Rt Hon Frank Field MP  
Chair, Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

1 February 2018

Dear Mr Field

Thank you for your letter of 17 January 2018 regarding Barclays Bank UK Retirement Fund (UKRF).

The High Court process to examine Barclays’ proposal in relation to ring-fencing and any objections is under way. The hearing to decide whether to agree to the proposal will take place at the end of February.

The Financial Services (Banking Reform) Act 2013 makes provision for a report to be prepared to aid the court in its decision as to whether to sanction the proposals. The Skilled Person is approved by the PRA and provides information as to whether the proposals are likely to have an adverse impact on third parties that is greater than reasonably necessary to achieve the purposes of ring-fencing. Please find the link to Barclays’ report below which you may find helpful:

https://www.home.barclays/content/dam/barclayspublic/docs/AboutUs/ringfencing/REPORT%20-%20Barclays%20Ring-Fencing%20Transfer%20Scheme.pdf

Further information about the court/objection handling process is available from the Prudential Regulation Authority, which is the lead regulator for implementing ring-fencing and supervising banks’ compliance with the rules. The FCA is also involved in supporting the implementation of ring-fencing, in line with their consumer protection role. Both regulators are working closely to monitor firms’ implementation.

www.bankofengland.co.uk/prudential-regulation/key-initiatives/structural-reform

Turning to your specific questions:

Has TPR examined the proposed arrangements for the post-restructuring sponsorship of the UKRF, or is it in the course of doing so?

TPR has examined the arrangements and been in discussion with Barclays and the Trustee of the UKRF about those arrangements. Barclays has not made a clearance application. When clearance has not been provided, our anti-avoidance powers remain available to us and we will not hesitate to use them, if necessary and appropriate. There is no requirement in law for us to approve the bank’s proposal.
Did the trustees consult with TPR prior to agreeing to this proposal?

The Trustee did discuss with TPR before agreeing to the proposal, and our discussions with them continue. Typically in such situations, our discussions with trustees include the importance of receiving robust professional advice in respect of covenant, investment risk and the value of any assets over which the scheme has security and the strength of those security arrangements.

Were the trustees required to obtain TPR’s approval for this proposal, and did they do so?

We have discussed the proposal with the Trustee and continue to do so. However, the Trustee is not legally required to obtain TPR’s approval and TPR has no remit to approve it.

What is TPR’s view of the proposal’s impact on the strength of the covenant?

In a restructuring situation, we expect trustees to obtain robust professional advice to inform their understanding of the strength of a sponsoring employer and its ability to provide long-term support for a pension scheme. We have made this point very clearly to the Trustee and Barclays. TPR has also provided our views on the proposal to both Barclays and the Trustee and we continue to work with the Trustee regarding the ongoing impact of the proposal on the sponsor support available for the UKRF.

Under the ring-fencing legislation, if a bank’s plans to separate their retail and investment arms are likely to cause material detriment to the pension scheme(s), they are required to apply for clearance. If a bank concludes that their plans do not meet the criteria, they are free to execute them. It is the bank’s decision whether or not to approach TPR for clearance and, if they take the view that there is no material detriment, we do not have the power to force them to do so. When clearance has not been provided, our anti-avoidance powers remain available to us.

Is TPR satisfied that the trustees conducted sufficient due diligence on the proposal in the interests of scheme members before approving it?

The Trustee is required to carry out due diligence and we expect them to obtain appropriate professional advice to help them do this. In this case, the Trustee obtained professional advice from covenant, actuarial and legal advisers to help ensure that adequate due diligence was carried out on the plans before agreeing to them.

What is TPR’s view of the robustness of the pledge of collateral assets? In particular, what assurance do you have that the trustees will be able to secure ownership of these assets at the full pledged value when required?

The Trustee continues to obtain financial and legal advice on the composition, valuation and operation of the collateral pool and has engaged an independent party to monitor the arrangement.

We continue to work with the Trustee to monitor and assess the situation and would discuss any emerging issues with the Trustee and Barclays, as necessary.
The deficit rose from £3.6bn at the 2013 triennial valuation to £7.9bn in 2016. How does the proposed recovery plan and schedule of repair contributions in respect of the 2016 valuation compare with 2013?

The information you require can be found in the table on page 93 of Barclays Bank Plc’s interim results announcement, which sets out schedules of contributions for 2013 and 2016:

https://www.home.barclays/content/dam/barclayspublic/docs/InvestorRelations/ResultAnnouncements/2017interimresults/20170728_H117_BBank_Results_Announcement.pdf

The Trustee is required to submit its valuations and, where there is a deficit, a recovery plan to us within 15 months of the UKRF’s valuation date. We expect the Trustee to engage in robust discussions with sponsoring employers on funding arrangements, and to have plans in place for mitigating any risk within the recovery plan. If we are unhappy with the agreement, options are available to us, including use of our scheme funding powers. These powers allow us to impose a recovery plan or a schedule of contributions, or to direct the use of particular assumptions in a valuation.

The purpose of ring-fencing is to protect the UK’s financial system against the risks posed by ‘casino banking’. Is TPR content that the retirement income of UK retail banking employees should be underwritten by a non-ring-fenced global investment bank?

The support provided by the non-ring-fenced bank as sponsor is supplemented by collateral, support from the parent company (via dividends received from the ring-fenced bank) and, in the event of insolvency of the non ring-fenced bank before 2026, support from the ring-fenced bank. We continue to work with the Trustee to monitor and assess the arrangement and will not hesitate to take action to protect the pensions of scheme members, if that becomes appropriate. As clearance has not been requested or provided, our anti-avoidance powers remain available to us.

Regulation 2 of the Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015 requires that ring-fenced bodies do not participate in multi-employer pension schemes or have shared pension liabilities with non-ring-fenced bodies. However, the regulations do not require a pension scheme to be placed either with the ring-fenced body or with the non-ring-fenced body. It is therefore up to the banks to decide where the scheme is placed or whether to split the scheme and they will take a number of factors into account when doing this.

Barclays has a ring-fencing website via which it communicates about its proposals. The link below is to the webpage for the members of the UKRF:


Barclays has noted on this webpage that it has established a new entity, Barclays Bank UK PLC as its ring-fenced bank. Barclays is therefore choosing to keep the scheme with the current legal entity, Barclays Bank PLC, which will become the non ring-fenced bank. We are aware that Barclays has considered a number of issues when looking to address where the UKRF would be placed, some of which are also set out on this webpage. For example, Barclays comments that its reasoning for keeping the scheme with the non ring-fenced bank is that it “will have more than twice the capital of [ring-fenced bank] and a more diversified business and as a result we believe it is better placed to
continue to be the sponsor…” Barclays also notes that splitting the scheme would have been “extremely difficult to implement and would have required an arbitrary allocation of many individual members to different funds. This was therefore considered not to be in the best interests of the members of the UKRF as a whole.” Barclays also notes that both its non ring-fenced bank and its ring-fenced bank are “incredibly important to the UK economy, so we need to ensure both banks can survive a financial stress, and our ring-fencing plans are designed with this in mind.”

I hope this information is helpful. Please get in touch, if I can be of further assistance.

Yours sincerely

Lesley Titcomb
Chief Executive