

11 November 2014

Rt. Hon. George Osborne MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London SW1A 2HQ

Dear Chancellor

REPRESENTATIONS FOR AUTUMN STATEMENT 2014

The Investment Management Association¹ is grateful for the Government's continued support for the investment management industry and recognises the significant progress which has been made in enhancing the UK's competitive position since introduction of the Investment Management Strategy in 2013.

The IMA is committed to working with the Government to help further its aims to ensure that the UK has the most competitive investment environment and in making the UK the fund domicile of choice for UK and European fund managers. In this regard in recent months we have been in discussions with your officials in relation to a series of particular proposals which we think would further advance the UK's competitiveness in attracting foreign investment, as a business and fund domicile, and to protect and enhance the UK environment for long term savings and investment. These are:

1. Attracting foreign investment - *Withholding tax exemption on private placements*

The UK private placement market is often described as underdeveloped. There have been a number of initiatives since 2012 that aimed to encourage the development of the market for private placements, including the Breedon review published in March 2012, the follow up work of the PP15+ working group led by the ACT and the ICMA cross-industry initiative on European Private Placements.

As stated by HMT in its own response to the EC green paper on long-term financing of the European Economy, the development of private placements, both nationally and across Europe, is a top priority as they can offer an alternative to bank lending and public bond issuance and potentially broaden the availability of finance for issuers and investors.

¹ IMA represents the asset management industry operating in the UK. Our Members include independent investment managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of over £5 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles.

One obstacle to the establishment of an effective UK and European private placement market is the imposition of withholding tax on interest. Withholding tax is a particularly significant barrier to infrastructure private placements:

- Infrastructure funds offer one of the most effective ways for investors to gain access to infrastructure investments because of the complexity of the assets and transactions.
- However, for fund managers running infrastructure funds, withholding tax adds significant further complexity as they may have to assist their investors to arrange treaty claims in a wide range of jurisdictions.
- The alternative to obtaining treaty clearances involves issuers withholding tax which can then be reclaimed by eligible investors, resulting in a purely administrative and avoidable payment and repayment of tax.
- As a result there is incentive for companies issuing infrastructure debt to list and benefit from the quoted Eurobond exemption.
- However, listing debt that is lower than benchmark sized issues or for more complex credit structures may well introduce frictional costs and administrative burdens, increasing the overall cost to the issuers.

The IMA urges the Government to consider introducing a withholding tax exemption for privately placed debt. This would:

- ensure that SMEs and infrastructure projects get the funding necessary to sustain long term economic growth;
- offer a stable long-term funding alternative to issuers and reduce their dependency on the banking system, in turn contribute to the financial stability of the UK and European financial system;
- free up bank financing for alternative uses that cannot be accommodated by other public markets; and
- replace bank's leverage and maturity mismatch between its assets and liabilities with unlevered institutional investors that can match their longer-term liabilities with the longer term borrowing needs of issuers.

2. Making the UK the most competitive funds domicile

Introduction of an SDLT relief for seeding property funds

The UK's Property Authorised Investment Fund (PAIF) and Authorised Contractual Scheme (ACS) are potentially excellent vehicles for pooling investment into UK property. However the launch of UK property funds and subsequent growth of the property fund industry is being hindered because SDLT applies when property is seeded into new funds, as well as the initial purchase of property. We have strongly supported the Government's proposals to introduce an Stamp Duty Land Tax (SDLT) seeding relief in our response to the HMRC consultation of July 2014.

An SDLT seeding relief will increase the attractiveness of the UK as a domicile for property funds. We understand that a number of UK life companies and managers of offshore funds have an interest in transferring existing UK property holdings into a PAIF or an ACS. A SDLT seeding relief will remove the barrier that currently deters them from doing so.

Building on the unique strength in the UK's network of Double Tax Treaties

A key factor for encouraging the use of UK funds over offshore equivalents is the benefits that UK funds provide to their investors through the UK's network of double tax treaties.

Unfortunately, in recent years, treaty partner tax administrations have regularly put up obstacles to UK funds obtaining the treaty benefits to which they are entitled. These obstacles could be avoided by adopting the OECD's proposals on Treaty Relief and Compliance Enhancement – TRACE – which provides a framework for the simple administration of treaty benefits.

We have been strong supporters of the UK's lead role in discussions at the OECD on Automatic Exchange of Information (AEOI), which builds on the OECD's previous work on the TRACE project and incorporates many elements relevant to TRACE. The implementation of AEOI presents an urgent and unique opportunity for governments also to adopt TRACE and thereby address the difficulties for investors in funds in obtaining treaty benefits.

We believe that transparency of taxpayer information should serve not only governments' aim of combating tax evasion, but also the interests of savers and investors to be able to access the treaty benefits to which they are entitled.

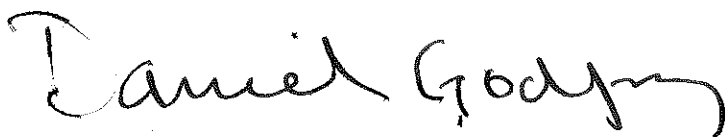
3. Providing a sustainable environment for long-term savings and retirement provision

The encouragement of pension savings by UK citizens should be a key policy goal. The Budget 2014 announcement on new flexibilities for DC pensions, together with rising longevity and the on-going shift from DB to DC pensions a broader demographic shift underway in the UK and elsewhere around the world in Europe means that a significant amount of responsibility is placed on individuals for securing their economic well-being in retirement.

The debate over the taxation of pensions is now driven largely by wider concerns about distribution and social justice rather than what constitutes an optimal regime of tax for pensions. The result has been that the current regime for the taxation of pensions has been subject to too many piecemeal changes in recent years, distorting savings incentives for some groups and imposing complicated change upon the pensions industry., and yet the debate over taxation of pensions is also now subject to a range of concerns about distribution and social justice.

The industry recognises that fundamental reform may be needed to support savings policy and provide a greater incentive to save to those that have either no savings, or insufficient savings to meet their financial aspirations. However, this should be done in a way that contemplates the pensions tax system in the round, free from wider debates about distributional equity. We therefore call for an independent commission to be appointed to review evidence on and options for change.

As ever, we would welcome the opportunity to discuss further any of these matters with your officials.



Daniel Godfrey
Chief Executive