



**The  
Pensions  
Regulator**

Making workplace pensions work

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

0345 600 0707

[www.tpr.gov.uk](http://www.tpr.gov.uk)  
[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

[mpcorrespondence@tpr.gov.uk](mailto:mpcorrespondence@tpr.gov.uk)

Rt Hon Sir Stephen Timms MP  
Chair  
Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

13 December 2022

Dear Sir Stephen

### **Defined benefit pensions schemes and liability driven investments**

Thank you for your letter of 7 December regarding your ongoing inquiry into defined benefit (DB) pensions schemes and liability driven investments. We appreciate the opportunity to explain the timing of the draft DB Funding Code consultation to the committee in response to your request to delay our consultation, pending the committee's recommendations.

The underpinning principle of our revised DB Funding Code is that schemes should have the necessary long-term funding approach to ensure savers have the best chance of receiving the benefits they expect. The need for long-term funding is also a key government objective and underpins the regulations published by the DWP. These have given us the clarity we need to publish our second consultation on the draft DB Funding Code, which explains how we will interpret the legislation and will help trustees meet the rules set out by government.

Pausing our plans to consult at this stage would have a significant impact on the timings of the new Code. If we were to delay our current plan to consult before Christmas, it would effectively delay the commencement of the draft Code by a year due to the timings of when most DB pension schemes conduct their triennial valuations. The government typically uses common commencement dates of April and October. The draft Code would need to be laid before Parliament for it to come into effect at the start of October. By delaying our consultation, we would effectively push the commencement of the Code from October 2023 to October 2024.

Around 75% of valuations are carried out at dates between 31 December and the beginning of April. If the finalised Code is introduced in early 2024, we would miss 75% of valuations in that year (meaning only a quarter would be done under the revised DB Funding Code and three quarters under the existing Code).

Some changes have already been made to the draft Code and we have included in the consultation document a new section around systemic risk, which takes into account the disruption witnessed by the financial markets in September and October.

We will take into account views throughout the consultation period - including the published recommendations from the committee; we have agreed to extend the consultation to 14 weeks so that people have extra time to respond. To reassure the committee further, we are happy to meet to provide insight into the draft Code and its aims, and to take into account the committee's views and recommendations during the consultation period.

We have been working on the Code for some time now and consulted on the principles underpinning it in 2020. The latest feedback from stakeholders, on the back of our engagement with them, is that we don't anticipate there will need to be any fundamental changes to the regulatory framework set out via the regulations and the draft Code, though there may be points of clarification and detail. We do, however, appreciate the committee's concerns about this issue and if our consultation raises fundamental concerns around the framework, we would of course consider whether a further consultation is required on the substance of the Code.

I hope this information is helpful to the committee but please get in touch if I can be of further assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Counsell', written in a cursive style.

**Charles Counsell**  
**Chief Executive**

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# Work and Pensions Committee

House of Commons | London | SW1A 0AA

Tel 020 7219 8976 Email [workpencom@parliament.uk](mailto:workpencom@parliament.uk) Website [www.parliament.uk/workpencom](http://www.parliament.uk/workpencom)

Charles Counsell

Chief Executive

The Pensions Regulator

From the Chair

7 December 2022

Dear Charles

## Defined benefit pension schemes and Liability Driven Investments

Thank you for your written evidence to our inquiry and we look forward to seeing you in person next week. I wanted to highlight in advance concerns that had been raised with us about planned changes to DB funding.

These changes were set out in [draft regulations](#) published for consultation by DWP in July. They will be supported by a new Code of Practice on DB Funding, on which you are expected to launch a further consultation shortly.<sup>1</sup>

A number of those submitting evidence to the inquiry have expressed concern that the proposals will result in intensified 'herding' in pension scheme investments. They believe strongly that it is important to be clear about the lessons learned from the recent gilts crisis before proceeding.<sup>2</sup>

We understand that your intention is to proceed with consultation on the code of practice shortly.<sup>3</sup> I am writing now to ask you to postpone the launch of your consultation until after my Committee has reported, so that you can take account of our conclusions and recommendations in your consultation.

We look forward to seeing you next week.

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<sup>1</sup> [The draft Occupational Pension Schemes \(Funding and Investment Strategy and Amendment\) Regulations 2023](#), DWP consultation, July 2022, para 3.3

<sup>2</sup> [LDI0035](#) [PLSA]; [LDI0015](#) [Railway Pensions Trustee Company Limited]

<sup>3</sup> Evidence to the House of Lords Industry and Regulators' Committee 15 November 2022 ([Q15](#)).

Yours sincerely,

A handwritten signature in black ink that reads "Stephen Timms". The signature is written in a cursive style with a horizontal line above the name.

**Rt Hon Sir Stephen Timms MP**  
**Chair**