17th October, 2022

DB Policy, The Scheme Funding Team
DWP Consultation Coordinator
4th Floor, Caxton House
Tothill Street
London. SW1H 9NA

Submitted by e-mail to private.pensionspublicconsultation@dwp.gov.uk

For the attention of: DWP's DB Scheme Funding Team

CFA UK response to the DWP regarding the open consultation on 'The draft Occupational Pension Schemes (Funding & Investment Strategy & Amendment) Regulations 2023

The CFA Society of the UK (CFA UK)[1] is pleased to respond to the DWP on the important topics of Funding and Investment Strategy raised in the above consultation. Please see Appendix II for detailed responses to the questions asked.

Our key observations are as follows:

- It is important that the right balance is struck between what is codified in regulation and what is codified in TPR guidance. Regulation should uphold core principles whilst guidance should cover matters where flexibility is required to manage individual scheme's varying circumstances. For example, CFA UK prefers to see the definition of when a DB scheme enters low dependency to be described in the code of practice rather than in regulation to provide greater flexibility to cope with different market conditions. Duration is sensitive to the interest rate environment and using it as the metric to determine low dependency means it changes with markets; introducing Weighted Average Life into the calculation would avoid this dynamic.

- How these new regulations are implemented will be key to avoid unintended consequences. For one thing, some of these proposed changes may necessitate a reasonably significant re-weighting of some scheme portfolios and we believe it would be wise to allow either a transition period for schemes to implement the final proposals or allow the TPR to tackle this point in their guidance. We also highlight the fact that de-risking of UK DB schemes to date has in practice resulted in pension schemes increasing holdings in:

    - **UK gilts and sterling corporate bonds**. The regulations and code of practice should make clear to schemes that a wider range of cashflow matching assets can be invested in to prevent further herding of pension money into UK gilts and sterling corporate bonds which could result in pension funds overpaying for these assets. We note that as at 31 March 2021, UK pension scheme liabilities of

[1] CFA UK's mission is to help build a better investor profession for the ultimate benefit of society. We refer you to Appendix 1 for a brief overview of both CFA UK and our umbrella organisation, CFA Institute.

£2.3 trillion (on a buyout basis)[2] exceeded the combined market capitalisations of the £1.6 trillion gilt[3] and £0.4 trillion[4] sterling corporate bond markets.

  - **Index-linked derivative LDI positions**. These have tripled in value to an estimated £1.5 trillion over the 10 years to 2020 and can lead to contingent exposures to margin and collateral calls as highlighted in recent market events. By increasing long-dated government index-linked gilt issuance the government would reduce the demand and the need for LDI solutions and the systemic risks created by these synthetic structures being so widely adopted.

- CFA UK suggests that the DWP might consider and consult on two further possible changes to these aspects of DB pension regulation:

  - The introduction of an absolute cap on the use of leverage in LDI derivative overlays, or more rigorous stress testing to interest rate and inflation shocks to ensure that schemes can meet potential collateral payments, particularly when pension schemes reach low dependency positions. Recent market developments have led to reports of how LDI leverage in schemes varied from 1x to as much as 7x.[5]

  - A prudent mechanism by which significantly over-funded schemes might be able to return contributions to their sponsor over a period of years. The current lack of such a mechanism may act as a disincentive for sponsors to fully cover their schemes liabilities due to the risk that significant over-contributions become, in practice, very hard to recover.

- To align with CFA Institute's Mercer Pension Index, the new regulations should reinforce the three overarching principles of Adequacy, Sustainability and Integrity. The proposed regulations rightly promote the adequate funding of DB benefits; at the same time this needs to be balanced with the requirement for funding costs for open schemes be set at a sustainable level, however.

In line with our Society's purpose, this letter aims to highlight relevant issues to help the investment community to serve its stakeholders well and to build a more sustainable future.

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[2] On an estimated full buyout basis as 31 March 2021, sourced from the PPF's Purple Book

[3] Excluding gilts held by the Bank of England's Asset Purchase Facility, as published in the DMO's quarterly reviews as at 31 March 2021

[4] Sourced from the iBoxx Sterling Corporates Index as at 31 March 2021

[5] FT Alphaville: The reason the BoE is buying long gilts: an LDI blow-up (28 September, 2022): https://www.ft.com/content/038b30c3-f550-4cc0-93ed-9154021d6ee2?emailId=63168383-82e1-445c-a703-03a79541e8bc&segmentId=269ab16c-599f-119f-3d76-260b55fc8e43

Should you have any questions or points of clarification regarding this letter or our responses to the questions, do not hesitate to contact us.

Yours sincerely,

Will Goodhart
Chief Executive
CFA Society of the UK

Andrew Burton
Professionalism Adviser
CFA Society of the UK

With thanks to contributions from:

Alistair Jones, IMC (Chair of the working group)
Alex Beecraft, CFA
Olivier Fines, CFA

and the oversight of the CFA UK Professionalism Steering Committee

APPENDIX I: About CFA UK and CFA Institute

CFA UK is a professional body representing close to 12,000 members across the UK's investment community and a proud member of CFA Institute's worldwide network of member societies. Many of our members work with pension funds, either managing investment portfolios, advising on investments, or as in-house employees responsible for pension investment oversight.

- The purpose of CFA UK is to educate, connect and inspire the investment community to build a sustainable future: we aim to meet the investment community's needs for skills and knowledge; bring the investment community together; help people build rewarding careers within an inclusive and diverse investment community and help the investment community serve its stakeholders well.
- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute and provides continuing education, advocacy, information and career support on behalf of its members.
- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.
- For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/.

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials.

- The organisation is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.
- It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.
- CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.
- For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAInstitute and on Facebook.com/CFA Institute.

APPENDIX II: Responses to questions

SCHEME MATURITY

Q1: Draft regulation 4(1)(b) provides that a scheme reaches significant maturity on the date it reaches the duration of liabilities in years specified by the Pensions Regulator's revised Defined Benefit Funding Code of Practice.

i) Do you think that it would be better for the duration of liabilities at which the scheme reaches significant maturity to be set out in the Regulations rather than the Code of Practice?

CFA UK believes that it would be preferable for the metric defining when a scheme reaches significant maturity to be set out where it can easily be changed in the future and consider this most likely to be in the Code of Practice. CFA UK recognises that duration is sensitive to market conditions in particular to the interest rate environment. When interest rates increase duration falls and when interest rates fall duration increases. Therefore, a pension scheme may come in and out of significant maturity through no change in the management of the scheme or its demographic experience, but due to changes in the interest rate environment over which it has no control. As the interest rate environment changes it would likely be helpful to have a mechanism to change the definition of significant maturity in the same way that the Bank of England, for example, sets interest rates in reaction to and in anticipation of relevant economic conditions.

ii) If you think that the point of significant maturity should be specified in Regulations, do you agree that a duration of 12 years is an appropriate duration at which schemes reach significant maturity?

A duration of 12 years may seem appropriate for this metric under current market conditions. However, pension scheme liability durations are sensitive to future inflation and interest rate expectations. These are usually related to interest rate conditions and future interest rate expectations observed in fixed income yields which move with economic conditions.

A metric such as the average Weighted Average Life ("WAL") of a pension scheme's liability cashflows for defining significant maturity would likely be a more stable metric as this would not vary with the interest rate environment. The WAL of a pension scheme's real liability cashflows would be more stable still as this would not vary with changes in interest rate or inflation expectations. Using WAL rather than modified duration, either completely or on a weighted basis alongside duration, in the calculation of this metric would helpfully reduce the volatility in this metric.

CFA UK believes that defining this metric in the Code of Practice, rather than in the Regulations, would allow it to be more easily changed should market conditions change.

LOW DEPENDENCY INVESTMENT ALLOCATION

Q2: Do you think that the definition of low dependency investment allocation provided by draft regulation 5 is appropriate and will it be effective?

CFA UK believes that the twin principles of matching asset and liability cashflows as well as values at the point of a scheme's significant maturity are good ones.

However, based on past experience, we are concerned about how these principles may be implemented in practice. Current practice in UK DB pensions is to value pension liabilities with reference to UK gilt yields (plus a prudent spread for future asset outperformance). As most UK DB pension schemes have matured, they have de-risked largely into UK gilts, sterling corporate bonds as well as synthetic fixed income positions such as swaps and gilt repos. We worry that further legislation driving DB schemes to invest in cashflow matching assets producing 'highly resilient' funding levels, in its simplest form, could encourage the further herding of DB schemes into: a) buying yet more UK gilts and sterling corporate bonds at expensive levels potentially distorting UK fixed income markets; and b) widely adopting further LDI structures in the absence of sufficient sterling denominated index-linked fixed income assets.

Given that DB pension liabilities amount to £2.3 trillion and the investable size of the UK gilt market is £1.6 trillion and sterling corporate bonds is £0.4 trillion, and index-linked issuance is perhaps less than a quarter of the combined issuance, it is impractical to encourage all DB schemes to hold solely these assets without seeing significant distortions in these markets. CFA UK also believe there is a strong case for the UK government to significantly increase the proportion of its gilt issuance that is index-linked. Both widening the addressable investment universe for low-dependency schemes and ensuring there is a relative growth in the proportion of index-linked gilt issuance would help reduce the demand for synthetic index-linked hedging and thus by extension the systemic risks of UK pension schemes' exposure to LDI.

Pension funds gain further UK interest rate and inflation-linked exposures by holding synthetic instruments. This practice has become common, partly because there is insufficient issuance of index-linked gilts for all DB pension funds to match their index-linked liabilities. It may also be efficient in terms of risk management for pension funds to hold synthetic instruments so that they can match their liability risks and still target growth asset returns to improve funding positions at the same time. As we have very recently seen, however, this practice increases the risks associated with having to meet collateral calls associated with the mark-to-market valuations of these derivatives positions. It requires affected pension funds to pay collateral away to cover the falling value of their LDI positions and this can result in a self-perpetuating cycle if gilts are continually sold to meet collateral payments. Recent market turmoil has evidenced the scale of this problem.

CFA UK prefers to see a wider definition in the Regulations and Code of Practice that would allow DB schemes to invest in a wider array of cashflow generative assets and inclusion of their yields in the definition of low dependency liabilities. This would allow a wider range of cashflow generative assets to be included in pension schemes' low dependency investment strategies in practice, such as infrastructure debt, property leaseholds, alternative credit, etc.

LOW DEPENDENCY FUNDING BASIS

Q3: Do you think that the definition of low dependency funding basis provided by draft regulation 6 is appropriate and will it be effective?

The UK pensions industry continues to debate whether liabilities valued on a gilts, gilts + 0.25% pa or gilts + 0.5% pa basis are sufficient as a low dependency valuation basis. However, this debate often ignores what yields are actually available in cashflow matching investments in prevailing market conditions.

CFA UK would prefer to define the low dependency funding basis with reference to the yields on a wider range of resilient cashflow matching asset markets are available to DB schemes. The investable universe of UK gilts and sterling corporate bonds is central but in practice insufficient to meet the cash-flow hedging needs of all UK DB schemes.

A well-governed independent industry committee or the TPR[6] could regularly review the yields on liability replicating assets and the specified low dependency funding basis in the Code of Practice to ensure that the basis is investable in practice for DB schemes. The basis would need to be specified to avoid the framework becoming circular, i.e. to avoid the situation where the yields and the cashflows on the assets and liabilities are always matched making the funding level resilient regardless of whether the assets invested in are risky or not.

In practice, as the strongest pension schemes have matured and de-risked, some schemes have added buffers to their targeted funding position. These are intended to help guard against demographic risks (e.g. longevity, ill-health, early retirement, etc.) moving against schemes that cannot be matched with investable assets, risks stemming from previously unrecognised liabilities (for instance, due to data quality issues) and to pre-fund running costs.

DWP should therefore consider whether a margin for prudence should be included in setting the low dependency funding basis (or, alternatively, requiring a funding level over 100% on this basis to be achieved).

[6] CFAUK's Pensions Expert panel also made the case for the establishment of an independent rate-setting panel in its response to the TPR's consultation on the DB Funding Code: CFA UK response to The Pension Regulator's ("TPR") Consultation on the DB Funding Code (September 2020): https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-the-pension-regulators-tpr-consultation-on-the-db-funding-code.pdf

STRENGTH OF THE EMPLOYER COVENANT

Q4:

- ***i)*** ***Do you agree with the way that the strength of employer covenant is defined?***
- ***ii)*** ***Are the matters which trustees or managers must take into account when assessing it, as provided by draft regulation 7, the right ones?***
- ***iii)*** ***Does draft regulation 7(4)(c) effectively capture the employer's broader business prospects?***

CFA UK welcomes the inclusion of requirements in respect of the sponsor covenant as the key determinant of scheme risk tolerance in the regulations and notes that the definition (and matters included) in the regulations are consistent with current market practice.

However, CFA UK suggests that all matters specifying how covenant should be considered should be a matter reserved only for the Code of Practice or regulatory guidance, noting:

- that market practice has evolved markedly over time,
- (ii) the risk of inconsistencies emerging between these regulations and the terms of Pension Schemes Act 2021 relation to TPR's Contribution Notice tests; and
- (iii) the continued development of new legal and financial instruments that purport to represent covenant.

RELEVANT DATE

Q5: Does it work in practice to set a minimum requirement for the relevant date to be no later than the end of the scheme year that the scheme is estimated to reach significant maturity?

No comment.

Q6: Does your scheme already have a long-term date and how is it calculated?

Not applicable to CFA UK.

Q7: Where the funding and investment strategy is being reviewed out of cycle with the actuarial valuation, would it be more helpful to require it to align with the most recent actuarial report?

No comment.

MINIMUM REQUIREMENTS ON AND AFTER THE RELEVANT DATE

Question 8: Do you think that these minimum requirements are sensible and will provide additional protection for the accrued pension rights of scheme members?

CFA UK believes that it is sensible for schemes still to be able to take some risk when at low dependency to help offset the potential detrimental effects of demographic risks materialising that cannot be matched by schemes' investments.

Question 9:

i. ***Should such limited additional risk at and after significant maturity be permitted, if supported by contingent assets? If so, to what percentage of total liabilities should this be limited?***

   We agree with the principle of permitting schemes to retain some limited additional risk after significant maturity. We note that the PRA does not operate a 'zero risk' regime; by extension, we think it reasonable for the TPR to operate similarly. Maintaining some risk is an important mitigant for unhedged risks as well as to cover running costs.

   We sympathise with the logic behind the desire for an underwrite from non-employer covenant support. However, we regard this as excessive for the vast majority of schemes where there are no specific concerns over sponsor longer-term solvency risk. Practically speaking, it is also a long time ahead for most schemes to be putting this in place now (and to be comfortable with their value).

ii. ***What additional risks to members' benefits might be posed as a result, and what safeguards should apply to protect members?***

   Please see our response to 8(i) above.

INVESTMENT RISKS ON JOURNEY PLAN

Q10: Do you think that the provisions of paragraph 4 of Schedule 1 will allow appropriate open schemes to continue to invest in growth assets as long as that risk is appropriately supported?

Paragraph 4 of schedule 1 should allow open schemes to continue to invest in growth assets if the definition of significant maturity is sufficiently tested and set to withstand different potential market environments.

An issue in recent years has been that, as open schemes have de-risked their investments, this has resulted in a lowering of liability discount rates and the cost of long-dated benefits continuing to accrue has become increasingly unaffordable. The definition of when a scheme enters low dependency should be tested to avoid open schemes being captured, their cost of benefit accrual increasing, forcing them to close to new entrants.

For instance, will an open scheme's duration still be above 12 years in a high interest rate environment such as in the 1970s to 1990s? Many remaining open DB schemes now have significant accrued liabilities, so it is possible that their durations could be under 12 years in these types of high interest rate environments. For this reason, CFA UK sees some merit in using the metric WAL, possibly on a weighted basis alongside modified duration, to reduce the overall sensitivity of the metric to change in interest rate conditions, especially for open schemes.

Open DB schemes will likely require strong sponsor covenants over the long term to be permitted to continue to invest in growth assets. On the other hand, if an open scheme sponsored by a company from a 'sunset' industry experiences a weakening of covenant, it will be more appropriate under the proposed regulations and code of conduct to ensure that the scheme de-risks.

RISK IN RELATION TO CALCULATION OF LIABILITIES ON JOURNEY PLAN

Q11: Do you think that the principles in paragraphs 4 and 5 of Schedule 1, requiring funding risks and investment risks to be linked primarily to the strength of the employer covenant, are sensible?

CFA UK supports the principle of linking funding and investment risks primarily to covenant strength (and, note, also linking it to time to significant maturity) from the TPR's guidance into legislation. This may help enable some DB schemes to appropriately de-risk; it could also motivate some open schemes who have a worsening sponsor covenant to de-risk out of growth assets.

LIQUIDITY

Q12: Do you think that the new liquidity principle set out in paragraph 6 of Schedule 1 is a sensible addition to the existing liquidity requirement of regulation 4(3) of the Occupational Pension Schemes (Investment) Regulations 2005?

Given that there is insufficient capacity from insurers to buy-out or buy-in the UK DB pension market over the next 10 to 20 years (at a current rate of £25-40bn a year) liquidity is not required by all UK DB schemes to fund these transactions. Also, given that the cashflows of UK DB schemes are long-dated (many schemes still have durations of 15-20 years) there is scope for UK pension funds to hold a mix of liquid assets to pay short-term and unexpected cashflows (including meeting collateral requirements to cover mark-to-market valuations for synthetic holdings) as well as less liquid assets to pay longer-term cashflows.

Therefore, care should be taken in the Code of Practice to allow pension schemes to hold assets with a range of liquidity. As outlined in our response to question 2, this would balance the fact that UK gilt and sterling corporate bond markets are insufficiently large in practice to allow all DB pension funds to only invest in more liquid cashflow matching assets, yet also allow pension schemes to hold sufficient liquid assets to meet short-term payment needs.

Q13: Will the matters and principles set out in Schedule 1 enable the scheme specific funding regime to continue to apply flexibly to the circumstances of different schemes and employers, including those schemes that remain open to new members?

The new DB funding code will likely have less flexibility than the current funding and investment regime. For instance, many UK DB pension schemes delineate between “growth” and “matching” asset allocations. Under the proposed regime, growth assets will likely need to evolve to become more cash-flow matching in nature. However, a reduction in investment flexibility is still most appropriate for pension schemes that are maturing; albeit in an environment where DC schemes are investing for more flexibility and longer-term growth returns.

Given that one of the aims of the new DB Funding Code is to allow pension schemes to take one of two approaches (‘Fast Track’ or ‘Bespoke’), those choosing Fast Track will not by definition have as much flexibility in the management of the pension scheme.

FUNDING & INVESTMENT STRATEGY – LEVEL OF DETAIL

Q14: Is the level of detail required for the funding and investment strategy by draft regulation 12 reasonable and proportionate?

It is entirely reasonable to expect the trustees of each DB scheme to have a plan as to how they (i) reach a low dependency position and (ii) will de-risk over time to increase resilience.

However, it is unreasonable in practice to expect all DB schemes to target transferring to a pensions buy-out provider or consolidator, given the historically small relative flows of the DB market to these providers.

As already mentioned above, we believe it is also unreasonable for all DB schemes to target low dependency, thereby investing in just liquid cash-flow matching UK gilt and sterling corporate bond markets, given the size of these markets relative to the size of UK DB schemes.

Therefore, we believe the most reasonable position across the industry in aggregate is for most trustees to have a plan to target a wider, more diversified range of cash-flow generative resilient assets when they reach a low dependency position.

Q15: Do you think the requirement for high level information on expected categories of investments will impact trustees' independence in making investment decisions in the interests of scheme members?

Having pre-agreed investment categories for schemes to de-risk into has the advantage of bringing more strategic certainty to future DB funding positions. A disadvantage may be that a de-risking scheme may overlook and miss out on rewarding investment opportunities if they are categorised as higher risk or not categorised at all.

DETERMINATION, REVISION & REVIEW OF FUNDING & INVESTMENT STRATEGY

Q16: Are the requirements and timescales for determining, reviewing and revising the funding and investment strategy in draft regulation 13 realistic?

Yes - when a pension scheme's trustees and sponsor are able to agree a suitable investment strategy.

We note that in practice many scheme actuaries take the full 15 months following an actuarial valuation date to finalise a formal actuarial valuation and submit it to the Pension Regulator and that investment strategy reviews then only occur after this process. Therefore, the drafting of the regulations should take care not to also require a formal investment strategy review within the same timescale. Instead, scheme trustees and professional advisers should be allowed enough flexibility to be able to undertake investment strategy reviews in the timescale after actuarial valuations that works best for them in practice.

We also note that it is proposed that pension scheme trustees be required in the new regulations "to agree" a scheme's investment strategy with its sponsor which is a change from the previous regulations which required trustees only "to consult" the employer. We are given to understand that it was not the intention of the new regulations to change the balance of power between trustees and sponsor. We therefore recommend that the regulations only require trustees to consult the employer, as before, so that trustees can still implement an investment strategy in the event that it is not possible to come to an agreement with the employer.

STATEMENT OF INVESTMENT STRATEGY

Q17: Are there any other assessments or explanations that trustees should evidence in Part 2 of the statement of strategy?

The statement of strategy is required to detail the steps that trustees and managers should take if downside risk events materialise. If schemes are running prudent levels of investment risk relative to their covenant strength and maturity, then it remains logical for schemes to still maintain their long-term investment strategies and readjust them following the next actuarial valuation.

REQUIREMENTS FOR CHAIR OF TRUSTEES

Q18: Do you agree that these are the appropriate requirements for the scheme trustee board when appointing a chair? Are there any other conditions that should be applied?

CFA UK agrees that these are appropriate requirements.

ACTUARIAL VALUATIONS & REPORTS

Q19: We would like to know if you think these requirements will work in practice?

CFA UK agrees that these requirements are likely to work in practice.

RECOVERY PLAN

Q20: Do you consider that the matters prescribed by regulation 8(2) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005 remain relevant for trustees or managers to take account of when determining or revising recovery plans? If so, why and how are they relevant to the setting of appropriate recovery plans?

The setting of the timeframes for recovery plans is typically driven by two factors:

- when the scheme needs additional funding (based on its current assets, risks and expected cash flows); and
- over what timeframe trustees are sufficiently comfortable that an employer will be able to make these contributions.

While the relative immaturity of most schemes means that the second factor has typically been most important, the maturation of the schemes means that the factors in regulation 8(2) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005 are becoming increasingly relevant in some circumstances. As such, we believe they should be retained.

Q21: Do you consider that the new affordability principle at draft regulation 20(8) should have primacy over the existing matters, if they do remain relevant?

While CFA UK agrees that the new affordability principle is relevant, it disagrees it should be of primary importance for three reasons:

- Firstly, triennial valuations of DB schemes represent an asymmetric marking-to-market of a complex and volatile financial instrument (often compared to a put option in favour of the scheme). The valuation of this instrument is the result of professional judgment and negotiation. As a result, deficits have historically been volatile. While sponsors are obliged to provide more funding to schemes in deficit, they are not able to easily obtain a refund from schemes in surplus. This is an area where DWP should consider further regulation to make it easier for trustees of ongoing schemes to return a surplus to the sponsor where its promised benefits are highly likely to be met from remaining assets, with appropriate margin for prudence. In the absence of such arrangements, codifying a more aggressive marking-to-market in regulation would further this imbalance. It is not clear to CFA UK that this would be consistent with policy objectives.
- Secondly, giving primacy to the affordability principle heightens the risk of overfunding DB schemes. Currently, one of the main protections against overfunding is to allow for recovery plans that last more than one valuation cycle, such that some excess funding can be waived at the next if it is not required. As funding regulation already requires prudence to be embedded in the agreement of technical provisions, requiring this prudence to be funded quickly risks overfunding schemes. As above, CFA UK does not believe this to be the policy intent, noting the rapid in reduction in deficits experienced by some schemes due to recent and ongoing market movements.
- Finally, CFA UK notes this change would deepen the conflict for the TPR between its statutory objectives of (i) protecting member benefits of occupational pension schemes whilst (ii) minimising any adverse impact on the sustainable growth of an employer.

Therefore, CFA UK does not support giving primacy to the affordability principle but does agree that it should be included alongside other relevant factors.

CFA Society United Kingdom

MULTI EMPLOYER SCHEMES

Q22: Will the requirements in draft regulations 20(9) work in practice for all multi-employer pension schemes?

This question is assumed to refer to sectionalised multi-employer schemes rather than those more common schemes that simply have a number of employers.

For non-sectionalised schemes, CFA UK does not see the rationale for separate strategies for each employer: CFA UK notes that DWP regulations on the 'Governance and reporting of climate change risk' included scope for sections with similar 'funding arrangements' to be treated as one. CFA UK suggests DWP consider including equivalent terms to reduce the administrative burden of the new requirements on multi-section schemes.

BUSINESS BURDENS & REGULATORY IMPACTS

Q23: Do you agree with the information presented in the impact assessment for the funding and investment strategy?

No comment.

Q24: Do you expect the level of detail required for the funding and investment strategy to increase administrative burdens significantly?

No comment.

Q25: Do you agree with information presented in the impact assessment for the statement of strategy, referenced in paragraph 6.1?

No comment.