

Checklist

Scope of a covenant assessment

The employer covenant is the extent of the employer's legal obligation and financial ability to support the scheme now and in the future. The covenant underwrites the risks to the scheme. A sound understanding of the covenant will therefore help trustees take investment and funding risks consistent with the ability of the employer to support the scheme. Note: The assessment should be tailored to the circumstances of the scheme and employer. There may be other issues to consider.

Please tick if assessment provides sufficient information	A covenant assessment should provide sufficient information for trustees to be able to answer the following key questions:
<input type="radio"/>	Through which employers can the scheme access value?
<input type="radio"/>	What is the trustees' assessment of the employer's current and likely future profitability and cash flows?
<input type="radio"/>	How do these compare with the likely funding needs of the scheme both now and in a downside scenario?
<input type="radio"/>	Over what period of time can the employer afford to repay the scheme's funding deficit?
<input type="radio"/>	Is the scheme being treated equitably with other stakeholders?
<input type="radio"/>	Could the employer afford to increase deficit repair contributions in the event of adverse scheme experience, and over what period of time?
<input type="radio"/>	Do the employer's plans to invest for sustainable growth restrict support for the scheme? If so, how will the scheme benefit and to what extent are other stakeholders also supporting the employer's investment?
<input type="radio"/>	How much value could the scheme recover in an insolvency of the employer?
<input type="radio"/>	What are the risks to the covenant and how may it change over time?
<input type="radio"/>	Are there options to improve security to the scheme?
<input type="radio"/>	What are the potential implications of all this for the scheme's investment and funding strategies?