

## Assessing the value of pensions promises – parent company guarantees

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The Pensions Regulator's 27 March [guidance](#) emphasised the need for trustees of defined benefit pension schemes to engage with their sponsoring employers to understand the implications of the COVID-19/Coronavirus pandemic for their scheme's employer covenant. Where employers seek reduced or suspended contributions, although the focus will naturally be on the scheme's direct participating employers and ensuring there is no leakage in terms of dividend payments or other outflow, trustees should not neglect any parent company guarantors in their assessment of the covenant.

Guarantors represent an important backstop in the event that the participating employers are unable to meet their obligations to the scheme. It is important that trustees understand and monitor the guarantor's financial strength – after all, a guarantee only has value if the guarantor can actually provide the promised support. This monitoring can be an additional challenge where the guarantor is an overseas entity.

Parent company guarantees are a popular way of adding support to defined benefit schemes. Where such a guarantee is in place, trustees should address a number of questions, including:

1. How is the Coronavirus pandemic affecting the guarantor's business? If the scheme had to claim under the guarantee, would the guarantor be able to pay?
2. Has the guarantor made continuing representations to the trustees about its financial strength and/or compliance with its banking facilities? If so, have the trustees reminded the guarantor of this obligation? (This could be a useful way of prompting a discussion with a remote parent company guarantor about its financial position.)
3. Has the guarantor committed not to prejudice the position of the trustees compared to other creditors without trustee consent (often called a "negative pledge")? If so, have the trustees checked whether the guarantor's response to the Coronavirus pandemic might include new or extended secured lending, the sale of significant assets or similar?



Checking the terms of parent company guarantees and taking legal and/or covenant advice on appropriate next steps to be sure the guarantee can be relied upon would be sensible precautions in these uncertain times.

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