

22 December 2009

Direct Line 01273 648488

Rt Hon Frank Field MP
House of Commons
London
SW1A 0AA

Dear Mr Field

Stock lending of pension fund assets

Further to our previous letter of the 27 August, I am writing to update you on the regulator's progress in looking into the concerns you raised over the risks to the security of pension fund assets from stock lending.

Since we wrote to you, we have undertaken some further work to analyse the risks to pension schemes from the practice of stock lending. At the same time, our latest annual governance survey has identified a lack of confidence among many trustees that they have appropriate controls in place to mitigate the risk of investing inappropriately.

On the basis of our analysis, we believe that there is a need to focus trustees' attention to the practice, to help them to consider the risks involved and whether it is appropriate for their schemes, and if so whether they are getting a fair deal. To that end we intend to send an email out to trustees and others involved in managing pensions schemes in January 2010. This message will also be posted on our website.

I attach a copy of our proposed statement for information, which provides some practical help for trustees in the form of questions to consider and address with their fund managers to ensure they have the appropriate awareness of stock lending practices and can manage the risks involved.

This message forms part of a wider campaign to promote good governance which we launched in November, and which has already included a number of steps relevant to improving investment governance more broadly – notably a revised Code of Practice on Trustee Knowledge and Understanding, and revised guidance on Internal Controls, aimed especially at smaller schemes.

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As you may be aware, the FSA has been reviewing the governance and risk management of stock lending in the market. We very much welcome this work and will continue to work with the FSA and market participants as necessary to help develop thinking in this area.

We would welcome another meeting with you in the New Year to discuss this matter in more detail. With this in mind I will contact your office shortly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bill Galvin', with a stylized, cursive script.

Bill Galvin

Strategic Development Executive Director

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