

ISA Shares Consultation
Pensions and Savings Team
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London
SW1A 2HQ

ISASharesConsultation@hmtreasury.gsi.gov.uk

9 May 2013

Dear Sirs,

HM Treasury - ISA qualifying investments: including shares traded on small and medium-sized enterprise equity markets

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Tax Expert Group has examined your proposals and advised on this response. A list of members of the expert group is at Appendix A.

Response

We welcome the opportunity to respond to this consultation.

We believe the Government's aim to include shares traded on SME equity markets will provide a much needed boost to the availability of capital in these markets, and the proposed implementation is sufficient to meet the Governments' policy objectives of the Autumn Statement 2012 announcement.

We are also very pleased that the Government's implementation proposal maintains the eligibility for other tax reliefs for shares not listed on a recognised stock exchange. This will ensure that the expansion of the ISA qualifying investment criteria will only increase the attractiveness of shares traded on SME equity markets, rather than create an unwelcome bigger backward step.

Question 1 - Do respondents agree that the set of investments that can be held in Child Trust Funds and Junior ISAs should be expanded in line with 'adult' ISAs, to include shares traded on SME equity markets? If not, why not?

Yes, we agree.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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Question 2 - Are there any EEA SME equity markets that would not qualify under the proposed criteria, and if so, which markets? Is there a case for including these markets? If so, how could this policy be implemented differently to include these markets?

We are not aware of any such equity markets.

Question 3: What risks, if any, does the proposed approach have for ISA investors? What alternative method of implementing this policy would reduce such risks?

We do not believe the expansion of qualifying investments as proposed brings significant additional risks for ISA investors. The FCA's conduct of business rules remain applicable – ISA providers would be required to conduct a suitability assessment of their clients before recommending the inclusion of shares on SME equity markets in an ISA.

In the case of execution only trading, ISA providers have to ensure that potential investors understand the risks of investing in stocks and shares ISAs, and the inclusion of shares traded on SME equity markets would not, in itself, increase that risk. Each ISA product differs in terms of its risk profile.

We also believe that any risk of miss-selling shares, or funds of shares, traded on SME equity markets is already adequately addressed by the Financial Services and Markets Act 2000.

Question 4: Which non-SME equity markets would also qualify for ISAs under the proposed expanded criteria?

We are not aware of any such markets.

Question 5: Consultation objective 2 requires that all new ISA qualifying investments comply with the ISA rules. Would any of these rules disproportionately restrict the eligibility of smaller company shares for ISAs if the range of ISA qualifying investments were expanded as proposed in this consultation?

We are not aware of any disproportionate restrictions.

Question 6: Are any other safeguards required to provide investors with additional reassurance, without compromising the main objective of this policy?

We are not aware of any such additional safeguards.

Question 7: Is there another approach for implementing this policy that has not been considered above? What would be the benefits and drawbacks of such an approach?

We are not aware of any other suitable approach.

Question 8: When the "SME Growth Market" classification is introduced as part of MiFID Review, should the Government revisit the ISA Regulations for qualifying SME equity markets to bring them into line with the new classification? What would be the advantages to doing so? What would be the disadvantages?

The "SME Growth Market" classification is still under review and has not yet been agreed. If the final agreed classification is favourable, and is adopted by SME UK equity markets such as AIM and ISDX, we

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believe that it would be appropriate for the Government to revisit these ISA regulations. This may also give the Government the opportunity to ensure that the intended aim of this consultation has been delivered.

Question 9: Are there any other points that respondents would like to raise about the Government's proposed approach and alternative approaches?

We do not have any other comments to add other than those above.

If you would like to discuss any of this response in further detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'T. Ward', with a stylized flourish at the end.

Tim Ward

Chief Executive

Quoted Companies Alliance Tax Expert Group

Neil Pamplin (Chairman)	Grant Thornton UK LLP
Paul Fay (Deputy Chairman)	Crowe Clark Whitehill LLP
Michael Bell	Osborne Clarke
Nick Burt	Nabarro LLP
Jason Collins	Pinsent Masons LLP
Christopher Connors/Ray Smith	Clyde & Co LLP
Tim Crosley	Memery Crystal LLP
Sam Dames	CMS Cameron McKenna LLP
David Gubbay	Dechert
Richard Jones	BDO LLP
Natasha Kaye	Olswang
Lindsey Kutten	PricewaterhouseCoopers LLP
Joseph Litten	Ernst & Young LLP
James Mottram	K & L Gates LLP
Andrew Prowse	Field Fisher Waterhouse
Amanda Solomon	Charles Russell LLP
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