Work and Pensions
Committee

03 April 2023

Laura Trott MBE MP
Minister for Pensions, Department for Work and Pensions

Andrew Griffith MP
Economic Secretary to the Treasury
HM Treasury

(By e-mail only)

Dear Laura and Andrew

Defined benefit pension schemes with Liability Driven Investments

Thank you very much for your evidence to the Committee on 22 March about defined benefit pension schemes with liability driven investments. Given the overlap between your departments on some of the issues, we thought it would be helpful to write to you jointly to follow up on some of the issues raised in the session, particularly in light of the Financial Policy Committee's (FPC) statement on 29 March.

The Committee was interested to hear Minister Trott say that the Pensions Regulator's (TPR) powers and duties in relation to the impacts of pension funds on the wider financial system, should be looked at (Q277). On 29 March, the Financial Policy Committee (FPC) recommended that TPR should "have the remit to take into account financial stability considerations." **Do you accept this recommendation and, if so, do you plan to legislate for it?** The FPC also noted that "in order to achieve this, TPR would need "appropriate capacity and capability." **How will you work with TPR to assess the capacity and capability needed to achieve this? Will you commit to reporting back to the Committee on the results?**

We were interested in Minister Griffith's comment that the more the Pensions Regulator (TPR) could be part of the "very tight working relationship" between the Bank of England, the PRA and the FCA, the better (Q302). However, the FPC does not have powers of direction in relation to TPR, as it does for the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). **Do you think TPR should be included in section 9H of the Bank of England Act 1998 to give the FPC those powers of direction?**

The FPC also recommended that TPR should "take action as soon as possible to mitigate financial stability risks by specifying the minimum levels of resilience for the LDI funds and LDI mandates in which schemes invest." We understand TPR proposes to specify minimum levels of resilience in guidance. However, it told us in January that it does not have the information needed to assess whether such guidance is followed. It has suggested a ‘notifiable events regime’ but said legislation would be needed to make this mandatory. Minister Trott agreed that we need an “element of mandation” (Q301). **What assessment have you made of whether a notifiable events regime is the right approach? If so, when will you legislate for this? What alternatives are there?**

The FPC also said that LDI funds “should be able to: withstand severe but plausible stresses in the gilt market; meet margin and collateral calls without engaging in asset sales that could trigger feedback loops.” We understand that some LDI funds operate trigger points, so that if collateral falls below a certain level, there can be a call for re-collateralisation before the buffer is exhausted (Q298). **What assessment has been made of whether collateral calls at these trigger points could create financial stability risks (for example, leading to the sort of forced selling we saw in September 2022)?**

We would be grateful if you could get back to us, as promised, on whether the Pension Protection Fund (PPF) and TPR have the information needed to provide detailed information on the extent to which individual schemes ‘lost out’ as a result of the events of September 2022 and whether they plan to do so (Q303).

It would be helpful to have a response by Thursday 20 April 2023.

Yours sincerely,

Stephen Timms

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