Dear Mr Field

GKN pension schemes

Thank you for your letter of 22 February regarding the GKN pension schemes. We appreciate that a takeover situation like this can bring uncertainty to members of defined benefit pension schemes. We are working with the trustees of these schemes to support them as they seek to secure the best possible outcome for members in the event of a takeover of the sponsoring employer by Melrose.

As regards your specific questions:

1. **What engagement has TPR had with pension scheme trustees in relation to the takeover bid, when did this begin and who initiated it?**

   We initiated contact with the trustees in relation to the takeover bid on 15 January 2018. Subsequently we met with the trustees and are in regular communication by phone and by email.

2. **What engagement has TPR had with the GKN board and with Melrose regarding their respective plans for the pension scheme?**

   When we became aware of the possible takeover, we wrote to both Melrose and GKN, setting out clearly how we expect the defined benefit pension scheme to be treated in the event of a successful takeover. We have then met both parties and have strongly encouraged Melrose to make a clearance application to us.

3. **What is TPR’s assessment of the covenant impact of GKN and Melrose’s respective plans?**

   From the outset we have been concerned that the increased leverage involved in the proposed takeover by Melrose is likely to have a detrimental impact on covenant. However, confidentiality provisions mean I cannot share more specific information.

   In any major corporate transaction, such as a takeover, we expect the companies involved to identify if there is potential material detriment to a pension scheme and explain how they will mitigate against that detriment. We would expect sufficient mitigation to be agreed with scheme trustees to ensure that a pension scheme is not placed in a worse position by any takeover. We would also expect a protocol to be agreed in respect of how the impact of any future events on covenant support for the scheme should be mitigated (for example, if there were to be any future disposals within a group or material return of value to shareholders).
Clearance, as referred to in response to the question above, will only be granted in the event of material detriment being caused to a scheme’s employer covenant, and where we consider that sufficient mitigation has been provided to offset that material detriment.

We stand ready to deal promptly with (complete) clearance applications and encourage parties in takeover situations where the pension scheme may be materially affected to use this process – as we did in this case. In the absence of clearance, our anti-avoidance powers remain available for us to use in respect of any significant corporate action, if the necessary criteria are met. We can and will use our powers to make recoveries for the schemes after the event should that prove necessary and appropriate. However, we cannot compel any company to make an application for clearance, nor do we have power to block a transaction before it happens.

The details of our anti-avoidance powers can be found at http://www.thepensionsregulator.gov.uk/regulate-and-enforce/anti-avoidance-powers.aspx.

We continue to monitor the GKN/Melrose situation closely.

I hope this information is helpful.

Yours sincerely

Lesley Titcomb
Chief Executive