Dear Mr Field

**Re: Toys R Us CVA proposals**

Given the interest of the Committee in these proposals, recent coverage and the position of the pension scheme I thought it would be helpful to write to you.

As a Company Voluntary Arrangement (CVA) has been lodged, the PPF has taken over the creditor rights of the pension scheme and are now formally exercising those rights to submit a proxy to vote against the CVA proposals. We did so having sought, but not received, on behalf of the scheme, sufficient assurance and mitigation to ensure the position of the pension scheme was not potentially weakened by the CVA. We do not believe the financial mitigation sought was unreasonable given the deficit in the scheme and questions about the ongoing viability of the company.

Feeling compelled, despite our engagement with the company, to vote against the CVA proposals is clearly disappointing. The challenges faced by the company, with its US parent in Chapter 11 bankruptcy and the current position of the UK high street, are not of the pension scheme’s making. The role of the PPF is to protect the pension scheme members and to reduce the potential costs to other employers who sponsor Defined Benefit schemes in the UK. We continue to engage with the company to strive to ensure an outcome in the best interests of our members and levy-payers.

We also continue to engage closely with colleagues at the Pensions Regulator both in respect of their oversight of scheme funding and their anti-avoidance powers.

**Background**

The Toys R Us pension scheme entered a PPF assessment period on 4 December 2017 when the CVA proposals were lodged\(^1\). The CVA proposals highlight the challenges facing the business.

The lodging of the proposals means we have been working closely with the trustees of the pension scheme. They have continued to run the scheme on a day to day basis while we have worked with them, supported by PWC, on the response to the CVA proposals. While the CVA proposals were clear on the intention of the company to retake responsibility for the scheme on its successful completion, the PPF retains the creditor rights of the scheme in the meantime.

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The Toy R Us Pension & Life Assurance Scheme has around 600 members, a PPF deficit of £30m and a buy-out deficit of £93m. This means the scheme is insufficiently funded to provide members with at least what PPF would – if members come to the PPF they would get more than they would otherwise receive. There would therefore be a cost to our levy-payers if the scheme came to the PPF.

We have seen the widespread press coverage about the bankruptcy arrangements of the parent company in the US and the reports of the loan write-off and other payments by the UK Toys R Us group. While these are much wider issues, PWC have proved helpful in better understanding the position of the company, the challenges faced by the retail sector and the likely outlook following the CVA, especially given the history of a failure of similar retail CVA’s.

**Action taken by the PPF**

We proposed to the company that they should de-risk the Toys R Us scheme from a failure of the CVA to turn-round the business. We requested that this should be done by bringing forward the payment of the next three years of deficit reduction contributions together with advance payment of other costs that would arise to the scheme during that period. In addition to the £1.6m of contributions due in January and March 2018, this would have meant a further £7.3m to be paid by the company into the scheme around two months after the CVA vote, alongside the company continuing to have responsibility for the pension scheme. Given the circumstances of the CVA, other payments being made by the company (including royalties to the US parent) together with the deficit in the scheme, we believed this proposal to be reasonable.

We’re therefore disappointed that the company could not agree to this proposal and have not to date made a counter proposal. We therefore exercised the creditor rights of the pension scheme to lodge our proxy vote against the CVA proposals and as matters stand we understand that the CVA proposal will be rejected. If however an acceptable proposal is put to us in the meantime, we can, at the discretion of the nominee, amend our proxy ahead of Thursday’s Meeting of Creditors.

**Next steps**

We remain keen to engage with the company and are happy to consider further proposals. We would hope that there is no hasty entry of the company into administration or liquidation if the CVA proposals are rejected – the company made clear that they believed that the CVA would mean ‘no disruption for customers shopping through the Christmas and New Year period.’

The pension scheme remains in a PPF assessment period and members remain protected by the PPF.

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3 https://www.thetimes.co.uk/article/mystery-over-585m-loan-by-failing-toys-r-us-tf2cjb2zr
5 https://www.toysrusinc.com/press/toys-r-us-announces-plan-to-transform-business-to-meet-tough-uk-retail-market-conditions

www.pensionprotectionfund.org.uk
I would be happy to discuss this case further as required.

Yours sincerely,

Alan Rubenstein
Chief Executive