

**Trustees of the
BHS Limited Pension Scheme
BHS Senior Management Scheme**

14th June 2016

Adam Mellows-Facer
Clerk of the Work and Pensions Committee
House of Commons
London
SW1A 0AA

Dear Adam

I am writing on behalf of the Trustees of the BHS Pension Scheme and the BHS Senior Management Scheme (the Schemes) and in response to your email of the 8th June 2016.

I have now had a chance to review the transcript of the evidence given to the Committee by Mr Chappell of Swiss Rock/Retail Acquisitions Limited on the 8th June.

I have focused my review of the evidence to matters related directly to the Trustees (i.e. I am assuming that tPR, PPF and other parties involved in discussions in relation to the Schemes will make their own submissions as they consider appropriate). Additionally, I have restricted my comments to those which I believe are likely to be important to the Committee rather than broader observations on Mr Chappell's evidence.

Q1425 – at no stage did the Trustees suggest that a Project Thor style pensions restructuring had been “tentatively agreed by the Regulator”. In the initial meeting with Swiss Rock (to which Mr Chappell's answer refers) the Swiss Rock team was made aware that the funding deficits in the Schemes had increased since the last formal valuation and that the deficit repair contributions would also need to be significantly increased from the then current £10m pa aggregate level. The Trustees recognised that a Thor style restructuring was therefore going to be necessary post any acquisition by Swiss Rock. I recall that the intention was for Swiss Rock to appoint Deloitte to advise them in this respect post acquisition.

Mr Chappell also refers to the proposed security package from Arcadia. His answer mentions the intention to “cash and fill in behind”. I do not remember this as part of the discussion at the time or subsequently. Indeed the proposed security package was to rely on fixed and floating security over existing BHS assets (plus the £15m contribution commitment) and was not to be cash collateralised.

Q1486 – I believe that the reference to Chris Harris should actually be a reference to Chris Martin.

Mr Chappell refers to me as being “supportive of the programme”. I do not understand what he means by “programme”. If this is a reference to the original February 19th meeting then as noted in relation to Q1425 on behalf of the Trustees I agreed that some form of Thor restructuring would be necessary as the Schemes would otherwise be unaffordable for BHS. I have attached my notes of that meeting with the Swiss Rock team to assist the Committee.

In his evidence Mr Chappell also said “He [Chris Martin] reported that he had spoken to the regulator”. The inference from what Mr Chappell says is that I had discussed with the Pension Regulator a Thor type restructuring as part of the Swiss Rock acquisition. This is incorrect and untrue. I had not discussed a Swiss Rock initiated pensions restructuring with tPR ahead of the 19th February meeting.

Q1600 – in his answer Mr Chappell states that “We had assurances from Chris Martin and the regulator that they would be supportive of a Project Thor or a Project Vera”. This is incorrect and untrue. No such assurance had been given and clearly it would not have been possible or appropriate for the Trustees to do so until they had seen a fully formed pensions restructuring proposal. No such proposal was received from Swiss Rock pre acquisition and indeed the Project Vera proposal was only put (in detail) to the Trustees in December 2015 and ultimately the Trustees were not required to form an opinion on this proposal given the sequence of events that followed.

Q1603 – again any suggestion that the Trustees had given their support to a specific pensions restructuring proposal pre acquisition is incorrect and untrue.

Q1604- it should be noted that Mr Chappell and the Swiss Rock team had been made aware of the need for contributions to be significantly increased during the meeting on the 19th February and hence this was a new matter post acquisition.

Q1608 – Mr Chappell refers to being told that the cost of a Thor style restructuring would have been £50 to £70m. I do not where he obtained these figures from. To the extent that the Trustees had any view on what such a restructuring would cost by February 2015 we were aware that the cost had significantly increased beyond this level (which reflected the discussions with Arcadia group in mid 2014).

Q1636- Mr Chappell’s answer that “He [Chris Martin] gave us his undertaking that he would give his blessing, as chairman of the trust, to a Protect Thor or Project Vera and he would deal with the Pensions Regulator going forward” is incorrect and entirely untrue. No such undertaking was given to Mr Chappell or any other directors of Swiss Rock or Retail Acquisitions Limited prior to acquisition.

I trust that the above corrections to the evidence given by Mr Chappell assist the Committee.

More generally, on behalf of the current Trustees, I would like to register our concerns at the comments made by Mr Walker, the Director General of the IoD in his open letter to the

Committee. In his concluding paragraph Mr Walker refers to “the collective failure of..... the trustees.....” Mr Walker does not offer any evidence to support his assertion that the Trustees have in some way failed in their duties. The Trustees invite Mr Walker to either substantiate his assertion by reference to the legal powers available to the Trustees or failing this to write to the Committee and the Trustees formally withdrawing this aspect of his statement.

Yours sincerely



PP

Chris Martin
Independent Trustee Services Limited
Chair of Trustees of the Schemes