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Scottish Limited Partnership Pension Scheme Funding Structure

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Brodies – An Overview

- The largest law firm solely based in Scotland (CA Magazine 2010)
- UK “Regional/National Law Firm of the Year” (The Lawyer Awards 2011)
- 18 practice areas ranked No.1 by independent directories, more leading practitioners than any other firm in Scotland

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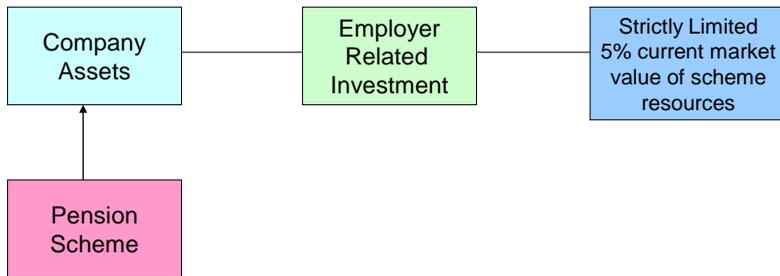
Pension Scheme Funding Scottish Limited Partnership Structure – some examples

- GKN plc 2009 / 2010: generated an asset backed instrument valued at in excess of £330 million
- Major European company: structure involved the transfer of approximately £300 million of shares (in a quoted spin out company) from the group to the SLP. Subsequent underwritten share sale in US

Pension Scheme Funding Scottish Limited Partnership Structure – some more examples

- Advising the pension scheme trustees of a London Stock Exchange quoted company: cash generating assets backing the structure are a portfolio of receivables valued at over £100 million
- Advising the pension scheme trustees of a second London Stock Exchange quoted company: portfolio of real estate used and the investment in the partnership held by the pension scheme was valued at approximately £20 million

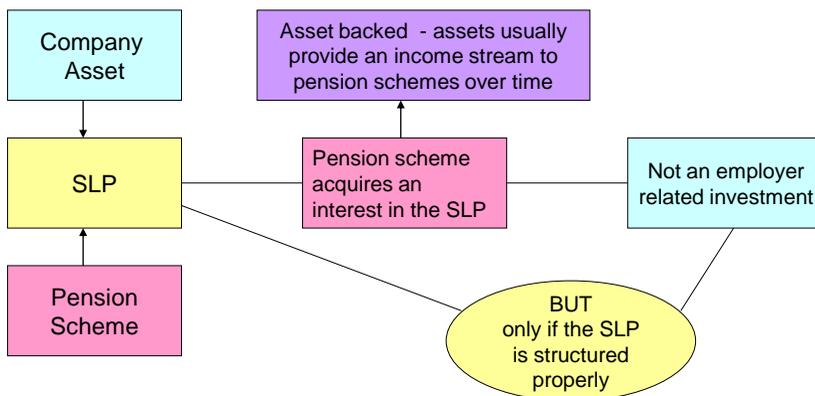
The Basic Idea



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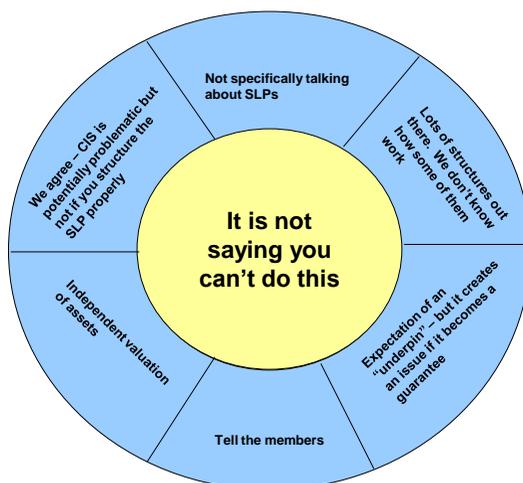
The Concept behind using a Scottish Limited Partnership



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tPR Statement on ERI – November 2010



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HMRC consultation – 24 May 2011

- Consultation on changing the tax rules around employer asset-backed contributions to defined benefit registered pension schemes
- Objective to ensure that the amount of tax relief given to employers accurately reflects the value of the contributions received by pension schemes
- Preserve flexibility for both employers and pension schemes to use these arrangements to manage pension deficits

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Key Points

- Key features of an SLP
- Contrast with English LP and LLPs
- Migration risk
- Structure documents governed by Scots law and executed in Scotland
- Registration in Scotland
- Principal place of business in Scotland
- Scottish registered General Partner entity

Key Points: benefits for employer

- Cash flow efficiencies
- Accounting treatment: IAS 19, deficit reduction, impact on group balance sheet and other points
- Group control over operations / assets
- Funding conditionality and flexibility of structure generally
- PPF levy reduction
- Tax benefits in practice (and hopefully post HMRC consultation)

Key Points: benefits for pension scheme

- Increased security / structural preference
- Deficit reduction, impact on group balance sheet and stronger group cash preservation
- PPF levy reduction
- Financial instrument with bespoke contractual protections attached: negotiated specifically with trustees

Cash payments to Scheme showing difference between 20 year SLP arrangement and standard 10 year recovery plan

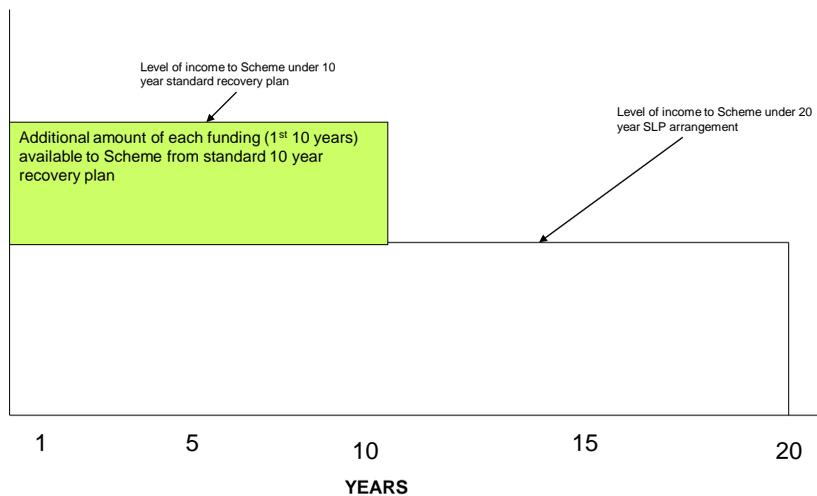
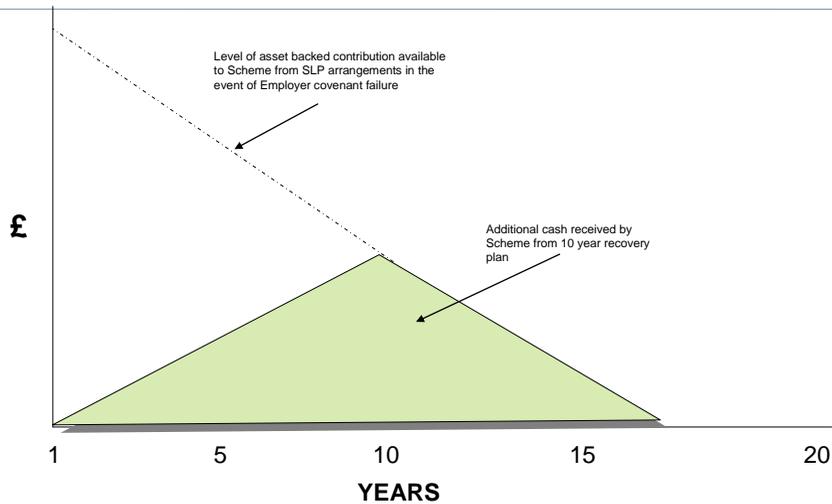


Illustration of "Security" position for Scheme and contrast with differing amounts of cash receipts in relation to 20 year SLP and 10 year recovery arrangements



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Questions or comments?

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

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