Investment Management Association

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The latest from the fund management industry

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Consistency and cohesion essential for long term savings and pensions

IMA's Chief Executive, Richard Saunders, has urged the Government to provide a more consistent and cohesive approach to long-term savings to tackle the savings gap.

The comments were made in response to a speech by the Prime Minister at an IMA sponsored event. Mr Blair called for an end to the "regular upheaval" of the pensions system and stated, "it is essential we move ahead by consensus".

Responding to the speech Mr Saunders said: "What the financial services industry needs above all is consistency in government policy to allow us to plan for the long-term. The Prime Minister's emphasis on consensus is therefore welcome. Such a consensus is emerging around the need to reduce means testing and provide suitable incentives for saving."

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Richard Saunders - *Chief Executive of the IMA*

The Prime Minister's speech, delivered at an IPPR and Demos event in London on 11th October, came a day before Adair Turner's Independent Pensions Commission published its interim report.

IMA argues that long-term saving can be encouraged by a combination of simple products and attractive incentives. On the product side, Saunders says: "For too long there has been a myth that saving for retirement is a form of insurance. In many ways, simple and transparent investment funds are at least as good a vehicle as life insurance products."

Abbie Trayler-Smith/The Daily Telegraph

Blair calls for an end to the regular upheaval of the pensions system

IMA has strongly supported the Government's recent reforms to simplify pensions taxation. It believes that the principle can be developed by adopting simplified and streamlined tax structures elsewhere, with appropriate incentives to encourage people to save. IMA's proposals, outlined in its recent publication 'Investing in Savers', provide a framework within which these could be developed. A copy of 'Investing in Savers' can be found at **www.investmentuk.org**

New Forum aims to help industry better serve its customers

The Investment Management Association (IMA) and Association of British Insurers (ABI) have joined forces to take forward the idea of a Financial Services Forum, as recommended by the Treasury Select Committee in its inquiry into "Restoring Confidence in Long-term Savings."

Lindsay Tomlinson, Chairman of IMA, and Richard Harvey, Chairman of the ABI, wrote to interested parties to invite them to a meeting to discuss how best to implement the Committee's recommendation for such a Forum.

John McFall MP, Chair of the Treasury Select Committee, will chair the initial meetings and as his Committee suggested the key focus would be on how the financial services industry could better serve its customers. One of the early tasks will be to identify a Chairman for the longer term.

Richard Saunders, Chief Executive of IMA said, "We accept the Committee's view that there is a need for a mechanism which will better identify current and emerging issues which may affect consumer confidence in the financial services industry. We hope this initiative will be a first step towards that."

Events Notice

A date for your diary

IMA will be hosting its Annual Conference on

Thursday 16 June 2005 at the Marriott Hotel, Grosvenor Square, London, W1.

More information will be available in the next edition of imag.

Pre Budget Report offers lifeline for ISA limits

"We welcome the Government's recognition of the importance of ISAs as a key vehicle for investors and by making this announcement they have sent out a clear message to encourage people to save."

Richard Saunders - *Chief Executive of the IMA*

IMA has welcomed the Chancellor's announcement in his Pre-Budget Report (PBR) that a consultation is to be held on whether the current ISA limits should remain until 2009.

Following the disappointing move by the Government not to reinstate the 10% dividend tax credit on equity ISAs, IMA had placed retention of the ISA limits at the top of its PBR Representations.

Commenting on the news Richard Saunders, IMA's Chief Executive, said: "We welcome the Government's recognition of the importance of ISAs as a key vehicle for investors and by making this announcement they have sent out a clear message to encourage people to save."

But the future of ISAs is still uncertain as their shelf life is due to expire in 2009. Richard Saunders continued: "We would further urge the Government to commit to retaining the ISA beyond 2009 and to ensuring that it contains significant incentives for savers."

In its PBR Representations the IMA requested the Government opened the debate on tax simplification, and more broadly savings incentives, in order to address the long-term savings problem. The Government stated it "continues to examine the scope for simplifying and modernising the taxation of pooled investment schemes and it welcomes and invites a more strategic approach from the industry on whether radical reform similar to that under way for pensions is viable."

Also announced in the PBR was the Government's intention to introduce a measure that would apply the taxation arrangements for Authorised Investment Funds (Unit Trusts and OEICs) only to those funds where each investor holds less than 10% of the fund. The IMA has real concerns with this proposal and Julie Patterson, Director of Regulation, Operations and Taxation, said: " The wording appears to suggest that tax certainty for investors in all types of authorised investment funds is at risk. If this is the case it could be detrimental to individual investors and would encourage sophisticated investors to go offshore."

As imag goes to press, IMA is in discussions with the Treasury about this measure.

IMA was disappointed the Chancellor chose to delay introducing a workable Real Estate Investment Trust structure for the UK by not legislating in 2005. The property investment market is one in which the tax regime creates unnecessary and adverse distortions in investor choice. IMA proposed that a workable, effective and attractive regime could be both simply constructed and quickly introduced, although it warned against the dangers of over-engineering the regime or of failing to take proper account of other investment options.

In its submission to the Chancellor prior to the PBR, IMA made a series of proposals, including:

- Certainty of tax treatment for authorised investment funds. IMA called for clarity in legislation to ensure that funds are treated as "investing", exempting them from paying capital gains tax. Treating them as "trading" would reduce their attractiveness as capital gains tax would be payable at fund level.
- Removal of corporation tax on regulated property funds. This prevents charities and pension funds from taking advantage of property investment funds as they are not able to reclaim the corporation tax paid in the fund at a rate of 20%. IMA proposed to tax the fund at the point of distribution, similar to the treatment of bond funds.
- Permitting property investment funds to be eligible investments inside the ISA wrapper.
- To exempt charities and pension funds from paying stamp duty on acquisitions and dealings in authorised investment funds.

A full copy of IMA's PBR Representations can be found at **www.investmentuk.org**

A fresh approach for long term saving

Proposals for a simplified savings tax to boost long-term savings have been launched by IMA.

"Investing in Savers: A Fresh Approach", published in September and launched at a Westminster reception, calls for the Government to replace the five existing and two potential new tax regimes and rates with one simple composite tax. The single savings tax, of a maximum of 15%, would replace income and capital gains tax regardless of what funds were invested in, where they were domiciled and whether or not they were regulated.

Further incentives to encourage savings and mitigate the distributional effects of a single rate are also outlined. IMA suggests four possibilities: first, exempting non-higher rate taxpayers from the single savings rate; second, offering a tax-free allowance after which receipts are taxed at the single rate; third, continuing the ISA; and fourth, and most radically, introducing a lower savings rate of up to 5%.

Commenting on the report Richard Saunders, IMA's Chief Executive, said: "The time is right for a fresh and radical look at the savings landscape. Our proposals seek above all simplicity and clarity for investors. The Government has already collapsed eight pensions tax regimes into one and the same is possible for the taxation of funds. I believe our proposals represent a further important step to a simpler and more transparent savings culture."

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Stakeholder products must meet highest standards of investor protection

Stakeholder investment products must meet the very highest standards of investor protection, IMA has stated in its response to HM Treasury's consultation document on Stakeholder Savings and Investment Product Regulations.

IMA has identified three main areas of concern on the issue. These are summarised below:

1. The structure of the charge cap and the penalty for switching or transferring

Investors are being locked into unsuitable products and competition in the market is being eroded as a result of high fees levied on investors wanting to switch products. This amounts to a penalty on investors looking to move to products that better suit their circumstances.

2. The need for a level playing field between different types of product

There are two areas in which products compete unfairly. Firstly, the draft regulations do not require life products, which are unregulated, to conform to the same standards as the regulated collective investment scheme products. This is focussed on three main areas – valuation, pricing and investor engagement.

Secondly, "smooth" linked long-term products are free to levy higher charges on investors through a "smoothing charge". Although it is of no direct benefit to the manager, it lacks transparency for the investor. It is noted that for now the "smoothed" product cannot be sold via the FSA's Basic Advice Regime.

3. Consistency of rules across different products

Government products do not currently fit into a consistent framework. For example, regulated property funds are eligible for stakeholder pensions and medium term investment products, but not for Child Trust Funds or ISAs. IMA recommends that the attributes of the various stakeholder products be aligned within the limits of the specific product, to prevent investor confusion and promote simplification.

Julie Patterson, Director of Regulation, Operations and Taxation at IMA commented: "It is important that stakeholder investment products meet the very highest standards of investor protection. Those standards are represented by the rules governing collective investment schemes (CIS), which are the only fully regulated financial services products."

She continued: "It would be perverse if some products were subject to a lighter touch sales regime while others – subject to higher standards of product regulation – were not. Such an outcome would be unacceptable and would undermine confidence in the whole stakeholder concept. It follows that the CIS rules should represent the minimum acceptable standard for stakeholder products. IMA does not believe that this is yet reflected in the Government's proposals."

A full copy of IMA's response, including recommended solutions, can be found at **www.investmentuk.org**

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Julie Patterson -
Director of Regulation and Taxation at the IMA

Market timing: precautionary guidelines

As outlined in the last issue of imag, IMA welcomed the FSA's announcement that late trading and market timing are not systemic in the authorised investment funds industry. However, to ensure problems do not arise in the future, IMA has continued to engage with its members on this issue to develop guidelines for the asset management industry.

"Market Timing: Guidelines for managers of investment funds" details the regulatory tools available and provides guidance on supervisory structures which will assist managers in deterring and dealing with market timing activity.

Commenting on the industry guidelines, Richard Saunders, IMA's Chief Executive, said: "The industry was encouraged by the FSA's findings that, in contrast with the situation in the United States, there is limited evidence of market timing in the UK investment funds industry. Nevertheless, it is important to ensure that investors are protected against such practices in the future. These new guidelines, which have been drawn up after widespread consultation within the industry, will help to ensure this."

The new guidelines are an extension of "Market Timing: A technical discussion paper" which was published in December 2003 as a response to the FSA's investigation into possible market timing and arbitrage activity in the UK. Both can be found at **www.investmentuk.org**

stop press...

IMA has appointed Michael Turner as its Parliamentary Affairs Adviser

Michael, who was previously Media and Public Affairs Officer at awarding body Edexcel, will be the main contact between IMA and Parliamentarians. Michael can be contacted by email at **mturner@investmentuk.org** or on **020 7831 0898**.

Money listens in Bournemouth and Brighton

This year's party conference season saw IMA join with other industry bodies to host a series of lively debates on the future of personal finance.

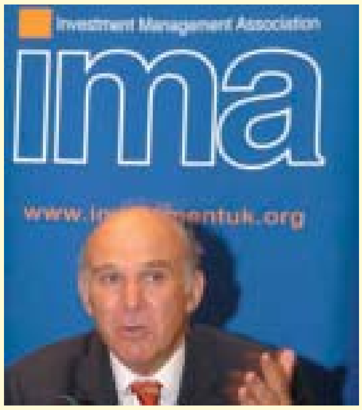
The three events at each of the main party's conferences brought together senior politicians, leading commentators, industry representatives, and the regulator to discuss and answer questions on a wide range of issues. Pensions and savings products, in particular ISAs, were top of the agenda.

Among those sharing their views were Dr Vince Cable MP, Liberal Democrat Shadow Chancellor, Nigel Beard MP, member of the Treasury Select Committee and Howard Flight MP, Deputy Chairman of the Conservative Party and Special Envoy to the City. Patrick Hosking, from the New Statesman and the Times chaired the Liberal Democrat and Labour events while the Times Business Editor Patience Wheatcroft chaired the Conservative panel.

The joint industry group comprised IMA, British Bankers' Association, Building Societies Association, Council of Mortgage Lenders, Personal Finance Education Group and the PEP and ISA Managers Association.

Nigel Beard MP. member of the Treasury Select Committee

Howard Flight MP. Deputy Chairman of the Conservative Party and Special Envoy to the City



Vince Cable MP. Liberal Democrat Shadow Chancellor

EU Financial Services Action Plan moves to the next stage

IMA's activities in Europe continue apace. Most of the measures included in the Financial Services Action Plan (FSAP) – the Commission's ambitious programme to promote the single market in financial services - have now been agreed.

These measures provide a framework, but the Committee of European Securities Regulators now has the task of writing more detailed rules and the FSA has to implement the measures in UK regulation. Here in the UK, the Treasury Select Committee has undertaken an enquiry into the impact in the UK of the FSAP and IMA has provided written and oral evidence to the Treasury Select Committee as part of its inquiry into EU Financial Services.

Our main message is that the asset management industry is keen to improve the single market. There is a considerable interest in cross-border business, with a substantial part of pan-European activity emanating from the UK. Of the 2.8bn euros worth of assets IMA members manage from the UK, nearly half (1.256bn euros) is managed on behalf of non-UK clients. A more efficient single market for asset management would be of direct benefit to the UK.

Since the launch of the FSAP - the main programme for promoting the single market in financial services - in 2000 there has been only limited progress in removing barriers for the asset management industry.

We were very pleased, therefore, that in his first speech as EU Commissioner for the Internal Market and Services, Charlie McCreevy included improving the single market for asset management as one of his near term priorities.

As the FSAP draws to an end attention will now focus on implementation of the wide range of measures now agreed in Brussels. While we would agree that the UK needs to be careful not to impede the competitiveness of the UK market by gold-plating, we think it is also very important to ensure coordinated implementation and interpretation across Member States. The Committee of European Securities Regulators has shown a willingness to become involved where there are differences of interpretation and we believe that this will be a vital part of their work.

As such, IMA, while welcoming the joint report by HM Treasury, the FSA and the Bank of England, which established principles for UK implementation, believes a wider view is required. In its written evidence to the Committee it suggested that this would make an excellent focus for the forthcoming UK Presidency of the European Council.

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Do you want to know more about the work of the IMA? Do you want to meet with one of our experts to talk over an issue in detail? Do you have a comment on anything in this edition of imag? The IMA would be delighted to hear from you.

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