

Lord Browne-Wilkinson
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20 July 2005

Dear Lord Browne - Wilkinson,

Thank you for your letter dated 5th July.

We are currently working on the second edition of our guidance but it is now unlikely to be published before the end of August. I am however happy for you to publish both this letter and my earlier response to you on your website.

You have asked if the circumstances in question, where security has been taken over shares but control has not vested or has vested but not been exercised, can be automatically cleared. In our view they are already treated as such provided that the taking of security does not coincide with a Type A event.

We have determined Type A events to be a change in priority, a reduction in capital or a change in control structure. A change in the control structure is a change or partial change in the control group structure of an employer which reduces the overall employer covenant and could affect the ability of an employer to meet a potential section 75 debt. A decision by a controlling company to relinquish control of the employer company is a notifiable event under section 69 of the Pensions Act 2004.

Of course, if control vests and a decision is made to undertake an act that is a Type A event, clearance should be sought for that act.

In our view, it is the act that requires clearance rather than the vesting of control. We do not believe that a lender who is considering taking steps to exercise actual control should apply for clearance unless they are also contemplating a Type A event.

We are certainly happy to make clear in the guidance our view on these types of events and to share that guidance with you for your comments before it is published.

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The team dealing with clearance is happy to meet you and your colleagues to take this forward. Can I suggest you contact Louise Inward to arrange an appropriate date? We share your desire to ensure that there is clarity for lenders about the risks and have ourselves met many of the banks individually and also the London Investment Bankers Association to debate the issues with them and provide clarity.

Yours sincerely
David Norgrove

David Norgrove

Chair

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