DB superfunds guidance

Appendix E: Capital-backed arrangements

Typically, capital-backed arrangements entail a commercial contract where third-party capital supports the delivery of a range of agreed outcomes for the scheme at the end of an agreed period. The capital supports investment risk being taken and generates returns for the investor.

The extent to which we expect such arrangements to comply with our superfund guidance, depends on their design, whether the scheme retains the link with the existing employer, and the circumstances in which they are being implemented. For further information on what aspects of our superfund guidance apply to groups 2 and 3 (below), we would encourage trustees to engage with us once there is a firm commitment to consider an arrangement.

Group 1 – Provides capital to support investment performance

The employer remains in place and its obligations in respect of the scheme are unaltered. We view these as investment products. We view these as investment products.

Group 2 – Substitutes for solvent employer covenant

The original employer is substituted with a SPV employer while it is still a solvent, ongoing entity. The scheme is separated at the outset of the arrangement from its existing covenant support, which is replaced by a capital buffer. The transaction could be a Type A event under our clearance guidance.

Group 3 – Enables scheme to run on following insolvency

A SPV employer is introduced to enable the scheme to run on after an insolvency event has occurred, supported by a capital buffer.

Position of the SPV employer under a capital-backed arrangement

Typically, the SPV employer will:

- have no connection (present or historic) to the scheme's members, in any real sense
- be connected in some way with the providers of capital, with whom the scheme is in a commercial relationship involving conflicting financial interests