



**The
Pensions
Regulator**

Making workplace pensions work

Napier House
Trafalgar Place
Brighton
BN1 4DW

0345 600 0707

www.tpr.gov.uk
www.trusteetoolkit.com

mpcorrespondence@tpr.gov.uk

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

18 December 2020

Dear Mr Timms,

The Arcadia Group Limited and its UK defined benefit pension schemes

Thank you for your letter of 30 November regarding the recent media reports about Arcadia Group Limited. We exchanged letters with your predecessor between April and October last year and I hope our latest responses are helpful to you and the committee members.

The pandemic has resulted in huge pressures across several retail sectors and our sympathies go out to the 13,000 staff members facing possible redundancy now that Arcadia has gone into administration.

We worked very hard last year during the CVA negotiations to ensure a strong package for members of the two Arcadia DB schemes in the UK. Working alongside the trustees and the PPF, we agreed and secured an enhanced package of support for the Arcadia Schemes, worth significantly more than they would have received if the CVA vote had not been successful.

Working with the majority shareholder, the pension scheme trustees and the PPF we agreed a £310m package of additional support for the Arcadia Schemes, alongside its funding arrangements through deficit repair contributions (DRCs). This comprised security over assets capped at £210m, together with £100m in cash from Lady Green, which was guaranteed, in addition to the agreed employer contributions. We were satisfied that the arrangements were the right ones for members and the PPF in challenging circumstances, and that they were equitable in the context of the wider CVA process with an ongoing employer seeking to implement a turnaround plan.

Q1 When would you expect this guarantee to be paid?

Lady Green has already paid £50m into the Arcadia Schemes, and an Arcadia spokesperson announced on 2 December that the payment of the final instalment of £50m would be made in the next few days. You will appreciate that as it is restricted information I am not able to confirm that this final instalment has been paid. The scheme trustees would be in a position to confirm whether they have received this sum.

Q2 Have the DRCs of the Arcadia Group schemes been affected by the guidance you introduced for DB schemes funding and investment during the Covid-19 pandemic?

As the Committee will appreciate, we are not able to give details about the arrangements in place for any particular scheme or employer.

However, we understand that both the trustees and employer were aware of the guidance we issued in response to the Covid-19 pandemic in March 2020 and in subsequent updates. The aim of this guidance is to aid trustee decision-making when sponsoring employers seek to suspend or reduce DRCs. When faced with such requests, we expect trustees to interrogate and challenge, rather than just agree unquestioningly to pauses or reductions in DRCs, and to consider what is in the best interests of scheme members. However, trustees need to understand how their decision will support the employer and consequently the covenant supporting the scheme, and weigh that against the potential risks to the scheme. Our latest guidance may be found at the following link:

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/db-scheme-funding-and-investment-covid-19-guidance-for-trustees>

Q3 Are you able to give us any indication of what assurances scheme members will be given on when and if assets will be transferred to the schemes?

We endeavour to be open and transparent with our regulated community whenever we can, but in cases of communications about specific schemes, it is the role of the trustees to communicate directly with their members.

The Arcadia assets which are subject to the security arrangements will not be transferred directly to the Schemes. The administrators will be taking steps to realise the value from those assets, and the Arcadia businesses in general, and will make payments to creditors, including the Schemes, in due course. The timings will depend on how quickly the properties and businesses can be sold.

The trustees of the Schemes, as creditors of the employer, will be kept informed by the administrators of Arcadia of when and how much of the Schemes' deficits are expected to be paid as the employer's assets are realised. We, alongside the PPF, continue to liaise closely with the trustees and administrators throughout this process.

Q4 What lessons will you be applying from the Regulator's experience with the BHS schemes?

TPR learns lessons from every case we deal with to ensure continuous improvement. We have already transformed the way we work with our new clear, quick and tough approach, which is exemplified by the strong CVA deal we reached with Arcadia and Lady Green last year.

As part of our relationship supervision approach, under our new way of working, we now have more proactive and continuous contact with the largest and most strategically important pension schemes across the country.

We are also much clearer in setting out our expectations and we actively identify and share examples of good practice. Being clear in our expectations helped achieve the strong CVA deal we reached with Arcadia and Lady Green last year.

Q5 Pension scams - how will you be applying the lessons of the Rookes Review to ensure that Arcadia scheme members are not tempted to put their savings in the hands of fraudsters?

We welcomed the 2019 Rookes Review. Working alongside the FCA, MaPS and the PPF, we acted decisively to take forward its recommendations. Regular meetings across the four organisations and our new protocol means we are working in a more co-ordinated and targeted way to respond to risks and ensure improved communication with scheme members.

As part of this work we introduced and updated guidance on COVID-19 earlier this year which emphasises the particular risks of members falling victim to pension scams and urges trustees to educate and protect members about those risks. This includes a letter, jointly signed by TPR, FCA and MaPS, which should be sent to all members where there is a specific risk of DB to DC transfer. In addition, we have published guidance on what we expect trustees of all DB schemes to do to protect the scheme against employer distress.

The guidance can be seen here <https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/protecting-schemes-from-sponsoring-employer-distress> and the letter can be seen here <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/cetv-members-letter.ashx>.

In the last three years we have run successful joint campaigns with the FCA aiming to stop people becoming victims of scammers. The campaigns, across TV, radio and online, have reached more people, encouraging them to seek information about how to avoid scams. It is only through co-ordinated action by everyone involved in the pensions industry, including pensions savers themselves, that we can defeat pension scams. In the meantime, trustees and administrators should, wherever possible, follow the measures outlined in the Code of Good Practice issued by the Pension Scams Industry Group (PSIG).

We expect the Arcadia Schemes to enter PPF assessment shortly (although this is subject to validation by the PPF). Members will not be able to take transfers from the Schemes during the assessment period.

Q6 DB superfunds - what reassurances are you able to give to scheme members should the strength of that guidance be tested in the coming weeks?

During the summer we unveiled the high bar we expect new superfunds to meet to ensure savers in DB schemes are protected ahead of government legislation.

Our interim regulatory regime sets out clear principles for trustees and sponsoring employers considering transacting with superfunds as these models emerge. As part of our interim assessment regime, superfunds must prove to us they are well-governed, run by fit and proper people, have robust systems and processes and are backed by adequate capital. This will ensure that savers and the PPF are protected while providing employers and trustees with more choice.

We believe DB superfunds have the potential to offer benefits for pension savers and sponsoring employers in general, such as economies of scale and good governance. Trustees need to be confident that a transfer to a superfund is in their members' best interests, and that the transaction meets our "gateway principles". Schemes should only be transferred into a superfund after the ceding employer has obtained clearance from TPR.

If you require any further information, please do not hesitate to get in touch.

Yours sincerely



Charles Counsell
Chief Executive