



An tÚdarás Pinsean  
The Pensions Authority

# FAQs on the funding standard reserve

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## Introduction

The funding standard provisions of the Pensions Act, 1990, as amended (the Act) were revised in 2012, introducing the requirement for funded defined benefit schemes to hold a funding standard reserve from 1 January 2016. The funding standard reserve is broadly calculated as 10% of 'unmatched' funding standard liabilities plus the net effect of a 0.5% fall in interest rates.

- 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 the Occupational Pension Schemes (Funding Standard Reserve) Regulations, 2013 to 2021 (the Regulations), the assets in question must be assumed to be non-qualifying.

- 2. For certain bonds without a credit rating, determining if they are qualifying assets is assessed by reference to their yield spread over the yield on specific German bunds. Are there any intentions to update these yield differentials?**

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

- 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 are in transit to an investment manager at the effective date have?**

Such contributions are in the banking system and the Pensions Authority (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. Are sovereign bonds and sovereign annuities deemed qualifying assets?**

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

**12. 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.

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

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

**14. 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.