

**EXPLANATORY MEMORANDUM TO THE  
PENSION PROTECTION FUND (STATEMENT OF INVESTMENT  
PRINCIPLES) REGULATIONS**

**2005 No. 675**

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

**2. Description**

- 2.1 The Board of the Pension Protection Fund (“the Board”) is established by section 107 of the Pensions Act 2004 (c.35) (“the Act”).
- 2.2 The Board will be responsible for holding and managing two funds; the pension protection fund and the fraud compensation fund. The Board may invest the assets of both funds for the purposes of the prudent management of its financial affairs.
- 2.3 The Board must produce a written statement of the principles governing determinations about investments. This instrument provides for the procedures the Board must follow in preparing, maintaining, reviewing and revising that statement, for the form of the statement and for the matters it must cover.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

- 3.1 None.

**4. Legislative Background**

- 4.1 This is the first use of the power under section 114 of the Act.
- 4.2 The Board will pay compensation to members of eligible occupational pension schemes where the sponsoring employer is insolvent and the scheme has insufficient assets to pay benefits at a level at least equal to the amount the Board will provide. Compensation will be paid out of the pension protection fund which is held and managed by the Board and which will consist primarily of income from a levy on eligible schemes and the assets of schemes that are transferred into the PPF.
- 4.3 From September 2005 the Board will also take on powers to pay compensation to pension schemes where the sponsoring employer is insolvent, the value of the schemes assets has been reduced and there are reasonable grounds for believing the reduction is attributable to an offence involving dishonesty.

Compensation will be paid out of the fraud compensation fund which is held and managed by the Board and which will consist primarily of income from a fraud compensation levy to be charged only when needed.

4.4 Section 113 of the Act enables the Board to invest the assets held in the pension protection and fraud compensation funds. Any income arising from each fund must be credited back to the appropriate fund and the Board must account for its investments. The Board is obliged by section 114 of the Act to produce a written statement of its investment principles. This instrument provides for the procedures the Board must follow in preparing and maintaining that statement, the intervals for review and if necessary revision of the statement, and for the form the statement must take and the matters it must cover.

4.5 These regulations are required from 6<sup>th</sup> April 2005 to ensure they will apply before the Board begins to exercise its power to invest in relation to the pension protection fund.

## 5. **Extent**

5.1 This instrument applies to all of the United Kingdom.

## 6. **European Convention on Human Rights**

6.1 Not applicable.

## 7. **Policy Background**

7.1 The Board has been given the power to invest its assets to provide further resources to fund pension compensation payments to members of schemes that have been transferred into the pension protection fund, and to fund fraud compensation payments. When exercising that power the Board must follow certain procedures. For example, the Board must appoint at least two fund managers and it must produce and maintain a statement of the principles that shall be applied to any investment decisions. The Board must also have regard to both the interests of current and potential beneficiaries of compensation and the interests of persons affected by the rate of the levies when making determinations on investments.

7.2 As an independent non-departmental public body at arm's length from Government, it will be for the Board to make its own decisions about investment of the funds it holds and the Board shall decide its own investment policy and principles.

7.3 This instrument provides for the procedures the Board must follow in producing and maintaining the statement of investment principles, such as the need to seek professional advice, the circumstances in which the

statement must be reviewed and that there should be intervals of no more than 12 months between each review process. It provides that certain matters must be addressed by the statement, for example the statement must cover the kinds of investments to be included in its investment strategy and the balance between them. However it is for the Board to decide on the kinds of investments in its strategy and what the balance between them should be. The instrument also provides for the form the document must take, which is to be in writing and in a form that can be made available to third parties on request.

7.4 There are similar existing requirements in pensions legislation that require trustees and managers of occupational and stakeholder pension schemes to maintain statements of investment principles.

7.5 A short informal consultation was conducted with regard to these Regulations with members of the Department's Private Pensions Joint Working Group. The responses that were received approved of the approach taken in the regulations in providing for the procedures the Board must follow in preparing, reviewing and revising the statement of investment principles but not prescribing what the Board's investment principles should be. No formal consultation has taken place since these Regulations are made within six months beginning with the coming into force of the provisions of the Act by virtue of which they are made, the requirement for the Secretary of State to consult does not apply.

## 8. **Impact**

8.1 These regulations do not impact on business, charities or voluntary bodies.

8.2 The impact on the public sector is negligible.

## 9. **Contact**

9.1 Cathy Twamley at the Department for Work and Pensions tel: 020 7962 8675 or email: [cathy.twamley@dw.p.gsi.gov.uk](mailto:cathy.twamley@dw.p.gsi.gov.uk) can answer any queries regarding this instrument.