



Response by TISA to Child Trust Fund – input to the maturity process

Nigel Banfield, Technical Policy Implementation Manager

July 2019



About TISA

TISA's ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation.

We do this by focusing on good consumer outcomes and harnessing the power of our broad industry membership base to deliver practical solutions, new digital infrastructure and by devising innovative, evidence-based strategic proposals for government, policy makers and regulators. This holistic approach to address the major consumer issues uniquely positions TISA to deliver independent insight, promote innovation and facilitate good practice.

TISA's rapidly growing membership is representative of all sectors of the financial services industry. We have over 200-member firms involved in the supply and distribution of savings, investment products and associated services, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

TISA will unveil **Vision 2025** – our strategic policy roadmap towards delivering a material impact in enhancing consumers' financial wellbeing at our Annual Conference in December 2019. Our current strategic policy focus includes making financial guidance more widely available; financial education for young people; retirement savings and addressing consumer engagement, particularly for the vulnerable.

Complementing our development of consumer policy and thought leadership, TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives (TeX/STAR, Digital ID, MiFID II and Open Savings & Investment). This reflects TISA's commitment to open standards and independent governance.

TISA is also recognised for the support it provides to members on a range of operational and technical issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations. This work currently includes MiFID II, CASS, SM&CR and addressing cybercrime.

This document covers both the proposed changes to the CTF and ISA regulations. It has been produced following working groups and a feedback session held by TISA.

A) CTF regulation changes

1. We consider there are no further definitions required in regulation 2
2. We believe that “account holder” should be used instead of “holder” throughout 13A and the remainder of the proposed changes. This will make it clearer that it is the person reaching 18 who is being referred to.
3. Guidance should include reference to the fact that upon maturity the responsibility of the proceeds and what is to be done with them falls to the account holder. This is regardless of who was the main contact immediately before maturity. This adds clarity to the fact that Registered Contact immediately before maturity, if this was not already the child, has no further involvement in what happens to the proceeds.
4. 13A (a) will not be required if the agreement is that the funds will always be moved to the maturity account before the account holder can give instructions.
5. Where an account provider issues new T&Cs but receives no response from the account holder and has therefore not formally accepted the updated terms and conditions of the matured account, the terms and conditions should be deemed to have been accepted. This clarifies the situation where the account holder has not had a previous direct relationship with the account provider. This would apply whether 13(B)(3)(a) or (b), a transfer into an ISA account upon maturity, is being adopted by the account provider.
6. Further to 5, where the account provider is unable to issue a new set of T&Cs because the up to date address is not known (Gone Away), the T&Cs should also be deemed accepted. As the current regulations appear to say that ‘an account must at all times be managed under T&CS agreed between the provider and the investor’ and this would apply to the Protected account too, we suggest that this implied acceptance be built into the regulations. Again, this should apply whether 13(B)(3)(a) or (b), a transfer into an ISA account upon maturity, is being adopted by the account provider.
7. Members recognised that there is no reference in any part of the regulations to needing to write to the account holder prior to maturity, other than to issue a final year statement. This leaves the means of contact, timing and content of any correspondence down to the provider. Reliance will therefore be on the FCA guidance as to treating customers fairly and timely communications to guide firms in these areas.
8. There is no reference in the regulations that the instructions received from the account holder must cover the total value of the matured product. This needs to be explicit to ensure that partial instructions are not accepted. E.g. the instruction can have multiple requests (depending on what is acceptable by the account provider) but those instructions must be received at the same time even if the completion of the various parts of the instruction may be at different times.
9. Related to the above, the account provider should make it clear in any correspondence in advance of maturity under what terms they may accept instructions i.e. whether allowed in advance to be acted upon at maturity and whether multiple instructions will be accepted. Again, this may be considered to be more appropriate under FCA guidance rather than HMRC.
10. It is understood that upon maturity, the content of the CTF Regulations relating to Stakeholder requirements do not apply to the Matured CTF. For example, we note that in Regulation 32 (annual reporting of information) the requirement to indicate whether the account being reported is a Stakeholder is disappplied for Matured CTFs. In 13B therefore, to make this clearer we believe

confirmation should be added that the stakeholder requirements no longer apply to the matured product. This is particularly relevant to the charge restrictions that a stakeholder product placed on the CTF.

11. 13B (3)(b) clarification of the account type to be opened, cash or stocks and shares where both assets are held upon maturity or where the assets held differ from the account type at maturity. This clarifies the situation where investments are sold into cash to realise the growth but there are still investments held or where all of it is held in cash but the CTF is a S&S version at maturity for example.
12. In 13B (3)(b) the wording needs to recognise and be clearer that a S&S ISA is permitted to hold both Investments and cash or indeed 100% cash in some cases.
13. 13B (7) this should say ‘..on the *matured* account are to be credited to it’.
14. 13B (10) (b) it would be appropriate to add into guidance that it is acceptable to issue all customer statements together as long as the oldest one is issued within a year of its maturity.
15. Also, no account holder instigated purchases of investments are permitted in the matured account although an account provider may change the underlying investments at its own instigation where permitted to under the T&Cs. This would then cover a one-off change if investments that might be needed even if normally the underlying investments doesn’t change at all or very often. This needs to be made clear within the regulations.
16. In the course of earlier discussions leading up to the consultation, it was agreed that the matured account should broadly remain the same as the CTF. What can and cannot be amended within the T&Cs needs to be clarified within guidance to ensure wholesale changes cannot happen but, relevant amendments in the course of maturity can. This is particularly relevant where the matured funds, whether cash or Stocks and shares, will be held under an ISA and new T&Cs are required. It also helps demonstrate, for investment based products, that the matured account will not be subject to MiFID if broadly the same terms are used. However, if an account provider chose to make additional changes to these terms, it may become subject to MiFID.
17. Under the current regulations (21(4) and (5)(a)(iii)), it would appear that the CTF provider is required to provide the URN, as part of the transfer history form, when the account holder gives an instruction to transfer the proceeds to an ISA with another provider. Clarity is needed to either confirm that the receiving provider is to treat the URN as the NINO or that this field is not needed to be sent. Since the receiving provider would gather the NINO as part of the transfer application form, we feel the field is not needed as part of the transfer history information.

B) ISA regulation changes

- 1) No identified definitions need to be added although see comment 3 below.
- 2) The current model S&S ISA application form declaration wording in HMRC ISA guidance effectively states that an individual is aged 18 or over at the time of signing it, and this wording is widely used by providers on their existing forms. In order for firms to allow instructions to be given to transfer a matured CTF into a S&S ISA prior to the account holder attaining age 18 it would be necessary to amend the declaration to say the individual will be 18 or over at the time the transfer is completed and the account opened. It would be appropriate for this to be referred to in the guidance along with suggested wording like there is for current declarations as well as confirming that purely from a tax (ISA Regulations) perspective it is possible for such pre-age 18 instructions to be given (we understand this is because the age 18 restriction in the ISA regulation ‘only’ applies at the time a subscription is made). Such HMRC guidance should make it clear that taking such instructions prior to age 18 is optional for account providers

(bearing in mind some providers have concerns about the legal (capacity to contract) risks of allowing a minor to enter into an investment contract (by confirming their agreement to the S&S ISA T&Cs on the date they complete the CTF to S&S ISA transfer instruction).

- 3) In 5DZ (1) it refers to a qualifying individual. For the purpose of this instruction received this may be a person who is living abroad and is qualifying for the purposes of this CTF to ISA transfer (treated as a transfer of previous years' subscriptions) but not under normal circumstances to make a current year subscription. Further clarification either through a definition or within guidance would be useful to confirm what a qualifying individual is for the purposes of this CTF to ISA transfer instruction.
- 4) As the URN is actually the same as the NINO item 9 (b) (v) is not required when it comes to reporting. However, where a NINO has not been provided, confirm that the URN can be used for the purposes of reporting.
- 5) For an ISA protected account, clarification as to whether all the instructions, where multiple ones are made, need to be received at the same time, similar to the matured account.