

Dear Sirs

I refer to the consultation document issued in November 2015.

My comments on the questions on behalf of the London Borough of Harrow Pension Fund are as follows:

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?

We believe that the proposed deregulation does broadly achieve the intended policy of removing unnecessary regulation but DCLG should consider whether they can provide further clarity on "proper advice."

2. Are there any specific issues that should be reinstated? Please explain why.

No

3. Is six months the appropriate period for the transitional arrangements to remain in place?

We would prefer a twelve months' period since it would allow us to benefit from the triennial valuation when producing our first Investment Strategy Statement.

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

We do not believe that such regulation would be appropriate since, for example, it could impede efficient portfolio management and would cause problems with liability driven investments.

We also feel that the regulations should specify that derivatives and other complex financial products should only be used where pension committee members have received appropriate technical training to be able to understand the derivative product and have taken independent expert advice.

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

The draft regulations are very widely drawn and would probably be sufficient. However, if DCLG wish to give examples of sources of evidence something along the following lines might be helpful:

- *Adverse auditor's report*
- *Adverse report from Pensions Regulator*
- *Adverse report by actuary*
- *Adverse reports from Pensions Ombudsman or exceptionally high number of cases where the fund has failed to provide a proper service*
- *Critical report from local Pension Board*
- *Evidence that the pension committee members and supporting officers and advisors do not have the relevant skills and knowledge*
- *Substantially poorer returns relative to other funds over a rolling three years period*
- *Employer contributions substantial higher than other funds without good reason*
- *Proven complaints from whistle blowers*

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

Since no timetable is given this question is difficult to answer. However, Harrow would comply with any reasonable requirements.

7. 7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

This is for the Secretary of State to decide but he should consider the role that expert and independent support could play in determining what a proportionate intervention might be.

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

This is for the Secretary of State to decide.

Whilst it is not specifically part of this consultation we are concerned as to any movement to impose a particular investment strategy, specifically infrastructure, onto LGPS funds. We would comment as follows:

- Infrastructure investments are very varied in nature and therefore having to target a certain percentage of the fund on them is quite inappropriate. For example, sizeable exposure to **equity** infrastructure would be unsuitable for a pension fund.
- Being forced into infrastructure regardless of the price / valuation of the investment cannot be appropriate

Regards

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