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Response by TISA to

ISA Qualifying Investments:

Consultation on including shares traded on small and medium-sized enterprise equity markets

May 2013

TISA Response to HMT Consultation: ISA Qualifying Investments
(consultation on including shares traded on small and medium-sized enterprise equity markets)

The Tax Incentivised Savings Association – TISA has a growing membership of over 120 organisations interested in the UK market for retail financial services products, from Child Trust Funds, through Individual Savings Accounts to Pensions. We have a number of Advisory Councils, Technical Committees and Projects, whose observations and thinking have contributed to this response. We are distinguished by the very wide scope of our membership, from Banks, though Investment Houses and Life and Pension providers, to Distribution organisations and IFAs. We are not, therefore, restricted to representing a sector approach, but rather the views of a very broad church indeed. We also, as an organisation, start from the principle that what is good for the consumer must, in the long term, be good for the business of our membership.

CONSULTATION RESPONSE

TISA is pleased to have the opportunity to respond to this Consultation. We have responded, as requested, by reference to the questions set out in the consultation paper dated March 2013, although we have not offered a detailed response to questions where we have limited direct experience to offer.

Summary

TISA is strongly of the view that the current anomaly whereby small and mid-cap shares can be held in a SIPP but not in an ISA should be addressed.

We fully support the proposed expansion of the range of ISA qualifying investments to include company shares admitted to trading on a recognised stock exchange in the EEA.

Question 1:

We strongly agree that the definition of qualifying investments that may be held in a Stocks & Shares ISA should apply equally to all ISAs whether held by adults or by children as JISAs.

For as long as the Child Trust Fund remains as a separate scheme, the definition of qualifying investments that may be held in a CTF should remain exactly aligned with the ISA definition.

Question 2:

We are not aware of any EEA SME equity markets that would not qualify under the proposed criteria, although this is not an area of particular TISA expertise.

Question 3:

We believe that there will be a spread of risk across the SME equity market in the same way in which there is across the main markets. The ISA wrapper offers investors the opportunity to choose their investments according to their personal risk appetite. We do not believe that it is appropriate for the ISA wrapper to be concerned with the risk or otherwise of the investments chosen by the investor as the market is equally regulated, by the Financial Conduct Authority, whether investors make their investments inside or outside the ISA wrapper.

Question 4:

We understand that the proposed amendments to the ISA Regulations would bring the following EEA markets into eligibility:

- AIM (London Stock Exchange)
- SFM (London Stock Exchange)
- ISDX (ICAP)
- LIFFE (NYSE Euronext)
- AIM Italia MAC (Borsa Italiana (LSEG))
- Dritter Market (Vienna Stock Exchange)
- Emerging Companies Market (Cyprus Stock Exchange)
- Enterprise Securities Market (Irish Stock Exchange)
- First North (NASDAQ OMX)
- Freiverkehr market (Deutsche Börse)
- Open Market / Entry Standard (Deutsche Börse)
- New Connect Market (Warsaw Stock Exchange)
- Catalyst Market for Retail Bonds (Bondspot) (Warsaw Stock Exchange)
- NYSE Alternext (NYSE Euronext)
- The Alternative Market (EN.A) (Athens Stock Exchange)

Question 5:

We do not believe that the requirements of ISA Regulation 4 will prevent any significant number of smaller company shares from achieving eligibility.

Question 6:

No.

Question 7:

We believe that the approach proposed in the consultation document (3.3) is the right one.

Question 8:

We support the LSE view that the ISA Regulations should not be further reviewed when the "SME Growth Market" classification is introduced on the grounds that this would not provide a clean definition under the ISA Regulations. The reference to 'MTF' in the MifiD definition would potentially introduce a classification that is not currently used in tax legislation and would cause some confusion. We do not believe it would be desireable to allow securities on a trading venue only (i.e. a traditional MTF) to become eligible for ISA inclusion.

Restricting the ISA definition to shares traded on a 'recognised stock exchange' will help ensure that issuers of securities eligible for ISAs are subject to a primary market regime that provides appropriate investor protections.

Question 9:

No.

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