

Alternative Covenant Scheme Guidance 2026/27 Levy Year

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1. Introduction

- 1.1. This is the Guidance for the 2026/27 Levy Year for a particular type of scheme - those defined as Alternative Covenant Schemes in the Levy Rules. Alternative Covenant Schemes have their levy calculated in accordance with the methodology described in the Alternative Covenant Scheme Appendix (the 'ACS Appendix'). The use of this methodology reflects that the main risk posed to the PPF from an Alternative Covenant Scheme is investment risk rather than failure of a corporate business.
- 1.2. This Guidance seeks to assist trustees, sponsors and their advisors in gaining a broad understanding of the provisions within the Levy Rules for Alternative Covenant Schemes¹. It will be of particular assistance to those involved with establishing and running consolidator schemes (or 'Superfunds') - but also applies to other schemes that fall within the definition of an Alternative Covenant Scheme in Rule C2 of the Determination, including schemes without a substantive sponsor ('SWOSS'). We recommend it should be read in conjunction with The Pensions Regulator's DB Superfunds Guidance ('TPR's Guidance')², which sets out the standards TPR expects in the interim period, before a legislative regime for consolidator schemes is in place.
- 1.3. The ACS Appendix of the Levy Rules provides for how we approach the calculation of the risk-based levy³ for an Alternative Covenant Scheme. It also sets out the approach that we take when certain features of the Alternative Covenant Scheme are present (or not).
- 1.4. This Guidance provides more information regarding how we expect to operate the discretion outlined in Levy Rule C4, and sets out the information that we require and the matters of which we must be satisfied for the purposes of the definitions of 'Recognised Buffer Arrangement' and 'Acceptable Wind-Up Trigger' as defined in the ACS Appendix. Our focus is on buffer arrangements and winding-up triggers because they potentially affect the point at which some types of Alternative Covenant Scheme will enter a PPF assessment period and also the funding level of the scheme in such a situation. Buffer funds and winding-up triggers are therefore integral to establishing the risk to the PPF when calculating the risk-based levy for Alternative Covenant Schemes.
- 1.5. We would expect schemes falling under the ACS Appendix to be also subject to TPR's expectations including being assessed in relation to TPR's Guidance but we recognise that there could be exceptions. We are willing, from a levy perspective, to be involved in an initial assessment alongside TPR. We will aim for this initial assessment to be as streamlined as possible.
- 1.6. It is important to note that a formal assessment and calculation of the appropriate levy will need to be undertaken at the point at which the levy becomes chargeable each year.

¹ ACS Appendix

² [Guidance for DB superfunds | The Pensions Regulator](#)

³ ACS Appendix - Section 1 summarises the calculations, with the approach specified in full in the rest of the appendix.

- 1.7. Our Levy Rules allow us to charge a levy to an Alternative Covenant Scheme where a transfer-in occurs after the start of the Levy Year, or to revise the levy we have charged following transfers-in of new liabilities, where we deem that to be appropriate.
- 1.8. We have adopted a principles-based approach to our assessment of Alternative Covenant Scheme features, such as buffer fund arrangements and winding-up triggers, which we consider to be most suited to the initial stages of the evolution of this market. We would expect to develop the principles over time and could develop standard forms in future years. This Guidance will be regularly reviewed and updated from time to time.

2. Definition of an Alternative Covenant Scheme

- 2.1. The Levy Rules use a two-part process for identifying schemes that would be within the scope of the rule (see the box on the next page for the Levy Rule). In practice:
 - a) First, we consider whether the scheme meets one of the criteria in Levy Rule C2.1(2). For example, is the scheme a DB consolidator or a SWOSS? We may ask you to provide information to support our assessment of the criteria. If you are required to submit a Combined Opinion (see section 5 below), we require that you also confirm, in that Opinion, which of the criteria ((a) to (f) of Levy Rule C2.1(2)) apply(ies).
 - b) Second, we consider whether it is appropriate for the Levy Rules in the Alternative Covenant Scheme Appendix to apply.
- 2.2. This Guidance recognises that the second part of the test is a matter of our judgement, and sets out how we will approach that assessment. However, where a scheme meets at least one of the criteria in Levy Rule C2.1(2), we expect the ACS Appendix will be applied except in limited circumstances. We have set out examples of such circumstances below.

An Alternative Covenant Scheme is defined in Rule C2 of the Levy Rules as a scheme to which the following two paragraphs apply:

C2.1(1) First, the Board has confirmed to the Scheme that the nature of the Scheme, the features it exhibits, and/or the risk posed to the Board is such that the Board has concluded that it is appropriate for the Rules in the Alternative Covenant Scheme Appendix to apply, having had due regard to the Alternative Covenant Scheme Guidance (including but not limited to the examples provided).

C2.1(2) Secondly, the Board has confirmed that the Scheme meets any one of the following criteria at any time:

- (a) It is a Scheme where one of the purposes of its establishment and/or the nature of the ongoing operation of the Scheme and/or of its surrounding arrangements is, in the opinion of the Board, to effect consolidation of Schemes' liabilities.
- (b) It is a Scheme where one of the purposes of its establishment and/or the nature of the ongoing operation of the Scheme and/or of its surrounding arrangements is, in the opinion of the Board, to enable a return to be payable otherwise than to Members.
- (c) It is a Scheme which meets or has met any one of the following criteria at any time on or after 1 January 2017 and before 1 April 2026 (or such later date as the Board may in its discretion decide):
 - (i) in relation to which an Ongoing Governance Arrangement has been entered into; or
 - (ii) in relation to which the Board is satisfied that it has been agreed by TPR that an Ongoing Governance Arrangement will be entered into at some future date, whether in the current Levy Year or not.

Such a Scheme will be an Alternative Covenant Scheme if it meets the criteria in (c)(i) above during the period described in (c) above, even if it has already met the criteria in (c)(ii) before that period.

- (d) It is a Scheme where the sole or last man standing Scheme Employer was responsible for all of the Scheme's liabilities, but that Employer has been replaced by another Employer and:
 - (i) in all of the cases set out in sub paragraph (ii) and (iii) below the replacement took place on or after 1 January 2017; and
 - (ii) the replacement Employer has no material resource of its own to meet the Scheme's liabilities; and/or
 - (iii) apart from the Scheme's assets and any funding obligations that may be imposed on any entity by TPR, the only additional source of funding available to the Scheme to meet its liabilities is held outside the Scheme, is of a limited capital value (that could be subject to investment gains and losses with no or a limited obligation to provide additional funding to those assets), and the assets held outside of the Scheme are only available to the Scheme when pre-agreed specified funding triggers are reached.
- (e) It is a Scheme where:
 - (i) the purposes of any employment relationship entered into on or after 1 January 2017 between the Scheme Employer and the Scheme Members are, in the Board's opinion, designed to ensure that the Scheme becomes or continues to be eligible for, PPF compensation; and
 - (ii) the majority of the Scheme's liabilities (as assessed by the Board by reference to the Scheme's membership data) have accrued with an Employer that does not participate in the Scheme and has no obligations towards such liabilities (or where such a funding obligation exists, the Board is of the opinion that the obligation cannot be met or is unlikely to be met).
- (f) It is otherwise a Scheme where on or after 1 January 2017 the outcome of any arrangements, reorganisation or insolvency is that the Scheme is left with an Employer that has no material resource of its own to meet the Scheme's liabilities.

Schemes for which the ACS Appendix is appropriate

- 2.3. Our expectation is that we will consider the ACS Appendix appropriate for schemes which no longer in reality benefit from the covenant of a trading business⁴, and instead are supported by assets (held either in or outside the scheme). In such circumstances, the insolvency risk of a trading business is a less suitable basis for assessing the risk of a claim on the PPF. Instead, the key determinant of a risk of a claim on the PPF is the risk of a fall in scheme funding to a level where a claim on the PPF would be triggered, which the ACS Appendix methodology calculates. What matters here is the nature of the covenant rather than its strength.
- 2.4. An example would be a Superfund that is supported by a capital buffer, rather than a trading business.
- 2.5. We expect schemes in the situation outlined above to fall under the scope of TPR's Guidance, though we recognise there could be exceptions. TPR's Guidance sets out TPR's expectations of the standards that schemes operating without the support of a trading business must meet in order to provide security to their members. This includes expectations on capital adequacy, but also on the design of buffer funds and wind-up triggers (requirements for which are replicated in our Levy Rules). TPR defines superfunds in its Guidance (see paragraph 1.2) as follows:
- “A superfund is a vehicle that, upon entry or at some point in the future, allows for the severance or substantial alteration of an employer's liability towards a DB scheme, or the DB section of a hybrid scheme, and where one of the following conditions applies:
- The scheme employer is replaced by a special purpose vehicle (SPV) employer. This is, to all intents and purposes, a shell employer and is usually put in place to preserve the scheme's Pension Protection Fund (PPF) eligibility.
 - The liability of the employer to fund the scheme's liabilities is replaced by an employer backed with a capital injection to a capital buffer (generally created by investor capital and contributions from the original ceding employers).”
- 2.6. However, both we and TPR recognise that the market for Alternative Covenant Schemes is in its infancy and that there is a wider range of transactions and structures that *could* lead to the outcome described in paragraph 2.3 above (where the ACS Appendix is appropriate given the scheme's circumstances and TPR's expectations would likely apply). TPR's Guidance emphasises that their expectations could also apply to models that “provide capital backing but do not plan to consolidate schemes”⁵ – see Appendix E of that Guidance (in particular expectations around trustee engagement with TPR). The TPR Guidance may apply in some circumstances – and we would expect to similarly consider

⁴ We define a trading business as one that has operating cashflow and/or access to financial resources.

⁵ [Guidance for DB superfunds | The Pensions Regulator](#)

such arrangements as in scope of the ACS Appendix. In line with this, our Levy Rules identify a range of transactions that could lead to a scheme being levied under the ACS methodology. The PPF's decision as to whether the ACS methodology is appropriate to apply will hinge on the nature of the covenant, as described above, not simply the nature of the transaction that led to the arrangement.

- 2.7. We recognise there may be situations where an existing DB scheme becomes a SWOSS, for example any arrangement that results in the substantive employer sponsor being an unsupported (e.g. no parental guarantee) shell company with no assets (or access to limited capital only). In these circumstances, it is likely that the ACS Appendix will be the appropriate methodology for calculating the levy. This is because the scheme would no longer benefit from an employer covenant and would instead be reliant solely on investment returns and any other assets held. In this situation we would expect, for example, Levy Rule C2.1(2)(d) to (f) to apply.
- 2.8. We also recognise that there may be situations in which – whilst the covenant is predominantly provided by assets – there is some residual or very limited covenant provided by a trading business. The criteria in C2.1(2)(e)(ii) specifically recognises the possibility of a transaction where a new employer is attached to a scheme, but a ceding employer that has stopped participating may have some remaining but limited funding obligation. In such a circumstance, we will look beyond that legal obligation, through to the true nature of the covenant provided by the new employer in order to determine whether the ACS methodology should apply.
- 2.9. We are aware of the possibility of attempts to subvert the assessment of the nature of the covenant, for example by buying or establishing a small company to function as a scheme employer to try to avoid the application of the ACS methodology. In such situations we will consider information we have which points to the nature of the covenant. Where it is likely that insolvency of the employer would be intrinsically linked to the circumstances of the scheme (for example where the employer is controlled by the trustees or other entity seeking to earn a return from the scheme) we would expect to use the ACS methodology.

Circumstances in which the ACS Appendix would not apply

- 2.10. The wide range of circumstances in which a scheme *could* become an Alternative Covenant Scheme and similarly the wide range of structures it could operate under is why the list of criteria in C2.1(2) of the Levy Rules is relatively broadly drawn. However, we recognise that it is possible for a scheme to meet one or more of the criteria in C5.1(2) in scenarios where it may not be appropriate to apply the methodology in the ACS Appendix to calculate the scheme's levy. We do **not** consider it is likely that the ACS Appendix would be appropriate to apply in the examples below.

The scheme is involved in a 'business as usual' type transaction after which the scheme covenant continues to be provided by a trading business

- 2.11. Transactions that could lead to this outcome include scheme mergers within a corporate group. For example, this could be two schemes merging or becoming sections of the same scheme with the same employers, or where new schemes have been set up expressly for this purpose or where existing group schemes are used as receiving schemes.
- 2.12. The ACS Appendix is expected to be the appropriate methodology in transactions where the nature of the covenant fundamentally changes from one provided by a trading business to one provided by assets (which could be held inside or outside the scheme).

Transactions after which the scheme covenant is provided by a company guarantee

- 2.13. We are familiar with transactions that leave the scheme without a trading company as its sponsoring employer but with covenant support provided by a PPF-compliant guarantee from another trading business or entities. In this scenario, the risk of a claim on the PPF stems from the insolvency risk of the guarantor. In assessing the risk posed, the Board expects to look to the principles applied for the PPF-compliant guarantees in the 2025/26 Levy Year⁶ and that the guarantee provides for a full risk-switch (i.e. covers 105% of s179 liabilities). If the scheme meets these principles, we envisage it would *not* be appropriate to use the ACS Appendix.

Schemes that have liabilities that did not originally accrue with the sponsoring employers

- 2.14. The criteria in C2.1(2)(a) and part of C2.1(2)(e)(ii) are concerned with movements in schemes' liabilities that effectively consolidate those liabilities under a single or reduced number of employers that are responsible for assuming those liabilities. We recognise that owing to scheme mergers and other transactions, many DB pension schemes will have liabilities that did not accrue with the sponsoring employer. So long as the scheme in question has an employer that is liable for such liabilities and that employer's covenant is derived from a trading entity, we would not expect to apply the ACS Appendix when calculating the scheme's risk-based levy.

Innovative arrangement to support investment returns on scheme assets

- 2.15. The criterion in C2.1(2)(b) is concerned with schemes where there is a return payable otherwise than to scheme members. We do not expect that arrangements that are entered into in the normal course of business that require a return to a third party to be in scope of the ACS Appendix. This would include outperformance of benchmark share arrangements under scheme asset investment contracts or asset backed contribution arrangements. As the ACS Appendix makes clear, we are not expecting normal scheme expenses (such as fees to investment managers) to bring a scheme into the scope of the ACS Appendix.

⁶ For more information, please see the Levy Rules, the Contingent Asset Appendix, and the associated guidance for the 2025/26 Levy Year.

Transfers to a DB master trust

- 2.16. Where the scheme's employer becomes a participating employer in a DB master trust and continues to be a trading business, this on its own will not lead to the application of the methodology in the ACS Appendix.

Arrangements pre-1 January 2017

- 2.17. We do not currently intend to apply the Alternative Covenant Scheme rules to schemes for whom the ACS Appendix may be appropriate but where the transaction that led to this arrangement pre-dates 1 January 2017. This date is when we introduced our new levy charging methodology and when we set out our views on the appropriate basis for charging a levy to schemes of this nature. However, we reserve the right to do so in future, to the extent necessary to ensure that the risk such schemes pose is appropriately reflected in the levy.

Further development of these examples

- 2.18. The above is not intended to be a definitive list of exclusions, but instead provides a set of examples to illustrate the approach we will take. We will revisit and develop these examples over time in the light of experience.

Engaging with us

- 2.19. We expect any trustees or scheme sponsors who, after consideration of this Guidance, believe that their scheme meets the purpose of the ACS Appendix and might fall within the definition of an Alternative Covenant Scheme, to engage with us and with TPR. We also expect trustees and scheme sponsors to reference appropriate TPR guidance. We envisage that engagement in relation to new structures would be the most productive when there is a clear proposal rather than an initial idea that is being considered.
- 2.20. In the first instance we would encourage schemes to email us at information@ppf.co.uk and provide us with a short summary, explaining why they think the ACS Appendix may apply to their situation. It may be useful to explain how the covenant could change and what is the reason for the change (e.g. merger/creation of an SPV) and which of the criteria the scheme could meet. We will then contact the scheme setting out any further information requests.⁷
- 2.21. We will also contact schemes directly if we understand that a transaction is taking place that may mean our ACS methodology could apply. We would expect to be aware of transactions through our regular information-sharing processes with TPR (for example, where the scheme has asked for clearance on a transaction or reported a Type A event, or is in discussions to be assessed as a Superfund under TPR's Guidance or otherwise engages with TPR). If we confirm that in our view the scheme should be levied using the ACS Appendix we will proceed with an assessment on the suitability of any buffer fund and

⁷ Information we would need is likely to include scheme rules and any amending deeds, any contingent assets, actuarial valuation for the scheme, statement of investment principles, and any heads of terms agreement.

wind up triggers, and Ongoing Governance Arrangements for the purposes of our Levy Rules. More information on these areas is in the relevant sections of this Guidance alongside TPR's Guidance. We can also provide an indicative view of why the features of the scheme make it appropriate to apply the ACS Appendix for calculating the levy.⁸ As mentioned in paragraph 1.6 a formal assessment and calculation of the appropriate levy will need to be undertaken at the point at which the levy becomes chargeable.

- 2.22. If we become aware of a scheme that in our view should be levied using the ACS Appendix, we are able to reassess levies as required. At present we will only do this for schemes where an employer replacement took place on or after 1 January 2017.
- 2.23. Depending on the information requirements set by TPR, we may have additional information requirements for levy purposes beyond those set out in this Guidance. In that circumstance we would engage with the Alternative Covenant Scheme regarding any additional requirements.

3. Buffer funds

- 3.1. Our expectation is that a key feature for some types of Alternative Covenant Schemes will be the use of buffer funds, held outside the scheme but available if funding falls, as a risk reduction tool.
- 3.2. Where we are satisfied about the security of the arrangement, we will treat the assets in the buffer fund as scheme assets for the purpose of the levy for an Alternative Covenant Scheme.
- 3.3. It is not our intention to place restrictions on the types of assets that can be held in the buffer fund (although TPR's Guidance does set out certain conditions that must be met). We will, however, require a high degree of certainty that, if needed, the assets in the buffer fund would be available to the scheme and that robust provisions are in place to ensure the capital buffer is not subject to value leakage. We will also need to be confident that the level of investment risk within the buffer fund (that forms the basis of TPR's assessment) will not be increased without an injection of additional capital, if that is necessary in order to continue to meet any capital adequacy requirements from TPR.
- 3.4. How these concerns will be addressed is likely to vary from proposition to proposition. We will make our assessment of whether a particular buffer fund arrangement meets the requirements in order to be a 'Recognised Buffer Arrangement' for the purposes of the ACS Appendix by reference to the 'Recognised Buffer Arrangement' definition (see paragraph 11 of the Appendix), including the following requirements:

⁸ As our ACS Appendix mentions, it is possible for the Ongoing Governance Arrangement to set out scheme-specific features. The Ongoing Governance Arrangement needs to be approved by us.

- a) **Buffer value preservation:** there are appropriate mechanisms to preserve the value of the buffer fund prior to the trigger of any payment from the buffer fund to the scheme, including appropriate provisions for payments into the buffer fund, management, and control of risk, and for disposal of buffer assets. In particular, buffer fund assets cannot be released outside of pre-defined circumstances (these circumstances should be in line with TPR's expectations for Superfunds);
- b) **Buffer investment risk:** the risks within buffer fund investments cannot be materially increased after TPR's initial assessment without an increase in capital if that is necessary in order to ensure that TPR's capital adequacy requirements are met on a continuing basis. We recognise that the risks within the investment arrangements of the scheme and buffer fund can be considered together when determining whether TPR's capital adequacy requirements for Superfunds are met. We also require an explanation of the controls that are in place to prevent investment risk being increased in scenarios where the scheme's funding level is approaching the 'low risk funding trigger';
- c) **Buffer trigger:** there is a legally enforceable mechanism for the assets of the buffer fund to transfer to the scheme if there is a trigger event;
- d) **Buffer asset allocation governance:** there are appropriate parameters for determining the asset allocation for the buffer fund and governance terms concerning the role of scheme trustees in relation to changes to the buffer fund asset allocation. In particular, changes in buffer fund asset allocation cannot be made without consultation with scheme trustees; and
- e) **Buffer jurisdiction and disputes:** there are appropriate terms providing for the governing law and jurisdiction that can apply to the buffer fund and in respect of the jurisdiction to determine disputes relating to the buffer fund.

3.5. In order to allow an assessment of the extent to which these requirements are met and therefore whether we are satisfied that the buffer fund arrangement meets the definition for a 'Recognised Buffer Arrangement', we require trustees to obtain advice that the requirements in 3.4(a) to (e) are met and for this to form part of the Combined Opinion (see below in section 5).

4. Winding up triggers

4.1. There may be a number of trigger events included in the governing documentation for arrangements that fall within the Alternative Covenant Scheme definition – for example, an event that triggers limits on the writing of new business or that triggers the transfer of assets from the buffer fund into the scheme (the 'low risk funding trigger'⁹). From a levy perspective, we are particularly interested in the events that will trigger a wind-up of the scheme and, critically, how this will result in the employer undergoing a qualifying insolvency event that triggers a PPF assessment period. Arrangements that wind up the

⁹ Please refer to [Guidance for DB superfunds | The Pensions Regulator](#) for what is meant by the 'low risk funding trigger'.

scheme and only indirectly cause the employer's insolvency at an uncertain date in the future are therefore not satisfactory.

- 4.2. Where a wind-up trigger is set at an appropriate s179 funding level (defined as a 'Trigger Funding Level' in the ACS Appendix) and we are satisfied that the other conditions in the definition of 'Acceptable Wind-Up Trigger' in the ACS Appendix are met, we will set a strike price for the calculation of the levy at below 100 per cent of s179 liabilities. This will be achieved using the factors for adjusting s179 liabilities as set out in section 3 of the ACS Appendix. This discount reflects the reduction in risk to the PPF resulting from the wind-up trigger.
- 4.3. We will make our assessment of whether particular winding-up provisions meet the requirements in order to be an 'Acceptable Wind-Up Trigger' for the purposes of the ACS Appendix by reference to the following requirements:
- a) **Wind-up trigger funding level:** the wind-up trigger has to take effect at a funding level equal to or in excess of the level TPR would deem acceptable for a Superfund. In line with TPR's published expectations we require that to be at least 105% of s179 liabilities, unless otherwise agreed by TPR in consultation with us in exceptional circumstances;
 - b) **Automatic and immediate wind-up trigger:** once the wind-up trigger conditions are met, scheme wind-up must commence automatically i.e. wind up must not be at the discretion of any of the parties to the arrangement if the trigger conditions have been met and, once the wind-up trigger conditions are met, scheme wind-up must commence immediately;
 - c) **Timely employer insolvency:** there must be a mechanism in place by which the insolvency of the sponsoring employer will occur within an acceptable period. We would generally expect this to be no more than three months from the commencement of scheme wind-up. For example, the scheme rules could provide for a contribution to become due from the employer immediately upon commencement of scheme wind-up without waiting for the section 75 debt to be calculated;
 - d) **Funding level monitoring:** there must be adequate arrangements to monitor the s179 funding level with sufficient accuracy and frequency, which are consistent with TPR's expectations on such schemes for reporting and provide for more frequent assessments of the scheme's funding position if the funding level approaches the 'low risk funding trigger';
 - e) **Legally enforceable wind-up trigger:** the wind-up trigger, as required above, must be legally enforceable (see 5.5 below for an example confirmation); and
 - f) **Restrictions on amendments to the wind-up rule:** the ability to amend the scheme wind-up rule must be suitably constrained. Any ability to alter the wind-up trigger would need to be limited to changes that are required to meet evolving regulatory or legislative requirements, or changes that are otherwise consistent

with this Guidance and TPR's Guidance (and any other applicable guidance as it exists from time to time).

- 4.4. In order to allow an assessment of the extent to which these requirements are met and therefore whether we are satisfied that the winding-up trigger meets the definition for an 'Acceptable Wind-Up Trigger', we require trustees to obtain advice that the requirements in 4.3(a) to (f) are met and for this to form part of the Combined Opinion (see below in section 5).
- 4.5. Informing our view, we will have regard to TPR's Guidance (and any other applicable guidance as it exists from time to time). At a minimum, the wind-up trigger will have to meet any future requirements of a regulatory regime.

5. Requirement to provide a "Combined Opinion"

- 5.1. In order to assess and recognise (for the purposes of the ACS Appendix) a buffer fund arrangement or wind-up trigger, we require a "Combined Opinion", as explained in this Guidance, to be provided. The exception is where a scheme falls within the definition of an Alternative Covenant Scheme and it has an Ongoing Governance Arrangement. Where the Ongoing Governance Arrangement clearly sets out all of the features that we consider necessary to calculate the scheme's levy, a Combined Opinion will *not* be required unless we advise otherwise. In all other circumstances we require a Combined Opinion to be provided.
- 5.2. We request that the trustees of a new Alternative Covenant Scheme proposal submit such an opinion to us, in draft (to be finalised later, at our request), at the same time as they notify TPR of their proposal and before any transfers into the Alternative Covenant Scheme are made. This is to enable us to undertake an initial assessment of the proposal (from a levy perspective) in conjunction with TPR. For this purpose, a Combined Opinion means an opinion provided by a legal adviser and/or other advisers who are professionally qualified to opine on the relevant subject matter. It may be delivered in one document or in a series of documents.
- 5.3. The purpose of the Combined Opinion is to set out clearly to us all of the key features of the relevant Alternative Covenant Scheme with enough clarity and in enough detail to allow us to determine how to apply the ACS Appendix to the scheme in question when calculating the scheme's levy for the relevant Levy Year.
- 5.4. In particular, the Combined Opinion(s) must include input from professional advisers and confirm and explain:
 - a) which of the **ACS criteria** (in Levy Rule C2.1(2)(a) to (f) apply(ies) to the scheme.
 - b) whether the '**Recognised Buffer Fund**' requirements are met (see paragraph 3.4 above); and

c) whether an **'Acceptable Wind-Up Trigger'** is in place (see paragraph 4.3 above).

5.5. Below we include example wording which, if appropriate, could be used in the Combined Opinion to confirm the enforceability of the legal mechanisms governing the buffer fund and wind-up trigger and the jurisdiction of any disputes:

"Having regard to English law in force as at the date of this opinion, we are of the opinion that:

- a) the legal mechanism(s) that govern the operation of both the buffer fund and wind-up trigger in relation to [[each section of] the scheme] (and all other related documents and provisions) are legally binding, valid and enforceable and, other than those stated in this opinion, are subject to no other conditions or requirements; and*
- b) the courts of England and Wales have exclusive jurisdiction to determine any dispute arising out of or in connection with those documents or provisions [underlying the triggers] (including in relation to any non-contractual obligations).*

5.6. The Combined Opinion should be capable of being read and understood without requiring reference to underlying documents. It should identify each of the relevant requirements (see 5.4 above), confirm whether the requirement is satisfied, and explain how the relevant provisions in the governing documentation achieve that (with citations of those provisions). This should include providing reassurance that an action triggered under one document cannot be frustrated by action/inaction at a subsequent stage whether that be by reference to another document or not.

5.7. The adviser(s) providing the Combined Opinion must accept a duty of care to the Board of the PPF. In addition, we must be able to rely on the Combined Opinion and there must be either no exclusion of liability or a liability cap that is at a level that we consider to be reasonable in the circumstances. We would not expect the cap to be lower than £5m, but there may be circumstances in which a higher minimum cap is appropriate in future years, for example to take account of increasing scale of operation. A suggested form of wording for the duty of care statement is as follows:

"We accept a duty of care to the Board of the Pension Protection Fund (the 'PPF') in relation to our advice and acknowledge that the advice may be relied upon by the PPF for the purpose of calculating the PPF levy for [name of Scheme]. We do not purport to exclude liability to the PPF, whether arising pursuant to the Pensions Act 2004 or otherwise.

We confirm that we have taken into account the Board's Determination, Alternative Covenant Scheme Appendix and Alternative Covenant Scheme Guidance for the [xxxx e.g. 2026/27] Levy Year and The Pensions Regulator's DB Superfunds Guidance when preparing this Opinion.

We confirm that we are independent of any of the following in respect of [name of the Alternative Covenant Scheme]:

- Any investor in the Scheme and/ or arrangement(s) associated with it;*
- the trustees and the employer of the Scheme or arrangement;*

- *any entity that is responsible for or governs any aspect of the Scheme and/ or the arrangements associated with it”.*

- 5.8. Where a Combined Opinion has been provided and accepted by us in any previous Levy Year, we will accept the submission of a short form opinion for subsequent Levy Years confirming whether there have been any changes to the Alternative Covenant Scheme arrangement (or other legal or factual changes) that mean that the position as set out in the Combined Opinion no longer applies. If there have been any such changes, the new short form opinion should update the relevant parts of the original Combined Opinion and confirm whether each of the relevant PPF principles for the relevant feature as listed above continues to be satisfied. The provisions of this paragraph 5 apply to any new opinion.
- 5.9. Trustees must notify us promptly if the position as set out in the Combined Opinion, or any new opinion obtained under paragraph 5.8 ceases to apply in any respect. If the trustees of a scheme notify us, or if we otherwise become aware, that at some point during a Levy Year the information contained in the Combined Opinion or any subsequent opinion obtained under paragraph 5.8 has ceased or will cease to be true and correct, we may recalculate the risk-based levy for the Alternative Covenant Scheme for that Levy Year.

6. Annual information requirements

- 6.1. We require certain information to be provided at least annually¹⁰, or more frequently if that is consistent with TPR’s expectations for reporting. We will make prudent assumptions when calculating the risk-based levy in accordance with the ACS Appendix if that information is not available. The current information requirements reflect our understanding of arrangements that have to date been presented to the PPF that may fall within the definition of Alternative Covenant Scheme. We recognise that the market is developing and as proposals within the marketplace develop, our information requirements may also evolve.
- 6.2. Unless we expressly agree otherwise, we require all Alternative Covenant Schemes to supply the following information within three months of us confirming that the scheme meets the definition of an Alternative Covenant Scheme, and thereafter by midnight on 31 March immediately prior to the start of each Levy Year (or as otherwise notified to the scheme by us). We expect the information to be updated at least annually.
- a) Section 179 Valuation with an effective date within 15 months of the Measurement Time;
 - b) asset breakdown in accordance with the provisions of the relevant Exchange user-guide, with the scheme deemed to be subject to the requirements of Tier 3 (as

¹⁰ See section 2 of the ACS Appendix.

defined in Exchange) for this purpose, covering the combined position of the scheme assets and any buffer funds; and

- c) interest rate and inflation rate risk factor stress impacts, each combined to relate to the derivative holdings of the scheme and any buffer funds.

6.3. For the purposes of 6.2.b) and 6.2.c) above, if the scheme has buffer fund assets then the information should be broken down between scheme assets and buffer fund assets, as well as showing the amalgamated position. All such information should be calculated consistently at a single effective date.

6.4. Where Section 179 Valuations are not updated annually we will apply a 5% per annum increase to the protected liabilities to reflect potential understatement of risk for older valuation submissions.¹¹

7. Value extraction

7.1. We expect Alternative Covenant Schemes to adhere to TPR's expectations regarding profit extraction. If TPR's expectations change in the future, we recognise the possibility that scheme or buffer fund assets reported to us may be paid out in accordance with arrangements for distributing surplus capital to investors. It is not our intention to prevent this occurring if permitted by TPR. However, we expect that value extraction would only occur if TPR's capital adequacy tests could continue to be met following the extraction in respect of a particular Levy Year.

7.2. Our Levy Rules allow for an Alternative Covenant Scheme to supply valuation information net of value extraction that may occur in the forthcoming Levy Year. This allows us to calculate the annual Levy based on the value of assets that will remain available to the scheme throughout the year regardless of any value extraction.

7.3. Our Levy Rules recognise that an Ongoing Governance Arrangement may also set capital extraction thresholds. The ACS Appendix has specific parameters regarding returns in certain circumstances. For more information, see ACS Appendix Sections 2 and 4.

8. Alternative Covenant Schemes with Ongoing Governance Arrangements

8.1 The definition of an Ongoing Governance Arrangement (OGA) in the Levy Rules covers arrangements put in place to allow the continued operation of a scheme without a substantive sponsor. Generally, our expectation is that if the arrangements meet TPR's Guidance they will likely fall within the requirements set out in Levy Rule C2.1(2). However, as our Levy Rules are different from TPR's Guidance, it is possible for a scheme to have an OGA and for the Board to identify that the ACS methodology is appropriate, but that the arrangement does not meet the requirements set out in TPR's Guidance. We also expect

¹¹ ACS Appendix section 3 - Factors to reflect understatement of risk for older valuation submissions.

schemes to inform us whether the arrangements meet TPR expectations, as set out in its Guidance.¹²

- 8.2 When a scheme falls within the definition of an Alternative Covenant Scheme and it has an OGA which clearly sets out all of the features that we consider necessary to allow us to calculate the scheme's levy, we expect that a Combined Opinion will not be required; we will advise the scheme if a Combined Opinion is required.
- 8.3 If a Combined Opinion is required for such a scheme it should comply with the requirements for a Combined Opinion as set out in Section 5 above, but also including such changes as are necessary to clearly demonstrate that each of the features that correspond to the relevant section of the ACS Appendix have been met. This includes the sections of the ACS Appendix that specifically relate to Alternative Covenant Schemes that have an OGA, and could include specific factors that have an impact on the levy calculation. Where any such features are not present this should also be clearly stated in the Combined Opinion.

9. Risk reduction mechanisms

- 9.1 The Board may, at its discretion, recognise arrangements which reduce the risk of an Alternative Covenant Scheme entering the PPF (see Rule C4.2).
- 9.2 In order that the Board can assess whether it considers there is a reduced risk, the Board requires the Scheme to provide information and details (see 9.4 below) as to the nature and risks of the arrangements within three months of the Board confirming that the Scheme is an Alternative Covenant Scheme (unless otherwise expressly agreed) or, if the Scheme has previously been confirmed as an Alternative Covenant Scheme by us, by 31 March 2026. This is so that the Board can assess and consider whether any adjustments to the Alternative Covenant Scheme's RBL calculation are appropriate.
- 9.3 In assessing the impact on risk, the Board expects to look to, amongst other things, principles applied for risk reduction mechanisms in the 2025/26 Levy Year. For example, if the reduction in underfunding risk was provided by security over property, then a first priority legal mortgage or fixed charge in favour of the trustees of the Scheme would need to be in place.
- 9.4 The required information includes, but is not limited to:
 - a) A summary of the arrangement, including the trustee's view of the risk reduction provided.
 - b) A certified copy of the legal document that effects the arrangement.
 - c) A legal opinion (this can be included in the Combined Legal Opinion) which confirms that the arrangement is legally binding, valid and enforceable, and that the asset is irrevocably available to the trustee of the Scheme following the relevant trigger event(s) and is subject to no other requirements or encumbrances.
 - d) Such other information that the Board requires.

¹² [Guidance for DB superfunds | The Pensions Regulator](#)

10. Additional considerations

- 10.1 Where we are satisfied that the ACS Appendix applies, but a particular scheme feature is absent and the ACS Appendix provides for an alternative to the stated methodology to be used when that feature is not present, we will apply the stated alternative.
- 10.2 Where we are satisfied that the ACS Appendix applies, but a particular scheme feature is absent and the ACS Appendix does not provide for an alternative to the stated methodology to be used when that feature is not present, we will not apply the relevant section of the Appendix.
- 10.3 The above paragraphs are intended to apply as set out, so long as we are satisfied that in doing so the ultimate output appropriately reflects the risk reduction. We are able to depart from the standard methodology in the ACS Appendix to the extent provided for in the Appendix, the Rules and this Guidance.
- 10.4 The Levy Rules provide for Rule B1 to apply in cases where any items of information that we require are not provided, or for any exceptional situation where the Levy Rules do not make the provision required for a levy calculation to be performed. Where Rule B1 applies, the calculation of the Levies would be performed in such manner and by using such assumptions as in our opinion is prudent and reasonably practicable, and best gives effect to the general approach laid down by the Levy Rules.