From the Chair

28 March 2018

The Rt Hon Greg Clark MP
Secretary of State for Business, Energy & Industrial Strategy
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

GKN pension schemes

Thank you for your answer to me in the House yesterday regarding the pension implications of Melrose’s bid for GKN.

Your letter to Melrose dated 26 March made clear your expectation that Melrose should make a number of commitments “which would need to be binding” in the event of a successful bid, one of those commitments being:

“Making arrangements for current and future pensioners which are to the satisfaction of trustees and the independent pensions regulator.”

The Chief Executive of The Pensions Regulator (TPR) informed me in her letter of 5 March that when her organisation became aware of the possible takeover it contacted both Melrose and GKN to set out TPR’s expectations in respect of scheme funding and “strongly encouraged” Melrose to make a clearance application to TPR. To date, neither Melrose nor GKN have chosen to make such an application for their respective pension funding proposals. She also informed me that:

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.

TPR does not however have a formal role during a takeover process in evaluating and approving pension proposals made by a prospective buyer – or by the company seeking to fend off the bid – except if the proposer voluntarily applies for clearance.

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1 Letter from Business Secretary Greg Clark to Melrose Industries Plc, 26 March 2018
2 Letter from The Pensions Regulator to the Chair regarding GKN pension schemes, 5 March 2018
Nor does TPR have the power to block takeovers if it is not satisfied with the buyer’s pension funding proposals.

The Work and Pensions Committee recommended in 2016 that the Government consult on making clearance applications to TPR mandatory in certain circumstances such as corporate transactions. Although this idea featured in the Government's Green Paper consultation and manifesto, it has not been taken forward in the Defined Benefit White Paper, which instead proposes to strengthen the existing, and little-used, voluntary clearance regime.

In the light of the above, might I please ask:

1) Through what process will Melrose be expected to satisfy The Pensions Regulator in respect of its pension funding proposals? In particular, do you expect Melrose to discharge this commitment by making a clearance application to TPR?

2) Should Melrose undertake to satisfy TPR, within what timeframe would you expect Melrose to fulfil this undertaking?

3) If TPR is not satisfied with the pension arrangements put in place, what action could be taken?

Best wishes,

Rt Hon Frank Field MP
Chair

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4 Protecting defined benefit pension schemes, 19 March 2018