

The Pensions Regulator

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Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
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23 August 2018

Dear Mr Field

House of Fraser

Thank you for your letter requesting an update on our involvement with House of Fraser. This is a very fast moving situation and we are working closely with the trustees at this worrying time for members.

As you know, a number of companies within the House of Fraser group went into administration on 10 August. However, as other companies within the group have not begun insolvency proceedings, the House of Fraser Beatties & Jenners Pension Scheme (the Scheme) is dependent upon the insolvency of its final employer, House of Fraser UK and Ireland Ltd to trigger commencement of the Pension Protection Fund (PPF) assessment period. We are currently working with the PPF and trustees to ensure that this happens as soon as is possible.

As the Scheme is split into sections, valuations are carried out for each section separately. We have reviewed the triennial valuations for the Scheme. Based on the strength of each section's funding position and the employer group's trading position at the time that we assessed the 2013 valuation, the Scheme was not selected for further engagement to seek to change the valuation and recovery plan. We note that the BJRB section of the Scheme was in surplus on a technical provisions basis at that time and the HoF section was 85% funded on a technical provisions basis with a recovery plan length of 7.66 years.

Our current proactive contact with the trustees began in September 2017 when we reviewed the 2016 valuation. Due to concerns about ongoing trading difficulties, our work with the trustees has continued since, including the Company Voluntary Arrangement (CVA) discussions that were announced in May this year. The trustees were not asked to compromise any existing Scheme arrangements in the proposed CVA and wider restructuring negotiations. KPMG estimated that both sections in the Scheme were in surplus on a PPF basis at 21 May 2018.

As part of the negotiations in relation to the CVA restructuring proposal, we supported the trustees in agreeing accelerated deficit repair contributions (DRCs) - monthly payments (instead of annually in December) with a "catch up" payment in respect of the January to August period - to be made when the £70m equity investment was received from C.Banner.

In addition, we supported the trustees in negotiating an additional £1m of DRCs, which would have been paid in December 2018. The implication for the Scheme of the C.Banner equity investment falling through is that these accelerated and additional contributions will not be received. It should also be noted that had the CVA restructuring proposal been agreed and implemented, the Scheme would have been the only significant stakeholder to receive any enhancement.

When, unfortunately, the proposed C.Banner £70m equity investment fell away at the end of July, the liquidity issues that House of Fraser faced became more acute and the business needed to identify a secure source of alternative financing in a very short period of time. We were aware that financial advisers to the company were approaching numerous potential sources of new capital. However, we can confirm that we were not approached by any potential new investors, nor were we involved in the confidential negotiations between advisers to House of Fraser, C.Banner, any other key financial stakeholder and/or any potential new interested third party investor, including Sports Direct and Alteri.

We are currently investigating the circumstances surrounding the administration of House of Fraser and are communicating with the Administrators regarding a number of questions which we have in order to understand the implications for the Scheme. We will provide a further update on our investigations in due course.

I hope this information is helpful to the Committee.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Lesley Titcomb', written over a horizontal line.

p.p.

Lesley Titcomb
Chief Executive