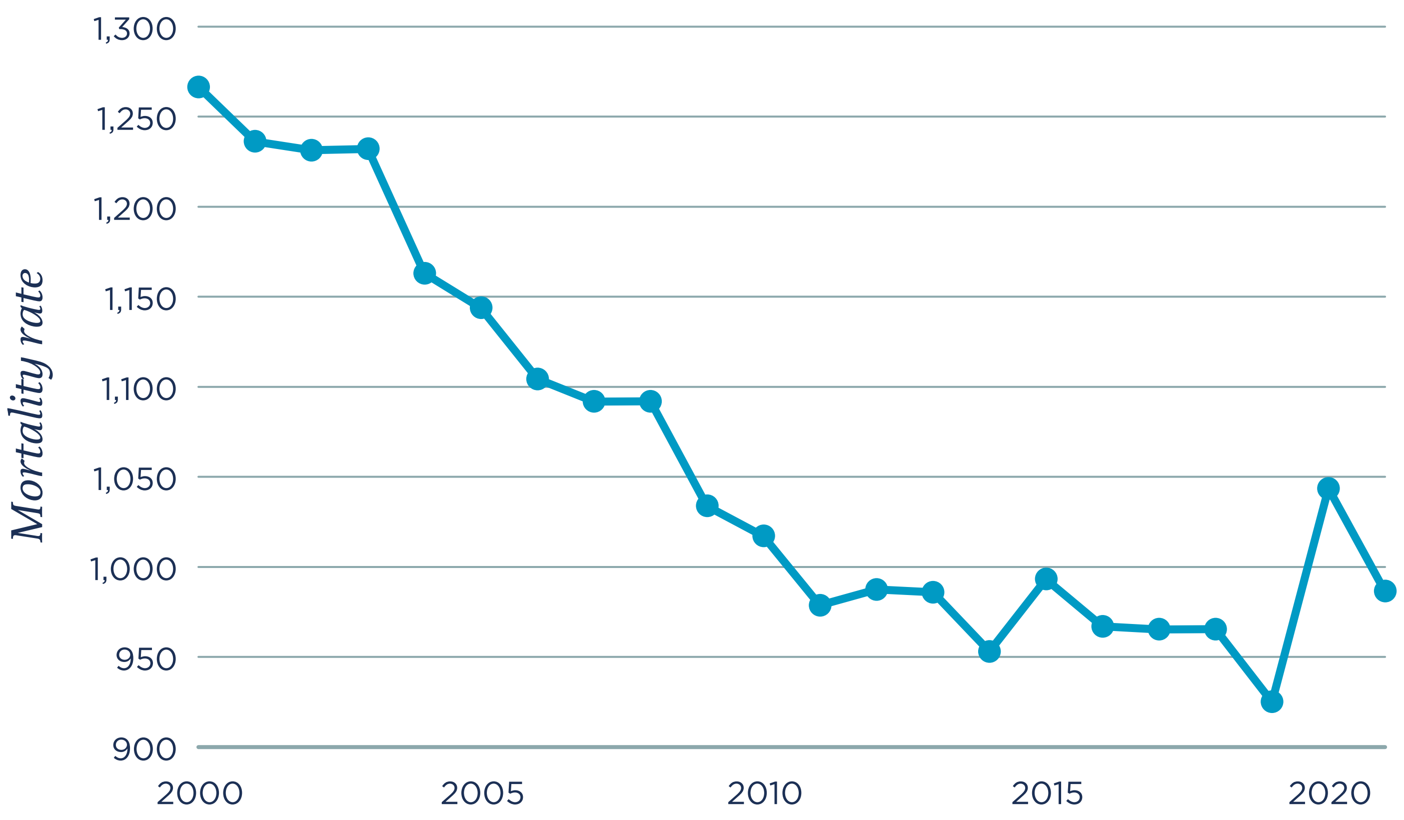
Preparing for the 2021 year-end. Continued

The two charts below show data covering England and Wales since 2000. The first chart shows the total number of deaths recorded each calendar year (2021 data has been pro-rated, on a simple time basis, to give an annual figure). Whilst there was a steady decline in the number of deaths between 2000 and 2010, there has been a gradual uptick in the number of deaths recorded in the 10 years before the pandemic hit. Part of this increase is due to a general increase in population (larger population = larger expected number of deaths) and part due to the ageing population (older population = larger expected number of deaths). The second chart allows for these two effects by showing the age standardised deaths per 100,000 of population. After a steady decrease in the first decade of the 2000s, mortality rates then levelled off in the second decade, followed by a sharp increase in 2020.

Total number of deaths recorded in England and Wales (2021 data pro-rated)



Age-standardised mortality rate (per 100,000 population)



Source: Office for National Statistics

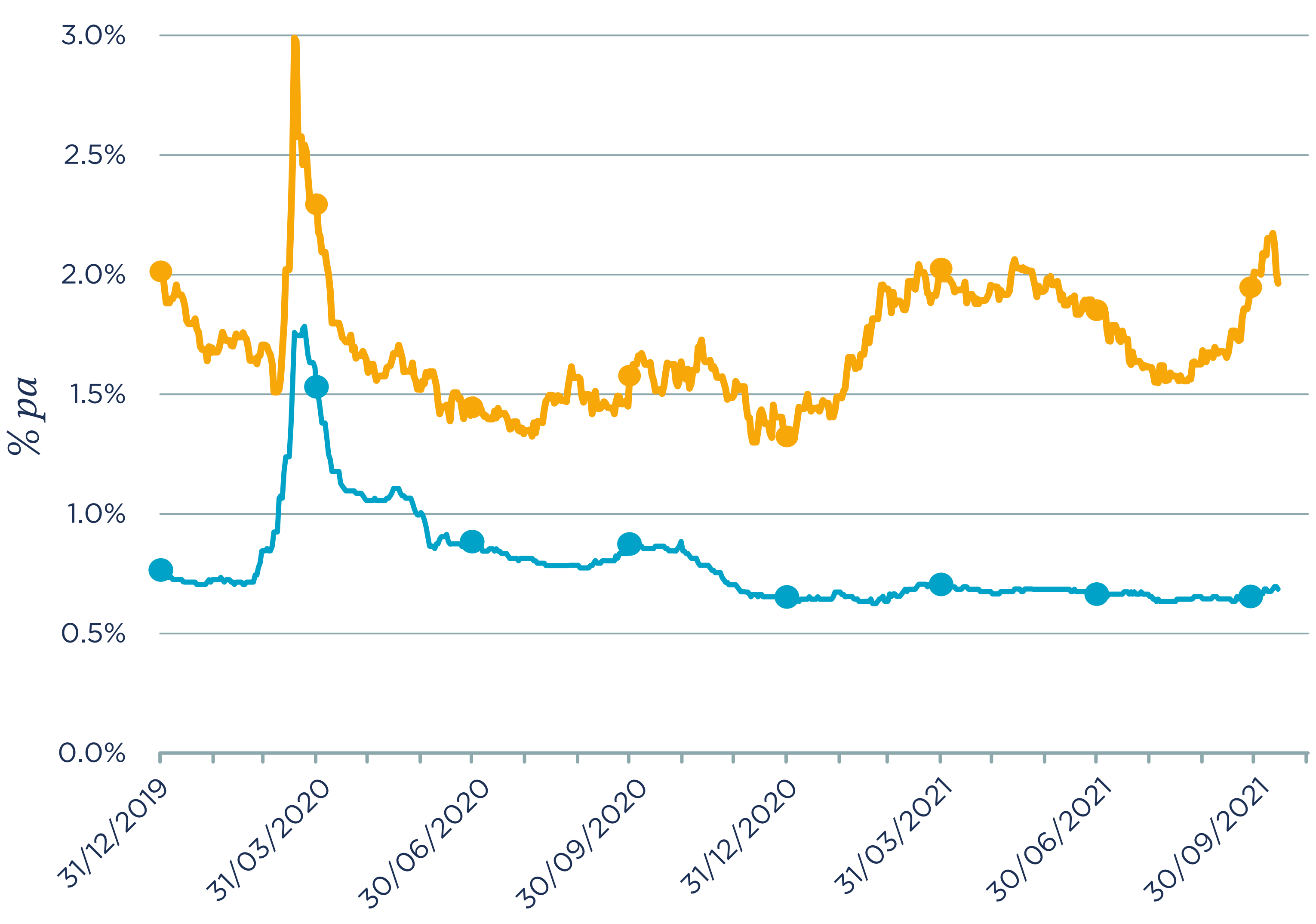
Companies will need to carefully consider whether and how to allow for these changes within their life expectancy assumption. Do the circumstances in which they originally set their assumptions still hold, in particular the "long term improvements" rate which was set by many over a decade ago and kept as a "sticky" assumption? Now may be a reasonable time to apply more scrutiny than usual when performing the annual review of this assumption.

Other year end issues

IAS19 discount rates

After the extreme volatility in IAS19 discount rates experienced over 2020 which ended with a record low, 2021 has so far been a bit more stable. Whilst rates are up by c0.7% pa since the start of the year (representing a c15% fall in liabilities for a typical scheme, all else equal), the large day-on-day movements of 2020 have not been seen. This is shown in the chart below.

Corporate bond index yield (orange) / spread (blue)

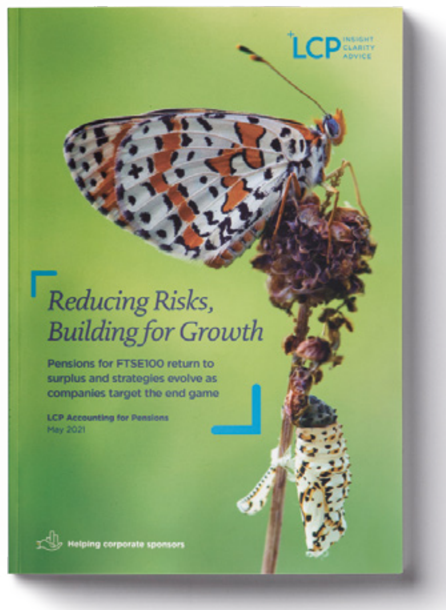


Source: ICE GBP AA Corporates 15+ yield (orange); ICE GBP AA Corporates 15+ spread (blue)

The blue line shows the movement in credit spreads – that is the additional yield investors receive for investing in corporate bonds as opposed to government bonds (gilts). This has remained relatively stable over 2021, showing that the movement in corporate bond yields has been due to movements in gilt yields. Pension schemes are typically hedged to an extent against these gilt yield movements, so the impact on corporate balance sheets over 2021 due to discount rates has generally been more muted so far.

Pensions disclosures

As noted in our **Accounting for Pensions report** earlier this year, the International Accounting Standards Board (IASB) published an exposure draft with proposals for a root and branch review of the IAS19 disclosure requirements, almost completely replacing the existing rules. The aim is to make pensions disclosures more useful, by focussing on relevant information, eliminating irrelevant boilerplate, and encouraging more effective communication. They aim to discourage a "checklist" approach, and instead require companies to make judgements about what is most relevant and how best to communicate it. To do this, the draft proposes objectives setting out what disclosures should cover, and examples of information that could be provided to meet those objectives.



The consultation is currently open and companies still have until January 2022 to put their views forward by responding.

Other year end issues. Continued

Corporate governance and restoring trust in audit

Following three independent reviews, the government launched a consultation in March this year with a view to improving corporate transparency, increasing competition across audit firms, and ultimately improving public confidence in how businesses are managed and governed.

The consultation closed in July 2021 and we are currently awaiting the outcome. The final implications are not clear at this stage, but we view possible (perhaps likely) outcomes as:

- Additional pensions audit scrutiny, especially when the FRC is replaced by ARGA (the proposed new audit regulator)
- More complex and lengthy pension audit processes if dual audit is required
- Possible drive for audit firms to permanently separate from their non-audit business
- A step-up in the required standards for internal Audit Committees
- An increase in pressure on companies and directors paying dividends, particularly in times of financial insecurity.

IFRIC14: No news is good news (so far)

Following the announcement in early 2020 not to proceed with proposed amendments to IFRIC14, there has been no further news on the direction of the IFRIC14 review. Whilst the risk of future changes to IFRIC14 remains, companies can at least have certainty over the short term that damaging changes are not imminent.

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