

What the regulator's £8.5m Carrington Wire deal means for your scheme

By **Tom Dines** | February 2, 2015

The Pensions Regulator has settled with two linked Russian companies for £8.5m over their UK pension fund obligations, prompting calls for trustees to re-examine covenant agreements.

It had been pursuing PAO Severstal, OAO Severstal-Metiz and another as yet unnamed target on behalf of the Carrington Wire Defined Benefit Pension Scheme.

The companies settled with the regulator shortly before a hearing on the case was due, leading it to withdraw its case against them.

The regulator is still pursuing the third company, but warned the settlement would not be enough to keep the Carrington Wire scheme out of the Pension Protection Fund, even if it gets the full amount sought from the third target.

Simon Kew, head of pensions at covenant assessor Jackal Advisory, said different countries could provide varying degrees of difficulty for the regulator when looking to hold parent companies to account.

He said: “When going for moral hazard powers it’s fairly easy to make it stick in the EU. I don’t think they have a snowflake’s chance in hell of making it stick in Russia.” He added the cost of pursuing it would be “heinously expensive”.

In a press statement, the regulator’s interim chief executive Stephen Soper welcomed what he called a “realistic” settlement. A spokesperson for Severstal said it was an “acceptable conclusion”. Darren Mason, partner at consultant Grant Thornton, said: “It gets very complicated when it comes to overseas courts and overseas jurisdictions. I think a settlement is a good win.”

However, Jennie Kreser, partner at law firm Silverman Sherliker, said: “I suspect [the regulator] was more concerned about protecting the PPF than it was protecting the members of the scheme. Russian companies may be difficult to deal with but I think they blinked too [soon],” she added.

Mason said schemes should make an effort to understand whether they have similar vulnerabilities. “Really it’s about getting a proper covenant assessment done and understanding how much you’re reliant on the wider group, then engaging with the wider group.”

Kew said it was important to understand “who is on the hook financially”, adding: “If you have a cast-iron guarantee in place it doesn’t matter if they’re Russian or Martian.”

However, Kreser said parent guarantees were only effective if the parent company was in an OECD country, as others may not be recognised by the PPF.