

Multiple Type A corporate guarantees Extension to the levy formulae

The Board will recognise multiple Type A corporate guarantees in respect of the same scheme provided each such guarantee satisfies all the conditions specified for Type A contingent assets. The way the guarantees will affect the calculations as set out in Appendix 4 of the determination is as follows.

In the levy calculation set out in paragraph 12 of Appendix 4 to the determination, the part of the calculation represented by $(N_A \times Z)$ would be replaced by:

$$(N_{A1} \times Z_1) + (N_{A2} \times Z_2) + (N_{A3} \times Z_3) \dots \text{etc.}$$

where N_{A1} is the face value of the first guarantee, Z_1 is equal to

$$1 - \frac{\text{insolvency probability of guarantor 1}}{\text{Insolvency probability of employer(s)}}$$

etc.

The condition in paragraph 12(d), which effectively caps the deemed value N_A of a single guarantee at an amount which guarantees 105% funding, will be applied by the Board to the sum $N_{A1} + N_{A2} + N_{A3}$ etc. The Board will recognise the guarantees in descending order of strength of the guarantor, so that if any of the guarantees are wholly or partly disregarded it will be those provided by companies with the highest insolvency probabilities. Once that cap has been applied, the values of N_{A1} , N_{A2} etc. (to the extent not reduced or disregarded) will be input into the formula above.

Example 1: a scheme has s.179 liabilities of £100m, and assets of £90m. It has a group company guarantee from company 1 with a fixed cap of £10m, and a second guarantee from company 2 with a fixed cap of £15m. The maximum aggregate value of the guarantees for which the Board will give credit (before application of the Z factor) is $(1.05 \times £100m) - £90m = £15m$.

If the insolvency probability of company 1 is lower than that of company 2, then the Board will give credit in the underfunding calculation for:

$$(\text{£}10m \times Z_1) + (\text{£}5m \times Z_2)$$

If, however, the insolvency probability of company 2 is lower than that of company 1, then the Board will give credit in the underfunding calculation for:

$$(\text{£}15m \times Z_2) + (\text{£}0 \times Z_1)$$

In the levy calculation set out in paragraph 13 of Appendix 4 to the determination, the part of the calculation represented by R would be replaced by the weighted average value of R over all the companies whose guarantees are included by the Board in the calculation, which would be done as follows:

$$\frac{(N_{A1} \times R_1) + (N_{A2} \times R_2) + (N_{A3} \times R_3) \dots \text{etc}}{(N_{A1} + N_{A2} + N_{A3} \dots \text{etc})}$$

where N_{A1} is the face value of the first guarantee, R_1 is equal to

$$\frac{\text{Insolvency probability of guarantor 1}}{\text{Insolvency probability of employer(s)}}$$

etc.

If the sum $N_{A1} + N_{A2} + N_{A3}$ etc is greater than $1.25 \times L - S - C - N_B - N_C$, which effectively caps the deemed value of the guarantees at an amount which guarantees 125% funding, then the Board will cap the total at the amount needed to guarantee 125% funding. The Board will recognise the guarantees in descending order of strength of the guarantor, so that if any of the guarantees are wholly or partly disregarded it will be those provided by companies with the highest insolvency probabilities. Once that cap has been applied, the values of N_{A1} , N_{A2} etc. (to the extent not reduced or disregarded) will be input into the weighted average formula above.

Example 2: a scheme has s.179 liabilities of £200m, and assets of £220m. It has a group company guarantee from company 1 with a fixed cap of £20m, and a second guarantee from company 2 with a fixed cap of £30m. The maximum aggregate value of the guarantees which the Board will take into account is $(1.25 \times £200m) - £220m = £30m$.

If the insolvency probability of company 1 is lower than that of company 2, then the Board will take into account the £20m in respect of company 1 and £10m in respect of company 2. If, however, the insolvency probability of company 2 is lower than that of company 1, then the Board will take into account £30m in respect of company 2 and none in respect of company 1. The above formula would then apply using only those guarantors to be taken into account.