



PPF Restructuring and Insolvency Team
Guidance Note 5
Company Voluntary Arrangements

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1. Background

- 1.1. This guidance sets out the Pension Protection Fund's (PPF) approach to company voluntary arrangements (CVA).
- 1.2. When the nominee submits a report in court which states that in his opinion the company and its creditors should consider a CVA proposal, a PPF assessment period will begin. The PPF will acquire the trustees' voting rights under s137 of the Pensions Act 2005.
- 1.3. CVAs can be used to achieve a corporate restructuring in a number of ways, dealing with the liabilities of the company as a whole or focusing on one particular class of creditor that poses a significant risk to its ability to continue to trade.
- 1.4. The PPF approach will depend on the purpose the CVA is trying to achieve. All decisions are made on the facts pertaining to the specific case. We consult with The Pensions Regulator (TPR) on all cases.
- 1.5. The PPF will normally vote in favour of or against a proposal rather than abstain from voting.
- 1.6. The PPF sees far more CVA proposals than individual voluntary arrangement (IVA) or partnership voluntary arrangement (PVA) proposals. This guidance note is therefore expressed to deal with CVAs, but the same considerations will apply to IVA or PVA proposals.

2. PPF practice – situations affecting all creditors or just the pension scheme

- 2.1. The PPF has specific restructuring principles that it applies in all restructuring situations where the pension scheme is compromised and is likely to enter the PPF, i.e., there is no prospect of a scheme rescue notice being issued.

- 2.2. In order to vote in favour of a proposal, we expect all employers and their advisors proposing a CVA to comply with these principles.
- 2.3. The proposals must clearly demonstrate that the company is insolvent.
- 2.4. The detailed principles are set out in our guidance entitled Guidance to the PPF Approach to Employer Restructuring. The key points are:
 - The proposal should provide a significantly better return than an administration or liquidation and be proportionate considering the section 75 debt that is being eliminated.
 - The scheme should receive “anti-embarrassment” equity in the employer which, assuming that existing shareholders remain involved, will be at least 33%. The PPF will expect this to increase to more than 33% depending on where the economic interest lies and the amount of new funds being introduced.
 - Creditors are being treated equitably and the scheme is not being disadvantaged. In particular, we look at connected and intra-group creditor positions.
 - All costs incurred by the scheme will be paid by the company including legal and financial advisor fees.
- 2.5. TPR is not a direct counterparty in a CVA proposal unless clearance is requested. However, we will discuss all CVA requests with TPR, which will assess them against their published Regulated Apportionment Arrangement principles. PPF agreement to a CVA does not imply clearance from TPR and, in the absence of their having provided clearance, their anti-avoidance powers would remain available to them.

3. PPF practice – situations where the pension scheme is to be rescued and remains whole

- 3.1. At face value it may appear that the pension scheme is unaffected in this situation. However, this is not necessarily the case.
- 3.2. The CVA insolvency must mean that the employer covenant is weaker, at least in the short term, compared to the last pension scheme valuation and accordingly, deficit contributions are likely to be too low.
- 3.3. Addressing a single issue, often related to property, is not likely to provide an overall solution for the employer. The history of these proposals shows that a significant majority are not successful in the medium to long term. During the period of the CVA, the pension deficit may grow and there may be an increase in the liability to the PPF, primarily as a result of annual pension increases and members reaching retirement age (this is known as “PPF Drift”). A more detailed explanation of this topic is provided in Guidance Note 6 - How PPF Drift arises and should be addressed.
- 3.4. The position of other creditors and their treatment following the CVA will be considered to assess the likely impact on the scheme and the equality of treatment. Banks will generally have defaults triggered by a CVA, whether or not their position is directly

impacted. We will consider the likely post-CVA positions of other creditors and will require equitable treatment for the scheme.

- 3.5. Additionally, when deciding whether to vote in favour of the CVA, the PPF will consider the risk that the scheme presents to the PPF itself e.g., PPF Drift (see guidance note 6) and whether that risk is adequately addressed by the CVA proposals.
- 3.6. In these circumstances, in order to vote in favour of a proposal, we expect all employers and their advisors proposing a CVA to show how they have addressed the following issues:

Restructuring proposal

- Do the employer's proposals have a reasonable prospect of being successful?
- Do the proposals reflect the current market/industry circumstances?
- Have appropriate sensitivities been applied to the plan and can any downside risk be absorbed?
- Do the proposals fully address the issues facing the business or are more radical changes needed?
- In summary, is there a viable business going forward capable of supporting the scheme?

Management

- Does the management team have the right level of experience and expertise to deliver the plan?
- Are they sufficiently independent of any wider group influence?
- Have they been responsible for the employer's current situation?

Working capital and restructuring finance

- Are there sufficient committed working capital facilities?
- How will sensitivities to the forecast be managed within the cashflow and how much headroom remains?
- Is there sufficient funding/equity to deliver the restructuring proposals?
- Is any equity raising achievable in the current situation and marketplace?

Bank financing

- Is the bank receiving any acceleration in its repayment profile or substantive increase in margin, remuneration or security?
- If secured debt is being repaid/reduced, what scope is there for the pension scheme to obtain second ranking security as it becomes available to support the deficit?

Deficit reduction contributions (DRCs)

- Are all DRCs paid up to date?
- What risks does the CVA pose to the DRCs?
- How will the risks be mitigated?
- Should the trustees instruct a new valuation at this point and agree a new schedule of contributions?

Employer dividends

- Are any dividends forecast to be paid in the foreseeable future?
- What steps are proposed to ensure that the scheme receives comparable amounts?

PPF Drift

- What is the quantum of PPF Drift?
- What mitigation is being provided in addition to DRCs to protect against PPF Drift?

PPF levy

- What is the anticipated PPF levy during the period of the CVA proposal?
- What proposals are included to ensure that the scheme is not exposed to levy payment contributions for the duration of the CVA?

Pension scheme de-risking

- What level of risk is inherent in the pension scheme's investment strategy?
- What steps are being taken to de-risk the pension scheme to reflect the additional risk posed by the CVA process?

Exit route protection for the pension scheme

- What is the possible or likely exit route for finance providers and/or equity?
- If refinancing or sale through a hedge fund, private equity provider or similar is envisaged, what protections are being included to ensure the current level of recovery for the scheme and position in the repayment waterfall are at least being preserved?

Preservation of contributions prior to scheme rescue notice binding

- Under the pensions legislation no further contributions to the scheme are permitted once an assessment period begins i.e., once a CVA proposal and nominee's report is lodged in court.
- This includes DRCs. Where the intention is for the scheme to continue following the completion of the CVA, it is important that DRCs due continue to be made available to the scheme, whether or not the proposals are approved.
- Documentation to facilitate this is available from the PPF.



4. Conclusions

- 4.1. The PPF will work closely with the trustees and TPR to minimise the risk to scheme members and the PPF.
- 4.2. The PPF is always concerned to ensure that no precedents are set that would permit any schemes to be weakened where there is a possibility of PPF entry in the foreseeable future. This has unfortunately proved to be the case for many CVAs in the recent past.
- 4.3. The PPF expects that trustees will instruct their financial advisors to report on the areas of concern set out in this guidance. Accordingly, employers, actuaries, other advisors and IPs should factor in sufficient time and access to relevant company staff and advisors to allow for that work to be completed.



Contact details

Malcolm Weir

Director of Restructuring & Insolvency

malcolm.weir@ppf.co.uk

020 8633 4940

Mike Ridley

Head of Restructuring

mike.ridley@ppf.co.uk

020 8633 4998

Mark Allen

Senior Case Manager

mark.allen@ppf.co.uk

020 8633 5823

Ann Kirkby

Case Advisor

ann.kirkby@ppf.co.uk

020 8633 5942

The Pension Protection Fund
Restructuring & Insolvency Team
Renaissance,
12 Dingwall Road
Croydon, CR0 2NA

November 2023

Please note this leaflet seeks to assist stakeholders and insolvency professionals on our approach to restructuring and insolvency cases. It is an accompaniment to existing publications from the PPF published on our website, not a substitute. We encourage restructuring & insolvency practitioners and trustees to seek appropriate, specific case guidance.

See www.ppf.co.uk for further information.