

**MINUTES OF THE
COVENANT COMMITTEE
9.00 WEDNESDAY, 10TH NOVEMBER 2021
AS A TEAMS MEETING**

Present:	Jane Nikki Crevan Adrian Atul Daniel Andrew Peter Paul Samantha Ian Asif	Evans (in the Chair) Ayriss Begley Bourne del Tasso-Dhupelia Gerring Horner Hughes Jameson Pitt Steward Yusuf	Ernst & Young LLP LCP Broadstone Corporate Benefits Limited Willis Towers Watson PricewaterhouseCoopers LLP Travers Smith LLP Buck Travers Smith LLP Penfida Limited Law Debenture Pension Trustees BDO LLP Aon
In attendance:	Carla	Smidt	Society of Pension Professionals

1. APOLOGIES AND WELCOME

Apologies were received from Chris Handley, Ryan Cos, Arabella Slinger, Bob Alsop, Paul Brice and Fred Emden. Asif Yusuf is substituting for Ryan Cox, Paul Jameson for Arabella Slinger and Carla Smidt was attending in the absence of Fred Emden.

Jane Evans took the Chair the second half of the meeting.

2. MINUTES OF THE COMMITTEE MEETING HELD ON 13TH OCTOBER 2021 (CIRCULAR 2886)

The minutes were agreed.

3. MATTERS ARISING

1) To note response to DWP consultation on Notifiable Events

The Committee noted the response to DWP consultation on Notifiable Events and thanked Ian Steward for his input. It was noted that Pensions Age had picked up the response and had produced a favourable article.

2) To note, progress on TPR's Enforcement Policies consultation

The Committee noted that the Legislation Committee was working on this and that they would let the Covenant Committee know via SPP staff if any input was needed.

The Society of Pension Professionals
Kemp House, 152 - 160, London EC1V 2NX T: 020 7353 1688
E: info@the-spp.co.uk www.the-spp.co.uk

A company limited by guarantee. Registered in England and Wales No. 3095982

NOTICE

You may not take any statement in this document as expressing the view of The Society of Pension Professionals or of any organisation, which the maker of the statement represents. Whilst every effort is made to ensure that this document is accurate, you may not assume that any part, or all, of it is accurate or complete. This document is provided for information only. You may not rely on any part, or all, of this document in deciding whether to take any action or to refrain from action. You may not use this document in part or in whole, or reproduce any statement it contains, without the prior consent of The Society of Pension Professionals.

No liability (other than any liability which cannot be excluded by law) arising from your failure to comply with this Notice rests with The Society of Pension Professionals or with any individual or organisation referred to in this document. Liability is not excluded for personal injury or death resulting from The Society of Pension Professionals' (or any other party's) negligence, for fraud or for any matter which it would be illegal to exclude, or to attempt to exclude, liability.



4. ESG RISK IN COVENANT PAPER – FURTHER DISCUSSION, TIMELINE AND AUTHORS AGREED

- Focus on ESG in covenant, which was particularly in focus because of COP 26. The Committee is planning a 2022 event and want to focus on this topic
 - Therefore consideration was needed of what angles would people like to cover
- Pick up once the guidance note is underway
- Should be multi-disciplinary in tone as differentiating point of this committee

DB committee – need to link in to whether we should combine with DB committee.

Guidance note to industry

Purpose

- Confirming it is valid to be looking at ESG issues as part of covenant assessment and a requirement under the legal and fiduciary duties of pension trustees; providing a framework for the covenant adviser community and wider industry
- Will also assist in identifying those issues we want to develop further for the 2022 event

Audience

the note would target trustees and employers

- It would acknowledge the need to consider the question of ESG in covenant alongside the impact of ESG on investment
- The note could reflect comfort that ESG considerations have been on the agenda for many years for some types of employer
- But the note would reflect that it is time to **build a framework** around which schemes could consider their duties
- The note would consider issues of materiality – how to grasp the points that matter and discard those that don't
- The note would assess appropriate information flow – what good practice should look like for information provision from employers

Minimum quality to advise on Climate Risk – how to approach

- The note could consider the appropriate level of experience of covenant advisers to advise on ESG
- The note would recognise that trustees situations vary widely and so we cannot expect any particular trustee board to have every potential expert
- But the note could very helpfully set out when / to what standard skills are required
- This could be done around principles rather than a fixed framework – e.g. based on materiality of risk
- The note would discuss the need for legal and other advisory input into some areas of ESG risk (For example around governance)
- The note could consider small schemes with limited resources; and smaller employers lacking their own expertise; for example, a certain level of minimum standards might be helpful here, or standardised approaches (acknowledging the risks inherent in these)
- The note could provide a helpful view for schemes on “suitably qualified people” when more specialist support is needed.

NOTICE

You may not take any statement in this document as expressing the view of The Society of Pension Professionals or of any organisation, which the maker of the statement represents. Whilst every effort is made to ensure that this document is accurate, you may not assume that any part, or all, of it is accurate or complete. This document is provided for information only. You may not rely on any part, or all, of this document in deciding whether to take any action or to refrain from action. You may not use this document in part or in whole, or reproduce any statement it contains, without the prior consent of The Society of Pension Professionals.

No liability (other than any liability which cannot be excluded by law) arising from your failure to comply with this Notice rests with The Society of Pension Professionals or with any individual or organisation referred to in this document. Liability is not excluded for personal injury or death resulting from The Society of Pension Professionals' (or any other party's) negligence, for fraud or for any matter which it would be illegal to exclude, or to attempt to exclude, liability.

- The note could link to info provision and the ability of the trustee and its advisers to understand and interrogate the information provided by management

Approach to compiling the note:

- Call working party of covenant advisers – none on call asked to be excluded – purpose to set key principles and definition of ESG (now and potential future, suitably broad)
- Follow-up discussion with non-covenant advisers from cttee to get rounded input into initial principles
- Noted that timing could be impacted by TPR's consultation on this topic
- JE to lead

Actions:

Follow up on TPR consultation on ESG in covenant – FE

If clients are asking for a formal standard of expertise then people need to flag to committee (no current demand for that) - ALL

5. IMPACT OF COVID / BREXIT

Comments around key themes emerging for sponsors:

- supply chain issues (Brexit)
- inflationary pressures and resourcing (newsprint sector)
- status of guarantees post-Brexit – differences between guarantees governed by different legal systems – if it was under English law then it may need changes as a result of Brexit to remain enforceable. E.g. PPF standard is under English law. English law guarantees may need to be re-executed where there was an overseas guarantor because of timing issues around the application of the Lugano Convention. With new guarantees, advisers needed to confirm that it fits with the correct framework for enforcement.
- Employers had been building up a lot of liquidity; as yet we are not seeing lenders changing their attitudes to their loans (we are seeing lots of extensions rather than demands and enforcements).
- corporate event risk. Supply / cost pressures are capable of being overcome, but these suppress prices and making companies targets of corporate activity.
- We are seeing special distributions
- We are seeing lots of legal entity rationalisations and scheme mergers
- Many schemes being asked to 'act like a bank' by holding off from demanding some of their employers' surplus liquidity, because companies want to hold the cash for reinvestment / not take on borrowing for acquisitions etc. This is a difficult predicament for trustees and TPR. TPR is reminding trustees not to "bank on" the recovery until it actually happens.
- funding levels high for many schemes, which is damaging schemes' abilities to ask for more cash credibly.
- potential interest rate risk – restructuring risk if rate rises? But the Committee's expectation is that this may continue to be softly-softly and therefore is not the most material risk.
- credit spreads low; businesses refinancing now on better terms.

NOTICE

You may not take any statement in this document as expressing the view of The Society of Pension Professionals or of any organisation, which the maker of the statement represents. Whilst every effort is made to ensure that this document is accurate, you may not assume that any part, or all, of it is accurate or complete. This document is provided for information only. You may not rely on any part, or all, of this document in deciding whether to take any action or to refrain from action. You may not use this document in part or in whole, or reproduce any statement it contains, without the prior consent of The Society of Pension Professionals.

No liability (other than any liability which cannot be excluded by law) arising from your failure to comply with this Notice rests with The Society of Pension Professionals or with any individual or organisation referred to in this document. Liability is not excluded for personal injury or death resulting from The Society of Pension Professionals' (or any other party's) negligence, for fraud or for any matter which it would be illegal to exclude, or to attempt to exclude, liability.



Actions: None noted. Potential for items to be shared with TPR if Colin Bickle attends future meeting

6. EVENTS UPDATE AND POLLING SUGGESTIONS

The committee noted SPP's upcoming events for November and December

7. ANY OTHER BUSINESS

Someone from TPR to attend?

Actions:

- JE to confirm if Colin Bickle will attend
- All to prepare Qs / points for Colin if he wants to attend; include referring to points made by David etc.

8. DATE OF NEXT MEETING

The Committee noted that its next meeting was due on 8th December 2021 at 9.00 anticipated to be as a Microsoft Teams meeting.

9. MINUTE TAKER FOR NEXT MEETING

Nikki Ayriss

File: 4.39
23rd November 2021

NOTICE

You may not take any statement in this document as expressing the view of The Society of Pension Professionals or of any organisation, which the maker of the statement represents. Whilst every effort is made to ensure that this document is accurate, you may not assume that any part, or all, of it is accurate or complete. This document is provided for information only. You may not rely on any part, or all, of this document in deciding whether to take any action or to refrain from action. You may not use this document in part or in whole, or reproduce any statement it contains, without the prior consent of The Society of Pension Professionals.

No liability (other than any liability which cannot be excluded by law) arising from your failure to comply with this Notice rests with The Society of Pension Professionals or with any individual or organisation referred to in this document. Liability is not excluded for personal injury or death resulting from The Society of Pension Professionals' (or any other party's) negligence, for fraud or for any matter which it would be illegal to exclude, or to attempt to exclude, liability.