Investment Management Association

Simon Turner
Specialist Personal Tax
Savings Scheme Office S0708
PO Box 201
Bootle
L69 9AJ

By email to: simon.turner@hmrc.gsi.gov.uk

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Dear Mr Turner

Consultation on draft ISA and CTF amending regulations

The Investment Management Association (IMA) represents the asset management industry operating in the UK. Our members include independent asset 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 £5trn 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. Our members manage £73bn in ISA accounts (as at 5 April 2014).

We welcome the opportunity to respond to the draft regulations on changes to the Child Trust Fund (CTF) and Junior ISA (JISA) rules. The IMA supports the changes to allow CTFs to be moved into JISAs. This is increasingly important as CTFs are now closed to new accounts, and as such are increasingly becoming uneconomic to administer and therefore more costly for providers and more importantly the account holders. It is therefore likely to be in the interests of CTF account holders to be able to move these to JISAs, which offer significantly more choice and usually more competitively priced products.

The IMA is therefore broadly supportive of the changes to the rules proposed by the government. We would, however, strongly request the Government also consider the following changes to the CTF and JISA rules:

65 Kingsway London WC2B 6TD
Tel:+44(0)20 7831 0898 Fax:+44(0)20 7831 9975
www.investmentuk.org

Removing the lifestyling requirement for Stakeholder CTF accounts

We welcome the decision by the Government to change the requirement for lifestyling of stakeholder CTFs so that this will apply from the account holder's 15th birthday rather than their 13th birthday. However, this feature remains a significant potential administrative burden for CTF providers, particularly as many stakeholder CTFs have relatively small amounts invested, where in many cases only the £250 voucher given by the then Government to each child was invested, particularly as the stakeholder CTF was the default option for any child whose voucher remained unclaimed. Given that CTFs can now be changed into an ISA when the CTF account holder turns 18, it is questionable as to whether this lifestyling feature is even relevant.

We would therefore request that the government considers allowing providers to remove this feature on giving a suitable period of notice to CTF account holders or their registered contacts, and provided the stakeholder CTF account holders are offered a free transfer out to another stakeholder CTF. We note that the government intends to consult on the lifestyling feature of stakeholder CTFs during 2015, and we would urge the government to include the removal of this feature as an option in the consultation.

Enabling the bulk transfers of CTF accounts into JISA accounts

While we welcome the relaxation of requirements on CTF providers or JISA managers receiving bulk transfers, we note that bulk transfers from CTF accounts to JISA accounts will not be permitted. We would urge the government to allow CTF providers to arrange bulk transfers from CTF accounts to JISA accounts, to allow providers to rationalise their product ranges for children. As mentioned, CTFs accounts are increasingly becoming uneconomic for CTF providers to administer, and there is little incentive for a CTF provider to offer a competitive product as there is a limited market for these. As such, CTF accounts are likely to become more costly relative to JISA equivalents. Allowing CTF providers to merge CTF accounts into their JISA products would potentially enable providers to administer these accounts more efficiently and cost effectively, as well as allowing CTF account holders access to the more competitive and cost effective JISA products.

Management of CTF accounts after the account holder's 16th birthday

We welcome changes that will allow an existing registered contact to continue to manage and give instructions on a CTF after the account holder turns 16, unless the account holder in question chooses to assume management of their own account. This change will give more discretion to CTF account holders on how their accounts should be managed, ensuring the accounts of CTF account holders who have no interest in managing their accounts can continue to be managed by the existing registered contact. We do, however, believe the decision on who should manage the account should rest with the CTF account holder, so in the event there is a disagreement between the CTF account holder and the existing registered contact as to who should manage the account after the CTF account holder turns 16, the direction of the CTF account holder should prevail. We believe this is the intention of the rule changes, but it would be helpful for this point to be clarified in the Guidance issued by HMRC to ISA Managers and CTF Providers.

If you would like to discuss the points raised in this letter in more detail, please contact Peter Capper (Peter.Capper@investmentuk.org).

Yours faithfully

Peter Capper
Adviser, Product Regulation
Investment Management Association