

Checklist

Appointing a covenant adviser

Here is a suggested, non-exhaustive list of questions and prompts to help trustees decide how to appoint an appropriate covenant adviser. Each scheme's circumstances are unique and the work commissioned by the trustees should be specific to the needs of their scheme. Therefore, not all the questions and prompts in the list below will be appropriate for all schemes. Trustees should regard these questions as prompts to use as they feel appropriate. You may also wish to refer to our checklist 'Deciding upon an internal or external employer covenant assessment'.

Understanding the firm's experience and expertise

- ▶ How many other DB schemes (or their employers) do they advise and do they have experience in the employer's industry?
- ▶ How many professionals do they have acting in this capacity, and what are their professional backgrounds?
- ▶ What experience do they have of integrated working with other advisers (eg actuaries and investment advisers)?
- ▶ Obtain biographies and information on the qualifications and experience of people who will be conducting the assessment.
- ▶ Obtain references from their previous clients. It is advisable for trustees to ask for more references than they need to give them a sample to choose from.
- ▶ Ask firms to supply a sample format of their report and explain how they assess the covenant.
- ▶ Check firms are not conflicted through provision of advice to the employer.

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What process should be followed for covenant assessment?

- ▶ How will the advisers adjust the scope of their work to meet the needs of the trustees?
- ▶ How will they integrate the covenant analysis with the scheme's investment and funding risks?
- ▶ What information requirements would they have? What will they do if the employer is not willing to share information?
- ▶ What process would the assessor follow and what is the expected timescale of their work?
- ▶ How will the advisers treat confidential information? How will they assure the employer about the use of the confidential information? How will they ensure that they can address confidential issues in their report to the trustees?
- ▶ What will their fees be for this work and what fees will they charge for any follow-up advice?
- ▶ Are they willing to share their report with the employer, other advisors and relevant stakeholders (including The Pensions Regulator) and on what terms?

What should the report include?

- ▶ Specific issues about the employer or the wider group's structure or finances that you would like to understand.
- ▶ Key risks or opportunities that should be analysed.
- ▶ Advice on what level of contributions the employer could afford without impacting on its sustainable growth.
- ▶ Advice on actions that could be taken to improve the covenant or on potential monitoring plans.
- ▶ A conclusion with an opinion about the strength of the covenant and an analysis of the employer's cash flow/the level of deficit repair contributions the employer can afford.