31 October 2014

Lord Smith of Kelvin
By email: secretariat@smith-commission.scot

Dear Lord Smith

IMA represents the asset management industry operating in the UK. Our members include independent fund 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 around £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.

Investment management in Scotland

Investments managed in Scotland represent a significant proportion of the total investment management industry in the UK. Our latest estimates place this at around 11%, or £560 billion.

Scottish headquartered firms manage just over a quarter (26% at June 2013) of the total investments managed by UK-headquartered firms. This higher figure, equating to £571 billion, is explained by the fact that the location of company headquarters and the location of asset managers is often not the same, and Scottish firms undertake asset management in the City of London just as London-based investment houses manage part of their client assets in Scotland.

Principles on devolution

IMA does not oppose further devolution. We believe that an agreement on the devolution of powers should observe key high-level principles that are fundamental to the future success of the Financial Services sector in Scotland and the UK as a whole.

1. **Further devolution measures should not undermine the UK single market for financial products and services**

The main UK political parties recognise the need to retain a single market across the UK for financial services. We believe that devolution of powers should not

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inadvertently fracture crucial elements, such as the regulatory regime, or specific elements of the tax regime for savings and financial products.

We believe that the continuation of a single market for savings and investments is of paramount importance to the UK investment management industry and its customers. Scottish consumers benefit enormously from the benefits associated with a single market, ensuring access to the full range of savings and investments products in the UK and associated competitive pricing.

2. The taxation regime for investments and savings should be the same wherever you live in the UK

We regard the tax regime for savings and investment as key to the preservation of the single market. Divergence in tax will inevitably lead to increased costs for customers of financial products. We recommend that devolution of tax powers should not include powers in respect of taxation of savings and investments.

a. Corporation tax and taxation of UK funds

Investment funds are an integral part of the UK single market for financial products and services. Accordingly, the UK tax regime as it applies to UK funds should be viewed as part of the tax regime for savings and investments more generally and remain within the reserved powers remit. We believe that devolution of powers impacting the tax treatment of funds would be disadvantageous to consumers as it creates the risk of differentiation and thus distortion of the wider UK savings market.

The tax treatment of UK funds is underpinned by the UK Corporation Tax regime, which has become increasingly and intentionally interwoven with the UK's network of double tax treaties and with relevant regulatory measures such as UCITS to facilitate a competitive product for investors. We do not believe that creating the ability to unpick aspects of the regime will be beneficial to investors and on this basis alone Corporation Tax should not be regarded as a suitable candidate for devolution.

Similarly a key element of the taxation of investments in funds is the application of consistent savings rates of taxation to returns. Potential variations in the savings rate between different parts of the UK would create additional administrative costs (eg. in relation to the collection of income tax on distributions made by bond funds) which may be at a level that could discourage some providers from making their funds available to Scottish investors.

Lastly we would highlight the importance of retaining stamp tax at a fund level as a reserved area and urge caution around devolving the ability to originate new, similar taxes. The recently abolished 'Schedule 19' stamp duty charge that was applicable to UK funds illustrates the extent to which a relative low-yielding tax can be perceived as a disincentive in a global market place. Any similar UK taxes, at a country level, could be expected to have a similarly distortive effect in the UK market.

b. Other taxes

Notwithstanding that UK funds are not themselves subject to capital gains tax or inheritance tax, careful attention should also be given to any proposal of devolving powers in relation to either of these taxes given the central role that they play in the overall tax regime applied to savings and investments. Similarly measures that may create distortions with regard to the various product wrappers, such as ISAs or pensions, are likely to have a knock-on impact on funds and UK investment management businesses.

c. Attribution powers

There is nothing wrong in principle with the devolution of more responsibility for collecting tax receipts or having them directly attributed. In reality, HMRC may still collect on behalf of devolved governments and so the process for the taxpayer may not be much changed. However, what would give rise to greater concern would be the extent to which employers or financial product providers would be expected to "police" the system either in terms of allocating tax receipts or collections on behalf of tax authorities or identifying the tax residence of employees and customers and reporting on this. Again, any proposal should be considered in the context of the overarching principles outlined above.

3. Any proposed change must be made with the long-term stability of the UK financial services market as paramount and should include how it can stimulate economic growth and jobs in Scotland and across the UK

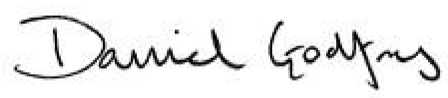
Our members strongly support the current financial services regulatory framework covering the UK as a whole. For Scottish financial services firms, this approach delivers the same outcomes for investors wherever they live in the UK. Had Scotland voted for Independence, the consequent need to set up new financial services regulators in Scotland would have led to higher costs, complexity and potentially different outcomes for investors depending solely upon where they lived.

4. The potential cost to the UK investment management industry of any devolution proposal should be considered, consulted on and minimised as far as possible

5. Keeping to the agreed timetable is key to removing the uncertainties that still exist surrounding the further devolvement of powers

We are sure you are fully aware of the implications of not meeting public expectations on timing and the importance of the process itself. Any further devolution proposal needs to be considered as part of the big picture, rather than as individual components, to avoid unintended consequences.

We are grateful for the opportunity to contribute the views of our members to this important and historic work and my team is available to discuss any of the points above or other matters.



Daniel Godfrey
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