

# Bank of England

Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

**David Roberts**  
Chair of Court  
Bank of England  
Threadneedle Street  
London  
EC2R 8AH

17 March 2023

Dear Chair

Sarah Breeden, Executive Director for Financial Stability at the Bank of England, recently appeared before your Committee in relation to your inquiry into defined benefit pensions with Liability Driven Investments. A Committee member asked whether there was an actual or potential conflict of interest in relation to the Bank's recent gilt market operation, and the Bank of England Staff Pension Fund. The Bank committed to follow up on this point and, as Chair of the Bank's Court of Directors, I wanted to follow up with you on this point.

The Bank's gilt market operation was launched on an urgent, temporary and targeted basis to respond to risks to UK financial stability arising from dysfunction in the gilt market. As you will be aware, Parliament has given the Bank a statutory financial stability objective to protect and enhance the UK financial system.<sup>1</sup> It was advancing this objective that was the motivation for the Bank's gilt market operation (which was successful in addressing the market dysfunction that arose in October 2022).

In relation to the governance behind that operation, the Bank's statutory Financial Policy Committee<sup>2</sup> recommended that the Bank take action and welcomed the Bank's plans for temporary and targeted purchases in the gilt market on financial stability grounds at an urgent pace.<sup>3</sup> It was the Bank's Governors who took the necessary decisions on the planning, design and implementation of the gilt purchases.

Turning to the Bank's pension fund, this is a defined benefit scheme established under trust. It is managed by an independent Board of Trustees who have specific responsibilities with respect to the management and governance of the fund. There are information barriers and conflict of interest policies in place to support this independence. None of the relevant decision-makers in relation to the Bank's gilt market operation (i.e. none of the Governors and none of the other members of the FPC) are Trustees of the fund. There was clear separation between those taking decisions in responding to the gilt market operation and the

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<sup>1</sup> Section 2A of the Bank of England Act 1998.

<sup>2</sup> Of which Sarah Breeden is a member and in which capacity she was appearing before the Committee.

<sup>3</sup> For further background as to the financial stability rationale for the Bank's intervention, see letter dated 5 October 2022 from Sir Jon Cunliffe to the Chair of the Treasury Committee, available [here](#).

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management of the fund. I would note that similar considerations (and separation) exist in relation to purchases/sales of gilts for monetary policy purposes (where the volume of purchases/sales are determined by the Monetary Policy Committee).

Finally, and as was noted at the hearing,<sup>4</sup> the Bank's pension fund does make use of LDI. The fund is very conservatively managed with limited leverage, and inflation and interest rate risks substantially hedged. The risks of market volatility to the Bank's own scheme therefore have been extremely low.

I trust this letter is helpful and I would be happy to respond to any further questions the Committee may have on this matter.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'S. Khan', with a horizontal line underneath.

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<sup>4</sup>

And in the Pension Fund's Annual Report; the 2022 report is available [here](#).