Pension Protection Fund

The 2017/18 Levy Policy Statement

December 2016

Foreword

This policy statement confirms our plans for the 2017/18 levy, the final levy year of the second triennium.

We aim to keep the rules stable across the three years of the triennium, an objective strongly supported in previous stakeholder feedback, so we proposed only limited change for 2017/18. We plan to consult in spring 2017 on our initial thinking for the next triennium (2018-21), which will be the appropriate point to review and potentially update some aspects of our levy framework. Where stakeholders have made comments relevant to that review in response to this consultation we will address them then.

In the meantime, the changes we have proposed were well supported - particularly our proposal to address the impact of accounting standards changes. We are confirming our approach which focuses on the impact on those elements of our insolvency risk measure that compare current and historic financials (so-called trend variables) but extending it to cover all trend variables in use in scorecards.

In a slight procedural change from previous years, instead of publishing final Levy Rules in December, we are making available provisional rules now with the intention of publishing the final Levy Rules by 31 March 2017. In our consultation paper we set out our intention to develop our proposed approach to charging a levy on eligible schemes which cease to have a substantive sponsoring employer after a restructuring of the pension arrangements. Work in this area is proceeding and – as we explained in the consultation paper – we would need to consult appropriately on this before finalising any rule. Given that we have to publish the final Determination as a single document, we have taken the step of provisionally making available these levy rules now, and we will publish the final Determination by 31 March 2017.

Except for the possible addition of material relating to schemes without substantive sponsor, it is our firm intention that there will be no other changes to the provisional levy rules. So, schemes should feel able to take appropriate steps based on the provisional rules. In particular, schemes will be able to estimate what their levy bill may be and assess the merits of putting in place and certifying risk reduction measures. This can both improve security for members and help to reduce levy bills and is something we are keen to encourage.

As ever we are grateful to all those who responded to the consultation or who provided other feedback to help us develop and improve our levy rules.

David Taylor

David Taylor
General Counsel

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1. Introduction and Executive Summary

1.1 Introduction

1.1.1 On 22 September we launched the consultation on the Levy Rules for 2017/18. This document summarises the responses we received, and our conclusions.

1.2 The Levy Rules (the Determination) for 2017/18

1.2.1 The Levy Rules that will govern the calculation of the levies for 2017/18 are provisionally being made available alongside this Policy Statement – with the exception of a potential rule relating to the approach to charging a levy on eligible schemes which cease to have a substantive sponsoring employer after a restructuring of the pension arrangements.

1.2.2 Schemes can rely upon the fact that these rules reflect our policy intention for calculation of the levies for 2017/18, and that it is our expectation that they will not change before they are confirmed as specified in the Board's final Determination under section 175(5) of the Pensions Act 2004. The final Levy Rules will be confirmed once it is known if rules for schemes referred to above are needed and their form.

1.2.3 Together with the rules we are publishing updated versions of six documents providing guidance for schemes on how to meet the requirements of the Levy Rules. In August this year we published the Levy Data Correction Principles - this guidance remains effective.

1.2.4 In addition we will be publishing Officer's Certificates for use in connection with the impact of accounting standards changes on trend variables in the PPF-specific model, the exclusion of secured charges and for certain other matters.

1.2.5 We encourage schemes to start using these documents as soon as possible. Experian process certificates on receipt, and so those submitting early will be able to identify the impact of any change on the Pension Protection Score Portal before the closing date for certifying – and reassure themselves that their submission has been effective. For example, certificates filed by 31 January would appear in 28 February scores.

1.3 Summary of responses

1.3.1 We received a total of 28 responses to the consultation, which closed on 31 October. We considered these in updating the Levy Rules.

1.3.2 We have set out the key themes raised and the areas in which we have made changes to our policy below.

1.3.3 The level of response is low by comparison with 2016/17. Most responses covered a range of issues, and included seven responses from consultancies and three from representative groups. Twelve focused primarily on a particular aspect of the model (five were from mutuals, seven from other entities).

1.3.4 There was support – from stakeholders that weren't reporting essentially "single issue" concerns - for the principle that change should be very limited, but that some immediate issues were being addressed. Detailed points are set out below.

1.3.5 A range of other points were made – some of which we think can most appropriately be considered as part of third triennium.

1.4 The Board's Levy Estimate

1.4.1 We announced in the consultation document that the Board had set a levy scaling factor of 0.65 and scheme based levy multiplier of 0.000021 (unchanged from 2016/17). We also announced that the Levy Estimate – the amount we estimated these parameters would raise – was £615 million for 2017/18. We are confirming both the scaling factors and the Levy Estimate.

1.5 The measurement of insolvency risk

1.5.1 There was broad support for the continued stability of the rules though, as in previous years, we did have representations from individual schemes stating that they felt the model didn't recognise their particular circumstances.

1.5.2 In assessing responses our approach has been to take account of the desire for stability, whether evidence exists for proposed alternatives, possible impacts on transparency and objectivity of the model, whether a change would create administrative burdens or other negative impacts on schemes, and operational impacts for Experian, PPF and the Pensions Regulator (TPR).

1.5.3 Where there were challenges they were often on a similar basis to those seen in the last two consultations. We have not made changes to the calculation of variables or scorecard allocation rules as requested in these submissions as we are committed to stability of rules unless there is strong evidence to support a change.

1.5.4 We also received feedback on customer experience on the Portal and helplines.

1.6 Changes in accounting standards (FRS 101/102)

1.6.1 Our proposed approach to FRS 101/102 was to allow those impacted by changes to data for trend variables (a variable comparing this year's accounts with those three years earlier) on the Large and Complex and Not For Profit scorecards to certify the impact of the accounting standards change. The approach was generally welcomed and seen as pragmatic and administratively straightforward. However some stakeholders argued that we should extend the ability to obtain an adjustment for trend variables:

- to all balance-sheet trend related variables
- to all trend variables
- to have some kind of central adjustment, either for all schemes or for not for profit entities (NFPs) in multi-employer schemes
- to non-trend variables.

1.6.2 We have conducted further analysis and discussed this with a number of stakeholders and have decided that we will extend certification for impacts of the new accounting standards to the calculation of all trend variables. Section 2 explains in more detail the analysis we have undertaken and the method of adjustment.

1.7 Mortgage age

1.7.1 The responses we received welcomed the extension to the immateriality and refinance mortgage exclusions and we are now confirming these.

1.7.2 Our decision not to use the FCA Mutual Public Register (FCA Register) for mortgage data was opposed by five stakeholders and we met with stakeholders particularly impacted to hear their views on alternative approaches we should consider.

1.7.3 We explain in Section 2 the additional consideration we have given to this issue. We remain of the view that the FCA Register is not comprehensive and have concluded that there is not a case for a different approach specifically for mutuals. We also note that this may not remain an issue after 2017/18, as aspects of the model can be expected to change for the third triennium.

1.7.4 As a result we have concluded that we should make no change for 2017/18 and continue to use a neutral score.

1.8 Other model changes

1.8.1 We proposed some relatively minor adjustments to the model in the areas of

a) Ultimate parent companies filing small accounts.

b) Revised accounts (we used the term restated accounts in the consultation document) – to address the situation where filed accounts are incorrect and new accounts are filed to replace them.

c) Non-sterling exchange rates conversion.

We are confirming the proposals and provide some additional information on how they will be implemented.

1.9 Calculating the levy for schemes with no substantive sponsor

1.9.1 In our consultation paper we highlighted our intention, if necessary, to put in place a rule to ensure that the levy is calculated appropriately for eligible schemes which cease to have a substantive sponsoring employer after a restructuring of the pension arrangements. We noted that in such a circumstance the risk of insolvency is fundamentally related to the investment performance of the scheme, and the size of the potential claim to the circumstances in which the scheme would enter the PPF. We noted that, if necessary, we would bring forward specific proposals separately.

1.9.2 A number of responses, including those from key collective stakeholders, supported our view that we would need special rules to charge an appropriate levy. One response noted that (if applied to existing schemes without a substantive sponsoring employer) it could be difficult to define who was covered. Finally, another response argued that such arrangements weren't necessarily higher in risk and the importance of consulting on a specific rule.

1.9.3 Our intention in drafting a specific rule would be that, initially at least, it would apply in relation to new arrangements where there is an agreed framework for the scheme's governance. We note, without necessarily agreeing, the assertion that such a sponsor may not pose a high risk, but consider that the existing methodology may not calculate an appropriately risk-reflective levy (as the insolvency risk of the "sponsor" is not appropriately measured using the Experian model). We also consider that such an arrangement is different from the one that the PPF was set up for: to provide PPF compensation in the event of employer insolvency.

1.9.4 The immediate need for detailed rules to give effect to this approach remains unknown – though we have been carrying out work to be prepared for the possibility a rule will be needed. We have, therefore, concluded that the appropriate course of action is to seek to make available all other levy rules whilst allowing the possibility of adding a specific rule purely in relation to schemes without a substantive sponsoring employer. This would allow us to consult in the New Year, before the Board formally makes the Determination prior to the start of the 2017/18 levy year. We do not intend to make changes to the Levy Rules other than to add a rule to deal with schemes without a substantive sponsoring employer.

1.9.5 Nothing in this policy statement should be taken to imply that we will agree to any particular arrangement. However, we consider it important to able to price such a risk if it does occur.

1.10 Non-model issues

1.10.1 Other issues we received feedback on were:

a) Guidance on actuarial assumptions

b) Inclusion of annuities in pension scheme accounts

c) Draft Appendices and Guidance

d) Third triennium issues.

We confirm our approach in Section 3.

2. PPF-specific model

2.1 Introduction & general overview of model

2.1.1 In addition to the areas set out in the remainder of this section, we received seven responses that covered specific scheme/employer issues. We considered the issues they raised but are not proposing changes as a result.

2.1.2 Stakeholders have told us that they value the stability of rules within a triennium unless there is strong evidence to support change. Decisions to change the calculation of scorecard variables or scorecard categorisation rules would need to be supported by evidence that the result would improve the predictive performance of the model and be capable of being applied to the wider PPF population. Moreover we would have to take account of any administrative burdens imposed on stakeholders or other negative impacts.

2.1.3 We plan to consult on the framework for the third triennium (2018-21) in spring 2017 and we believe that is the appropriate point to make any wider changes to the model. Based on work done to date, we expect our proposals to include changes to some of the existing scorecards and the variables used on them. We also expect to consult on a more tailored approach to scoring different components of the levy universe – for example, making use of corporate credit ratings where available and of industry scorecards for the financial services sector.

2.2 Changes in accounting standards

2.2.1 As set out in our consultation document, we start from the position that FRS 101/102 offers a better view of a company's financial health and renders different companies' accounts more comparable. So, where the new reporting standard leads to a change in our assessment, it seems reasonable to adopt that new assessment rather than try to unpick the effects. That approach was supported by the sample analysis showing that - on the whole - the effects on our scores are limited, and there is no single cause of the change in scores we are seeing. This analysis has been extended (paragraph 2.2.16 onward), strengthening our conclusion that the change in standards is not undermining the relationships seen between the model variables and risks of insolvency given the limited extent to which it alters the relative ranking of employers.

2.2.2 In addition, we noted that a number of our levy payers have been assessed throughout this triennium on accounts prepared on a similar basis, where they have been reporting on IFRS. From this perspective, the change to accounting on FRS 101/102 basis represents a movement into line with the basis on which these levy payers have been charged.

2.2.3 However, we highlighted that the logic is different for trend variables (variables comparing this year's accounts with those three years earlier) also referred to as change variables. In this case the move to a new accounting standard could lead to the inclusion or exclusion of new items in the relevant accounting line for this first time (eg, the elimination of an exemption from accounting for pension deficits for employers in multi-employer schemes). This would then affect scores in a way that doesn't reflect an improved understanding of employer strength – it is just a consequence of the accounting change.

2.2.4 We therefore set out a proposed approach to FRS 101/102 that allowed for limited adjustments to be made, focused on trend variables measuring change in net worth and change in total net assets (on the Large and Complex and Not For Profit scorecards respectively), to reflect the impact of the accounting standards change. This proposal was generally welcomed. The approach was seen as pragmatic and administratively straightforward in that certification was based on data already calculated and published in annual accounts. However, some stakeholders argued we should extend the ability to obtain an adjustment for trend variables:

- to all balance sheet related trend variables
- to all trend variables
- to have some kind of central adjustment, either for all schemes or for not for profit entities (NFPs) in multi-employer schemes
- to non-trend variables.

The case for extending to all trend variables

2.2.5 In our consultation we asked for examples of entities affected by trend variables other than change in net worth and change in total net assets. No response identified a specific case where a levy payer was negatively impacted by a trend variable other than these.

2.2.6 Given the lack of specific examples provided in consultation responses, we explored the issue with the advisory community, who typically were not aware of specific cases yet but believed that impacts might only emerge in the next few months. While the evidence of impacts on trend variables remains limited, we have accepted the request to allow adjustment for all trend variables to ensure these calculations compare figures on the same accounting basis.

2.2.7 Our intention is to review take up, and the proportion of cases in which certification does result in a change in levy due, before deciding on whether to retain certification for future years for any scorecards that retain trend variables in the third triennium.

2.2.8 **We would recommend that employers test whether submitting a certificate is likely to impact their Experian score sufficiently to lead to a different levy (bearing in mind the evidence that very few will be affected and that new accounts may only influence a small number of the monthly scores that the 2017/18 levies will be based on) before certifying.**

2.2.9 We have designed a single form that can be used for any of the scorecards with a trend variable. The form should be signed by a company officer and be accompanied by an extract of the accounts demonstrating that the restated value in the prior year results from the change of accounting standard.

The case for scaling adjustments to trend variables

2.2.10 We invited responses on whether to scale the adjustment and received two responses, one suggesting we consider a geometric scaling approach and the other that whether scaling should be used was dependent upon the reasons for the adjustment. Further consideration suggests that the theoretically correct form of scaling would depend upon the reason for the accounting adjustment. Adopting different approaches in different cases is clearly impractical, and we have therefore chosen the simplest approach – to use the arithmetic adjustment based on the prior year without scaling.

Centralised reporting

2.2.11 We received a request to develop an approach for a centralised adjustment for multi-employer schemes. There was little detail provided on how such a central adjustment might work and when we explored it further it was not apparent that the administrative saving of such an approach would be significant (as the scheme would still need to collate individual employer information including an officer's sign off from each employer). We have not, therefore, sought to develop a scheme level certification process, though if stakeholders do wish to discuss centralised reporting for a scheme with Experian then the levy rules as published will, in principle, allow for that.

Extension of adjustment to non trend variables

2.2.12 Finally, a couple of responses suggested we consider certification for non-trend variables affected by the accounting change (eg, in relation to Total Net Assets and Equity Gearing).

2.2.13 We do not think this is merited. The logic that justifies an adjustment for the trend variables – that we would otherwise compare accounting numbers calculated on two different bases - does not apply in this case as it is a single point measure. In addition we note that that across our population there is a limited impact on bandings (shown in Table 1 and 2 below) with broadly similar numbers seeing an improvement or worsening in band – though we do recognise that there are occasional outliers. As previously stated we also start from the position that FRS 101/102 offers a better view of a company's financial health and renders different companies' accounts more comparable. We are, therefore, only allowing certification in relation to trend variables.

Other points made

2.2.14 A few stakeholders identified that the draft Insolvency Risk Appendix did not specify the treatment required for situations in which the denominator in the proposed calculation is negative. We can confirm that, consistent with the general approach to calculating trend variables, the denominator should be non-negative (ie, absolute value of the term) and we have included a statement to clarify this.

2.2.15 We have also made a couple of changes within the definitions and formulae to ensure presentational consistency with Experian's 'What If' tool. The net impact of these changes is mathematically neutral and so does not alter the position from that set out in the draft Insolvency Risk Appendix. Further details will be included within the guidance for certifying a change in accounting standard, which will be available on Experian's website (along with the certificate itself) shortly.

Update on sample analysis of FRS 101/102 impacts

2.2.16 Our initial analysis showed limited impacts due to the change in accounting standards FRS 101/102. This was on the basis of two pieces of work, one undertaken by PwC and an additional analysis by Experian.

2.2.17 Since the publication of the consultation document we have continued to expand our analysis of the number of entities filing on an FRS 101/102 basis for the first time. We have now analysed 784 first time filers compared to 327 at the time we published the consultation document.

2.2.18 Restated accounts data (on the new accounting standard) for the year prior to the change was compared to the data reported for the same period on the previous standard and the difference in Experian scores that resulted analysed.

2.2.19 The observed change in levy bands as a result of the change in accounting standards was then benchmarked against the year to year change in levy bands observed in a year where a change of accounting standards did not affect most of the population (comparing results for 2015/16 with 2016/17).

2.2.20 The benchmarking exercise was carried out looking at the overall levy band volatility (measured in line with the approach taken by rating agencies - ie, using the total absolute number of levy bands changed divided by the total number of companies scored) which indicated generally limited movements. We also considered the percentage of companies experiencing no change, and the percentage of companies experiencing a change of at least five levy bands. On these measures we saw much less significant movement in the accounts impacted by an accounting standard change than in a year where there was not an accounting standard change affecting most of the population (Table 2).

2.2.21 The distribution of changes in levy band following transition to the new standards is shown in Table 1 below. It will be seen that around 80 per cent of entities remain in the same band. Most of those entities which do see a change move a single band up or down (in the chart, -1 implies a shift to a better levy band).

Table 1: Changes in band as a result of move to FRS 101/102

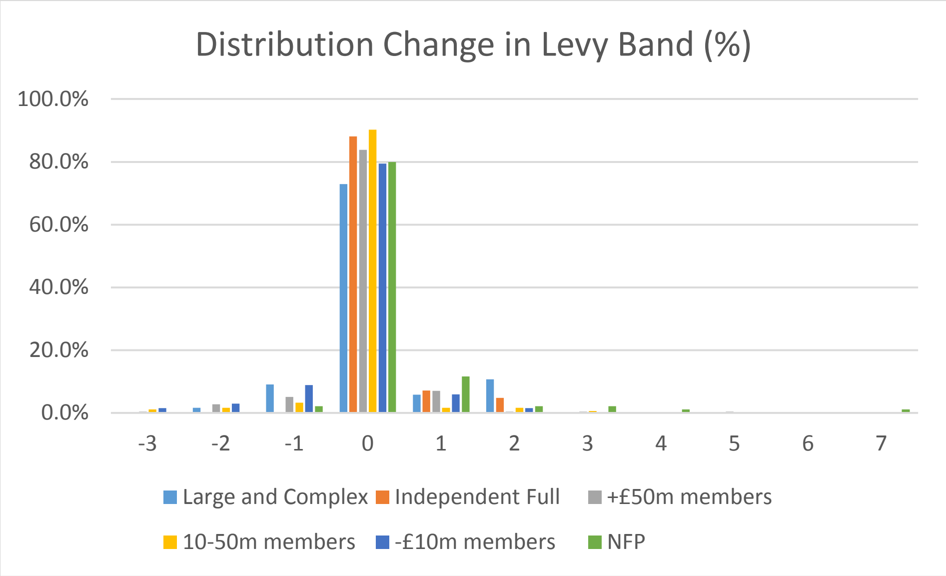
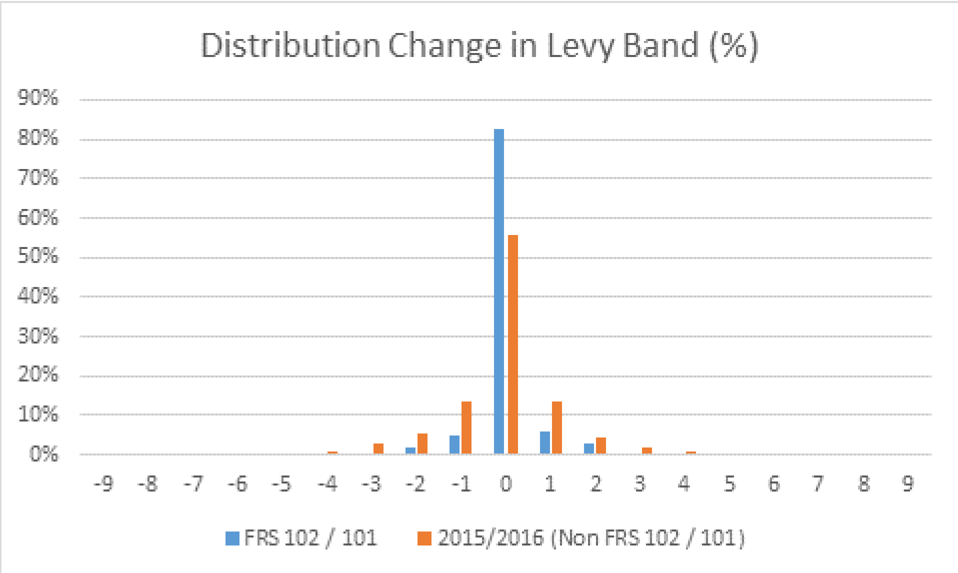


Table 2: Changes in band due to FRS 101/102 compared to annual change (2015/16 to 2016/17)



2.2.22 This supports our conclusion that the impact of accounting standards changes across the population as a whole, is limited, by comparison with other factors which can lead to a change in score from year to year, and is not expected to undermine the predictiveness of scores. We appreciate there will be individual entities for which the impact will be large, but these appear low in number by comparison with entities seeing a large change in score for other reasons.

2.3 Mortgage exclusions

2.3.1 We received a positive response to our proposals for limited amendment of mortgage exclusions on the grounds of immateriality or refinancing.

2.3.2 For immateriality we proposed allowing the certification of charges not linked to an amount of borrowing but on the basis of the amount that could potentially be required to be repaid - for example, under an agreement for grant funding. We can confirm that we have included this change in the rules we are making available. Certificates submitted to Experian should be accompanied by evidence of the amount to be repaid and of satisfaction of the test of immateriality.

2.3.3 Our proposed change to the refinancing exclusion to allow certification where the original and refinance mortgages were entered into by different group entities was also welcomed and is included in the rules.

2.3.4 Finally our confirmation that more than one employer within a group can be included in a credit rating agency (CRA) certificate was welcomed. The template CRA certificate has been revised to allow for this.

2.4 Neutral mortgage score

2.4.1 We received eight consultation responses that covered our intention not to extend the data sources for identifying charges to include the FCA Mutuals Public Register. Points made by those asking us to reconsider our decision included: the possibility of allowing/requiring schemes to include mortgage charge information on Exchange (as an alternative to self-certification); recognition of mutual entities as distinct from other entities that receive a neutral score, and a general challenge that the PPF had failed to fully consider the impact on mutuals and that the impact of the introduction of the neutral score was disproportionate, even if the difficulties in obtaining the data were accepted.

2.4.2 We recognise the frustration of those entities that have no, or no recent, mortgages but are currently unable to have that taken into account and have carefully considered the points raised. One of the difficulties encountered in developing additional scorecards has been the need for a minimum level of data points to ensure they are statistically robust. Experian have advised us that there simply isn't sufficient data available on the mutuals population to have any prospect of developing a robust scorecard specifically for mutuals.

2.4.3 Neutral scores are applied far more widely than just to mutual organisations: many entities that do not file with Companies House receive a neutral mortgage score on the same basis (eg, charities, most overseas employers and ultimate parents), and a similar approach is used for other variables too – so a general change would be a very substantial change to the levy in the final year of a triennium.

2.4.4 Furthermore, the establishment of a certification regime would mean that it was no longer reasonable to make a neutral assumption about those not reporting – instead the assumption would be that they were not reporting because they did have a charge, and the default score would logically be a bad one. In practice this would make what would be a complex certification compulsory for a large number of entities.

2.4.5 In our view the steps we have taken in dealing with issues of missing data – for mortgage charges and other variables - has been proportionate: avoiding the assumption of the worst possible score and using either neutral or average scores (where the score applied is based upon the insolvency risks of the population whose data is missing). We have considered further whether there was some evidence that we could draw upon that would support the creation of a special rule(s) but have been unable to identify it.

2.4.6 The impact on scoring when an assumption of a neutral score replaces a score based upon zero mortgages appears broadly consistent across those receiving a neutral score. Mutuals represent a minority of those receiving a neutral mortgage score and a special rule for them alone would exclude other entities seeing an impact on their score and would not be based upon evidence.

2.4.7 Looking beyond 2017/18, the current mutual PPF population is significantly concentrated on the Large & Complex, Independent Full and Not For Profit scorecards, all of which are being re-built for the third triennium. Early indications are that mortgage age may not be as significant to the overall score (if it appears at all) in the re-built scorecards. We have, therefore, additionally concluded there would be no benefit to asking TPR to create new fields to capture mortgage data on Exchange – which would not be effective until 2018/19 at the earliest.

2.4.8 In conclusion we have decided that we should maintain our current approach with the use of neutral mortgage scores where charges are not registered with one of the registries named in the Determination.

2.5 Ultimate parent companies filing small companies accounts

2.5.1 Our proposal as to how we score ultimate parent companies that file small companies accounts on a consolidated basis was welcomed. We were asked to consider going further, applying the same approach where ultimate parent companies would be scored on the Not For Profit scorecard as an employer.

2.5.2 Our initial decision, confirmed in the 2015/16 Policy Statement, to score employers that would otherwise be scored on the Large and Complex Scorecard, on the Independent Small scorecard, recognised that where these companies filed small accounts there would be an absence of data needed to score the Large and Complex scorecard variables. For 2017/18 we proposed extending this approach in respect of assessing the parental strength of companies filing small accounts on a consolidated basis for the same reason. We are confirming this change but those impacted should note, for practical reasons, it is not possible to reflect it in the 'what if' tool.

2.5.3 We examined the accounts of Not For Profit ultimate parents and found that, by contrast, in 90 per cent of cases at least five of the six variables on the Large and Complex scorecard could be populated and so the same concern about the absence of data did not exist in the context of maintaining a stable methodology unless there is a clear case for change. We have, therefore, decided that we will limit the rule change to ultimate parent companies that file small companies' accounts on a consolidated basis.

2.6 Revised Accounts (referred to in the consultation document as Restated Accounts)

2.6.1 There was support for our change in approach to the adjustment of Experian Monthly Scores following the submission of revised accounts. We referred to "restated" accounts in the consultation document but now refer to "revised" accounts to avoid any confusion with restatements of prior year's figures (such as when FRS 102 accounts are first filed). Our proposed rule change was drafted to address situations where the originally filed accounts were incorrect and new accounts filed to replace them.

2.6.2 We were asked to clarify how the rule would work when the date of the original filing was within a year that had already been invoiced. As the rule only comes into effect in 2017/18 it cannot be applied to prior years. Whether or not an invoice can be recalculated will depend upon the rules in place for the particular year and the circumstances of the case.

2.6.3 With respect to the 2017/18 levy, where revised accounts are filed before the end of February 2017, Experian will recalculate scores from the original filing date onwards. Where revised accounts are filed after February 2017, Experian and the PPF retain flexibility to consider on a case by case basis whether to recalculate scores, in line with our Levy Data Correction Principles.

2.6.4 We are confirming this change and have replaced the defined term "Restated Accounts" in the rules with "Revised Accounts".

2.7 Non-Sterling Currency Exchange Rates

2.7.1 We confirmed in our consultation document that we would implement the rule change to the conversion of non-sterling exchange rates we first proposed in the 2016/17 consultation., At that time there was support from almost all respondents for the change (using the balance sheet date of the most recent accounts to convert both those accounts and the accounts used for trend variable calculations) but a request was made to delay its implementation until 2017/18., In line with this Experian have been applying the new approach within scores from April 2016.

2.7.2 There were limited responses on this issue this time but one requested a further delay to implementation until the third triennium. Last year we concluded that the change was correct in principle but agreed to delay implementation to 2017/18 to avoid changes in previously calculated scores. If we were to delay implementation further that would lead to the recalculation of 2017/18 scores already calculated and shown on the Portal. We are, therefore, implementing as planned. If a different currency is used for the most recent accounts and previous set(s) of accounts, Experian will use the exchange rate for each currency as at the balance sheet date of the latest set of accounts prepared in that currency (for the purposes of calculating trend variables).

3. Other issues

3.1 Guidance on actuarial assumptions

3.1.1 Stakeholders may be aware that a new version of the s179 valuation assumptions guidance – A8 – came into force on 1 December 2016.

3.1.2 We will be proceeding as set out in the consultation document, ie version A7 of the s179 valuation assumptions guidance will apply as the output basis for transformations, with any s179 valuations submitted on version A8 transformed back to the A7 assumptions. This is consistent with our second triennium policy statement - to maintain the same output basis for transformations throughout the triennium.

3.1.3 The Transformation Appendix now contains explicit provision for the A8 assumptions and the formulae to convert any s179 valuations submitted on this version back to the A7 assumptions.

3.2 Inclusion of annuities in pension scheme accounts

3.2.1 We will be proceeding as set out in the consultation document, ie the proportion of 'non-accounts insurance assets' will be set to zero for any schemes with an asset breakdown date on or after 31 December 2015 and an s179 accounting date before 31 December 2015.

3.2.2 As noted in the consultation document, the practical effect of this approach is that the annuity value shown in the scheme accounts will only be used in our asset transformations until such time as the scheme submits an s179 valuation based on accounts prepared under the new accounting standard. Once this point is reached, the asset transformation will revert to using the annuity value calculated as part of the s179 valuation.

3.2.3 Two respondents noted that this approach appears reasonable, with one commenting further that any schemes which are materially disadvantaged can choose to address the issue by early submission of an s179 valuation based on accounts prepared under the new accounting standard.

3.3 Appendices and Guidance

3.3.1 One respondent noted that there are three possible IPD UK Monthly Property Indices following the updated methodology that MSCI applied to the IPD UK Monthly Property Index with effect from 30 June 2016: the "All Assets" index, the "Standing Investments" index and the "Non-Operating Investments" index. The respondent asked for clarification on which of these indices should be used.

3.3.2 We have specified in the 2017/18 Transformation Appendix that the IPD UK Monthly Property All Assets Total Return Index should be used from 30 June 2016 onwards to transform the value of property assets. We have also clarified that from 31 December 2014 (the first date from which the IPD UK Monthly Property Index is used to transform the value of property assets) to 29 June 2016, the IPD UK Monthly Property All Property Total Return Index should be used.

3.3.3 Three respondents noted and welcomed the increased clarity around the calculation of the expenses element in the Deficit-Reduction Contributions Appendix and Deficit-Reduction Contributions Guidance. However, one of these respondents also noted that the new wording had introduced a potential ambiguity in relation to the treatment of performance-related investment management expenses. We have made some slight amendments to the Deficit-Reduction Contributions Appendix to remove this ambiguity.

3.3.4 In response to feedback we have updated the Block Transfers Guidance (paragraph 3.29) to confirm that, where a Scheme transfers part of its assets to another Scheme before 31 March 2017 and has more than two members remaining after the transfer, and then subsequently pays winding-up lump sums to those members or buys out their benefits after 31 March 2017, the transferring scheme will be an eligible scheme, but will be able to apply for a waiver. We have also added in the guidance a reminder of some issues to consider when a block transfer has taken place.

3.4 Third triennium issues

3.4.1 As noted in the consultation document, our approach is to avoid implementing changes to the levy framework as far as possible within a triennium. In July we published an update on areas we plan to review in the third triennium and this is available on our website.

3.4.2 In particular, three responses to the consultation raised issues which we consider are best addressed within our considerations for the third triennium, as detailed below.

3.4.3 One respondent welcomed the increased clarity around the calculation of the expenses element within deficit-reduction contributions, but suggested that it would be possible to go further by adopting a more prescriptive approach in relation to investment management expenses. We will consider this approach within our general review of the deficit-reduction contributions regime for the third triennium.

3.4.4 A second respondent noted the mismatch between the asset categories specified for the calculation of bespoke investment stress submissions and those reported under the new accounting SORP for pension schemes, requesting that the bespoke stress categorisation be aligned with the SORP. We will consider this approach within our general review of investment risk for the third triennium.

3.4.5 A third respondent noted that there is no explicit provision on Exchange or in the Transformation Appendix for derivatives held as part of a Liability Driven Investment (LDI) strategy. As above, we will consider the categorisation and roll forward of derivatives within our general review of investment risk for the third triennium.

4. Customer service

4.1.1 The Portal run jointly by the PPF and Experian allows schemes and employers to monitor insolvency scores and has now been in operation for over two years. In general, we have received positive feedback over this time, with users reporting that the Portal is a useful tool for understanding the insolvency data that feeds into the levies.

4.1.2 As explained in the consultation document, we have streamlined the Portal log-in process in order to improve user experience. In particular, users now no longer have to accept the terms and conditions each time they log onto the Portal and instead only need to accept them every six months. One respondent welcomed this improvement and asked if this could be extended further.

4.1.3 As the Portal contains restricted information (within the Pensions Act 2004 definition), it is necessary for us to balance ease of use with the associated security requirements., Accordingly, we do not propose to make any further changes to the login process at this time.

4.1.4 We are keen to keep making improvements to the Portal and we will be working with Experian to respond to specific points raised by users.

4.1.5 Both the PPF and Experian customer service teams are assessed by most stakeholders as delivering high quality customer service, however, we recognise there is always room for improvement. Feedback provided through this consultation has been valuable in helping us consider how to develop the service we offer. We would encourage stakeholders to continue to take a few minutes to complete our customer satisfaction survey to let us know how we can improve our service, and, indeed, which parts of the service are considered to be working well.

5. Levy Rules 2017/18

5.1 Publication of Levy Rules

5.1.1 Today we are making available the provisional Levy Rules for 2017/18 including all the appendices and guidance, whilst allowing the possibility of adding specific rules purely in relation to schemes without a substantive sponsoring employer. This allows us to consult in the New Year, before the Board formally makes the Determination prior to the start of the 2017/18 levy year. We do not intend to make changes to the Levy Rules other than to add rules to deal with such sponsors (as explained earlier in this document).

5.2 Documents being published

5.2.1 Together with the provisional Levy Rules we have published six documents providing guidance for schemes on how to meet the requirements of the Levy Rules, and to explain how we expect to make use of the areas where the Levy Rules provide us with flexibility. These are:

- Guidance on Asset Backed Contributions
- Guidance on Bespoke Investment Risk Calculation
- Guidance on Block Transfers
- Guidance on Contingent Assets
- Guidance on Deficit-Reduction Contributions
- Guidance on Officer's certificates certifying secured charges (Exclusion of Mortgages) and certain other matters.

5.2.2 In addition we are publishing Officer's certificates for certifying secured charges, the ABC certificate and certain other matters alongside this document.

5.3 Clarifications

5.3.1 We have also made a number of minor drafting changes with the intention of clarifying how we expect the rules to operate namely:

a) amending the definition "Restated Accounts" to read "Revised Accounts" to avoid confusion with accounts which have been restated in subsequent years for the purpose of illustrating a change in accounting standards

b) confirming, in the definition of "Accounts" our requirements relating to the provision of accounts not published in English

c) amending Rule E2.6(7) to make clear what information will be used to calculate a Certified Guarantor's score calculation

d) the Parent Strength (1-100) conversion table has been updated to show the full number of decimal places used in the calculation and to better specify the treatment of scores on a scoring boundary. This will not change the basis on which scores are being calculated for the 2017/18 levy year

e) clarifying, in paragraph 1.5 of the Insolvency Risk Appendix, Experian's currency conversion procedures

f) clarifying, in paragraph 5.5 of the Insolvency Risk Appendix, Experian's processes for accepting Revised Accounts for score calculation purposes.

6. Next steps for schemes and key dates

6.1 Introduction

6.1.1 This chapter outlines next steps and key dates for the calculation of 2017/18 levies.

6.2 New certificates and re-certifications

6.2.1 Schemes will also be able to provide new certificates for 2017/18 for exclusion of mortgages (where schemes are seeking their exclusion from the mortgage age variable), for ABCs, for contingent assets and for new accounting standard changes. Mortgage certificates successfully submitted for past levy years in respect of rent deposit deeds, re-financing and public credit ratings do not need to be re-submitted, but new certificates will be required for schemes claiming mortgage exclusions on the basis of immateriality.

6.2.2 All mortgage certificates (including updated certifications that were submitted in 2016/17) employee and accounting standard change certifications should be submitted to Experian.

6.2.3 ABC certificates and hard copy contingent asset documents should be submitted to the PPF.

6.3 Key dates

6.3.1 For 2017/18 we will use information from the scheme return that is submitted via the Pensions Regulator's Exchange system to calculate levies. We will also use other data submitted to either the PPF or Experian as follows.

6.3.2 The deadline for submission is midnight on 31 March 2017, except as detailed below. The ABC certificate can be found on the PPF website and the Accounting Standard Change and Mortgage Exclusion (Officer's) Certificates will be available on the PPF/Experian Portal shortly.

6.3.3 One change we would like to highlight, and which we referred to in the Consultation Document, is that following requests from stakeholders Experian will now calculate scores for new guarantors (for Type A contingent assets) providing annual accounts are voluntarily submitted (or filed with one of the registries that Experian collect accounts from) by 31 March 2017 (ordinarily employer accounts must be filed one month before the measurement time to be used). This will allow the guarantor to be scored by Experian and to be taken into consideration for calculation of the levy if accepted.

Item	Key dates
Monthly Experian Scores	Between 30 April 2016 - 31 March 2017
Deadline for submission of data **to Experian** to impact Monthly Experian Scores	One calendar month prior to the Score Measurement Date (though accounts for **new guarantors** can be provided up to midnight on 31 March 2017)
Submit scheme returns **on Exchange**	By midnight, 31 March 2017
Contingent Asset Certificates to be submitted **on Exchange** and with hard copy documents as necessary **to PPF**	By midnight, 31 March 2017
ABC Certificate to be sent **to PPF**	By midnight, 31 March 2017
Mortgage Exclusion ("Officers") Certificates and supporting evidence to be sent **to Experian**	By midnight on 31 March 2017
Accounting standard change certificates with supporting evidence to be sent **to Experian**	By midnight on 31 March 2017
Deficit-Reduction Contributions Certificates to be submitted **on Exchange**	By 5pm, 28 April 2017
Certification of full block transfers to be completed **on Exchange** or sent to PPF (in limited circumstances)	By 5pm, 30 June 2017
Invoicing starts	Autumn 2017