

FAQs ON THE FUNDING STANDARD RESERVE

Disclaimer

The Pensions Authority have made every effort to ensure that this guidance note is correct. However, no liability whatsoever is accepted by the Pensions Authority, its servants or agents for any errors or omissions in the information contained in this guidance note or for any loss occasioned to any person acting or refraining from acting as a result of the information in this guidance note.

- 1. Many fund managers, particularly overseas managers, are not familiar with the concept of qualifying assets and are poorly equipped to provide data in a suitable format. Is there any obligation on the fund manager(s) or custodian(s) to provide the scheme actuary with the underlying asset data in a readily assimilated format to enable an assessment of the value of qualifying assets for the purposes of calculating the funding standard reserve?**

There is no obligation on investment managers etc. to provide information regarding the underlying asset data. If the actuary receives inadequate or insufficient information from the fund manager or custodian and cannot properly identify qualifying assets in line with Funding Standard Reserve Regulations, the assets in question must be assumed to be non-qualifying.

- 2. Determining whether certain bonds are qualifying is assessed by reference to their yield spread over the yield on specific German bunds.**

(a) Are there any intentions to update these yield differentials?

Changes to the regulations are a matter for the Department of Social Protection.

(b) It can prove difficult to get this data, particularly historic yields. Would the Pensions Authority consider setting the assessment relative to the credit rating of individual bonds, since this information is more readily available?

As the rules defining qualifying assets are set out in primary and secondary legislation, and not in Pensions Authority (the Authority) guidance, the Authority has no discretion on this issue.

- 3. The trustees hold interest rate swaps as part of a liability driven investment (LDI) strategy to hedge interest rate risk. Are such instruments deemed qualifying assets?**

No, as interest rate swaps do not appear to meet the criteria for qualifying assets set out in the legislation.

4. Are non-euro denominated bonds issued by a non-EU state but hedged to Euro denominated bonds counted as qualifying assets?

No, as neither asset in this portfolio appears to meet the criteria for qualifying assets set out in the legislation.

5. Does the balance in the trustee bank account satisfy the definition of cash for funding standard reserve purposes?

Yes, as deposits with a credit institution are considered a qualifying asset, trustee bank account balances appear to meet the criteria for qualifying assets set out in the legislation.

6. What status do contributions that have been received but in transit to an investment manager at the effective date have?

Such contributions are in the banking system and the Authority has no objection to their being treated in the same way as cash deposits.

7. Are contributions due deemed admissible?

No, as contributions due do not appear to meet the criteria for qualifying assets set out in the legislation.

8. Does the definition of cash deposit encompass all short duration and high-quality assets typically held within liquidity funds?

Not necessarily, the assets in question need to meet the criteria for qualifying assets set out in the legislation before they can be treated as qualifying assets.

9. The trustees are invested in an absolute return fund that makes widespread use of derivatives. The underlying backing collateral asset to these derivatives is cash. Are these cash holdings deemed admissible?

Not necessarily. In the Authority's view, a cash holding (or any asset) is potentially qualifying only if the holding is unencumbered.

10. The trustees are invested in an absolute return bond fund that holds long and short positions in qualifying bonds. Are the short positions deemed admissible?

No, as derivative holdings do not appear to meet the criteria for qualifying assets set out in the legislation.

11. The current funding standard reserve regulations appear to limit the admissibility of annuities as qualifying assets to immediate annuities only. Do bought in deferred annuity policies qualify?

No, as deferred annuity policies do not appear to meet the criteria for qualifying assets set out in the legislation. As the rules defining qualifying assets are set in primary and secondary legislation, and not in Authority guidance, the Authority has no discretion on this issue.

12. Are sovereign bonds and sovereign annuities deemed qualifying assets?

Yes, as these assets do appear to meet the criteria for qualifying assets set out in the legislation.

13. How should the impact of a 0.5% fall in interest rates on the liabilities be determined, in respect of active members and deferred members?

In the Authority's view, the impact in respect of active members and deferred members is determined by calculating the effect of the change in the MVA factor, set out in the Authority's section 34 guidance, which would arise from a fall in bond yields.

14. Can the funding standard reserve component calculated under section 44(2)(b) (i.e., the 'interest rate stress test') of the Pensions Act, 1990, as amended, be negative?

In the Authority's view, a negative value for the interest rate component is possible.

15. The assets of the scheme are partly invested in a paid-up with profits policy. Can credit be taken for the guarantee implicit in such an asset when determining the risk reserve?

In the Authority's view, insurance policies should be considered on a look-through basis and can be considered qualifying assets to the extent that the underlying investments of the with profits fund meet the criteria for qualifying assets.