APPENDIX 2

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Dear Margaret

Consultation on the LGPS investment regulations

Thank you for your letter of 6 February 2009 regarding the draft regulations and, as requested, we would make the following comments.

Separate bank account for the pension fund - regulation 6

This appears to be in the spirit of UK or EU pensions legislation and would address concerns raised by some auditors that the lack of separation of bank accounts raises issues of transparency of pension fund operations. We are happy to support the inclusion of this new regulation.

With regard to the implementation timescales, the Fund is generally compliant with this requirement and would support an early deadline.

Temporary borrowing power- regulation 15

We support the limited scope this regulation which will usefully clarify an area where interpretation of the existing regulations has differed considerably.

Statement of Investment Principles (SIP) : stock lending - regulation 11(2)(h)

In the interests of greater transparency, we support the extension of the SIP to include a requirement for funds to make a statement on their securities lending policy and do not believe that compliance with this will prove onerous.

Stocklending – References to COLL - regulation 3(8) & 3(9)

Merseyside Pension Fund supports the adaptation of COLL chapter 5.4 to the LGPS context. However, we do not entirely agree that reg 3(8) does not need to include reference to COLL 5.4.8G. Although this is only guidance, there has been some considerable doubt among parties - including auditors, regulators and practitioners - as to how cash collateral may be reinvested. The introduction of the guidance in

5.4.8(G) was made by the FSA after collaboration with industry participants. Prior to this there was no guidance in CIS as to how cash could be invested. It was therefore considered beneficial to have some opinion on this subject and the best reference was to follow the approved collateral items. If this reference were to be omitted and cash collateral be permitted, then alternative guidance should be provided.

The Fund would also recommend that regulation 3(8) is not modified. Although it would not benefit at present, the Fund sees no reason for DCLG to retain the exclusion of certain USA broker-dealers and banks as other corporate pension schemes do not have this restriction.

The SIP and risk - regulation 11(2)(c)

In the interests of greater transparency, we support this proposal.

Reference to overriding regulations concerning employer-related investments - regulation 13(1)

This addition to the regulations will bring some useful clarity to this area of investment activity and we would support its inclusion.

Use of Fund Money by the Administering Authority - Revocation of existing regulations 3(4) and 12

We note the intention to revoke the regulations which permit the pension fund to extend loans to the administering authority. This is entirely consistent with the proposal to bring the LGPS regulations into line with the OPSIR on the matter of employer-related investment and is necessary to ensure that no conflicts arise with the OPSIR provisions. We therefore support the revocation of these regulations.

OTHER FUTURE DEVELOPMENTS - Conflicts of Interest

Although the dynamics within the LGPS differ from corporate pension schemes, best practice guidance on managing this aspect of corpoarte governance would be welcomed.

OTHER FUTURE DEVELOPMENTS – Duty of care, governance

We would support the adoption of this definition as a replacement to the existing provisions of Regulation 3, as proposed by the CPIFA Pensions Panel.

Yours sincerely

Head of Pension Fund