

Checklist

Deciding upon an internal or external employer covenant assessment

One of the key decisions trustees need to make is whether to commission an external covenant review or assess the covenant themselves. The following risk factors will be useful in helping you decide whether an external assessment is needed. Your decision should be based on a consideration of the impact of all these factors and any others that may arise.

Useful risk factors to help you decide whether an external assessment is needed	Please tick all that may apply
Do the trustees lack the necessary expertise and experience to assess the legal and financial aspects of the covenant?	<input type="radio"/>
Is the trustee board as a whole not able to take an objective view for any reason? For example, does an influential trustee holds an important role in the employer?	<input type="radio"/>
Is the scheme highly reliant on the covenant? For example, is the scheme large relative to the employer, is it under-funded or does it have a higher risk investment strategy?	<input type="radio"/>
Is the covenant complex? For example, is there a complex legal or operating group structure? Or is an asset-backed contribution (ABC) structure being used?	<input type="radio"/>
Is the covenant undergoing significant changes such as a restructure?	<input type="radio"/>
Do the employer and trustees have a poor relationship? For example, has the employer been unwilling to provide requested information on a timely basis?	<input type="radio"/>

You should reassess whether to commission external covenant advice as changing circumstances for the scheme or the employer may lead to situations where it can add greater value. You may also wish to refer to our checklist 'Appointing a covenant adviser'.