

The Actuarial Profession
making financial sense of the future

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Ed Brogden



**Practical issues
with SPVs**

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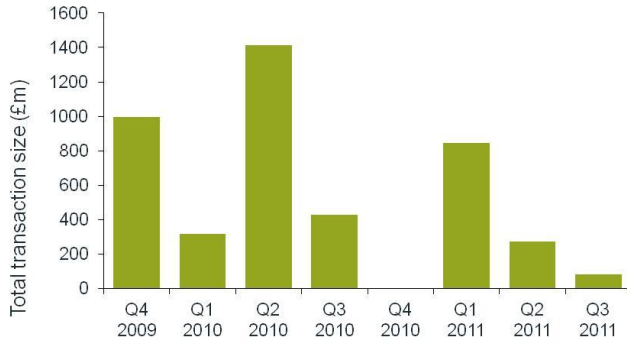
Practical issues with SPVs

Agenda

- Why are companies using SPVs?
- How do they work?
- What issues need to be considered?
- What do trustees need to think about?

Why are companies using SPVs?

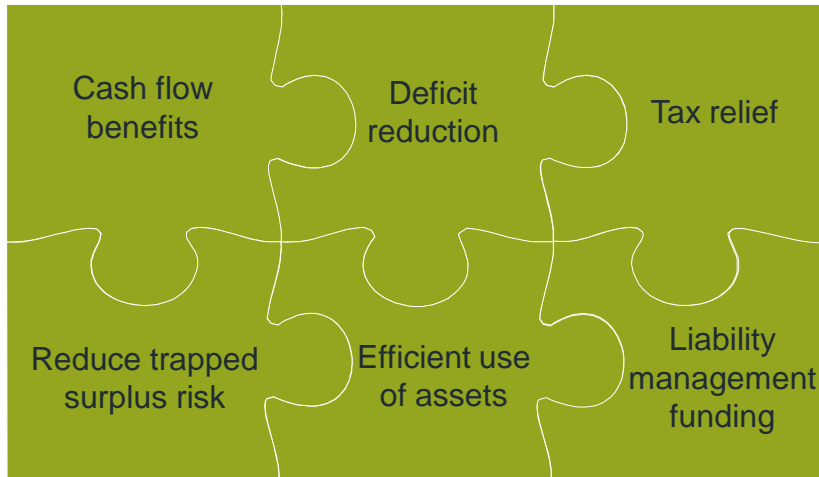
Timeline of asset-backed funding transactions

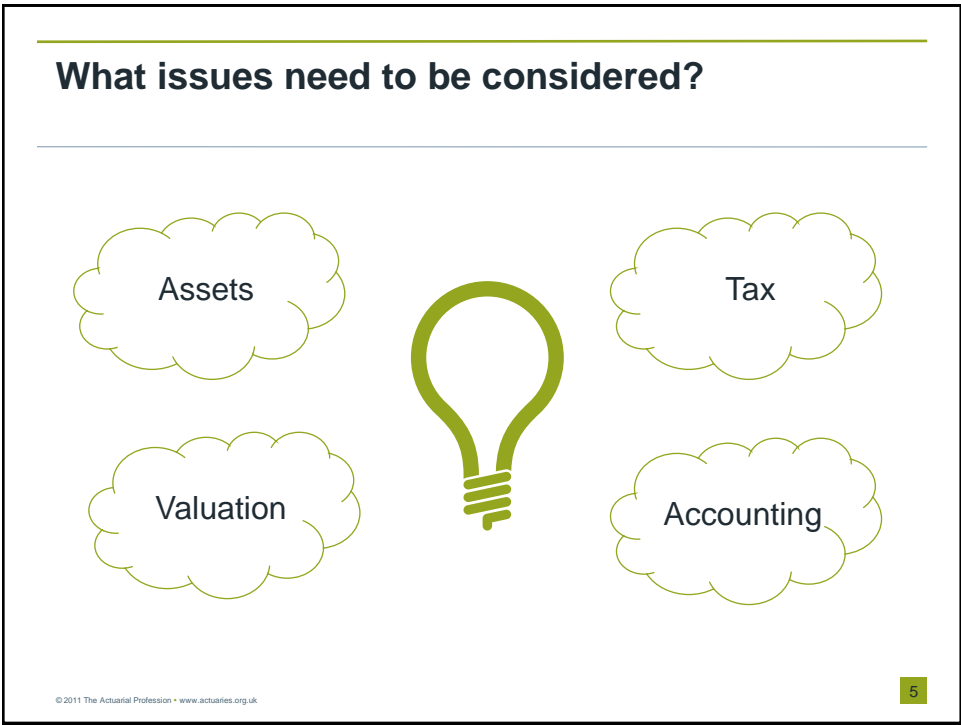
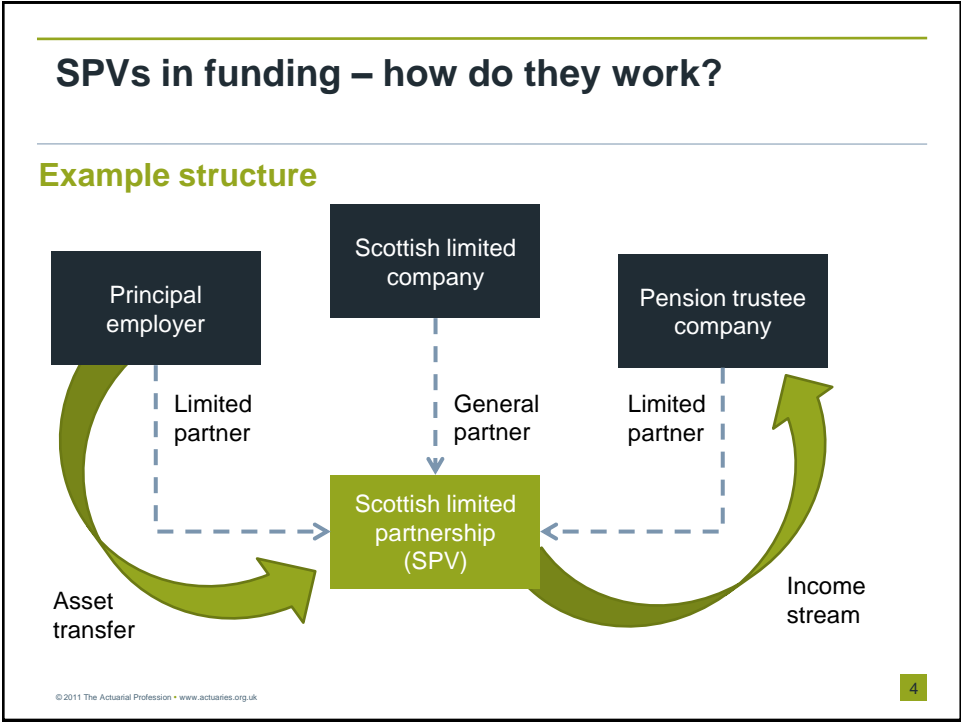


Source: KPMG 2011 survey on asset-backed funding

- Over £5bn of contributions made through SPVs

Why are companies using SPVs?





What issues need to be considered?

What assets will be used?

- Property is well-suited to use in SPVs:
 - readily available income stream
 - high level of security
 - easy to value
- Other assets can be used (e.g. intangibles, stock)
- Must have value **independent of the company**
- Consider any existing pledges on assets

What issues need to be considered?

Tax deduction

- Up-front tax relief available on value of SPV
- May need to spread over 4 years
- HMRC consultation issued on SPVs for funding:
 - Concern over “double tax relief”
 - Up-front tax relief could be removed...
 - ...but this is not HMRC’s preferred approach

What issues need to be considered?

Other tax issues

- Risk of triggering tax charges:
 - VAT
 - Capital Gains Tax
 - Stamp duty land tax
- Specialist advice needed to mitigate these risks
- HMRC clearance can be sought before implementation

What issues need to be considered?

Accounting

- Recognised as an asset in scheme accounts
- May also be recognised in company accounts
- “Plan assets” must be transferrable under IAS 19/FRS 17
- Corresponding liability recognised as either:
 - financial liability; or
 - minority interest

What issues need to be considered?

Valuation of the trustees' interest

- Accounted for at “market” value...
- ...but no comparable assets available?
- Specialist advice required
- Consider both:
 - income stream; and
 - security in downside scenarios (e.g. insolvency)
- Value for funding may be less than market value

What do trustees need to think about?

What security is being offered?

- Trustee entitlement on insolvency:
 - full/capped asset value?
 - outstanding payments only?
- Impact of insolvency on asset value
- Loan to value ratio
- Will the assets retain their value?
- How easy it is to convert them to cash?

What do trustees need to think about?

Employer-related investment (ERI)

- No more than 5% of scheme assets in:
 1. Share/securities in associated body corporate
 2. Assets used in employer's business
- SLP interest does not count as ERI
- May require a corporate trustee
- Legal advice should be sought

What do trustees need to think about?

What else should trustees consider?



Summary

- Complex structures, with a range of expertise required:
 - Legal, Tax, Accounting, Pensions, Valuation
- Can be costly to implement...
- ...but significant benefit for both employer and trustee

Questions or comments?

Expressions of individual views by members of the Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

