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## **COFUNDS CALLS FOR PROPER STANDARDS FOR PENSION TRANSFERS**

Anthony Wolfe, Cofunds Strategic Development Director, has called for the creation of acceptable timescales for completing pension transfers.

“There has been a great deal of recent comment about platform re-registration. This is, I believe, misplaced. Re-registration in specie has been a problem this is now being addressed.

However, current demand for platform-to-platform transfers is minimal. In general, advisers and their investors are still making their initial choice of platform, rather than seeking to transfer to another provider.

Where funds held directly with no tax wrap transfer in specie is relatively straightforward as the platform is a simple nominee. All that is needed is a stock transfer form which can be sent to the fund managers who can change the name on his register. Certainly Cofunds makes no charge for this and as there is no movement of cash there is no cost.

For PEPs and ISAs, cash transfers are available – usually in less than 10 days.

“In specie” transfers are not generally available yet – but the platform industry has acknowledged that this situation should be improved and is working on the technical problems, although these are considerable.

### **ISA transfers an industry issue**

Platform-to-platform ISA transfers problems start with a 100% mismatch of unit holder – the new platform has a request from Mrs Smith, the Fund Manager has the units in the old platform nominee. So the new platform now has to contact the old platform and ask them to identify the correct Mrs Smith from amongst its many clients to transfer ownership from its ISA nominee to theirs.

Platform ISAs often contain five or ten different funds, so this matching exercise has to be done repeatedly for the entire portfolio to fully identify between the two platforms and each underlying fund manager.

Unfortunately, the form in which data is held varies from manager to manager and platform to platform.

There is still a legal requirement for “wet signatures” on ISA transfers so that bits of paper have to be sent around the industry.

Many of the funds held in ISAs are income funds where there is usually about a six-week delay in the fund going “XD” and the income being paid out or used to purchase further shares. This means that after the initial holding of shares has been passed to the new platform, a small amount of income has to be sent after it to be added to the new holding.

### **Cash transfers the best interim solution**

All of this makes ISA re-registration a nightmare for all concerned and is the reason why at present platforms turn all the holdings into cash and send the money to each other where it can be used to re-invest in the market.

Until common automated standards are agreed by all of the parties involved, it is probably therefore in the client’s best interests to move rapidly via the cash route.

Cofunds and Fidelity, the two leading fund supermarkets do not make any charge for such transfers. They effectively subsidise what is a costly exercise. (Some wraps have a dealing charge for buying and selling funds as they do for equities.)

If there are any costs to the end customer, these depend on the policy of the asset manager rather than the platform.

The other key element of concern is that clients are out of the market when they re-register via the cash route. In the short run, however, this is swings and roundabouts as it is usual for a cashed up ISA to be moved in about six working days and the market may rise or fall in this period.

It should be recognised that this issue is not a platform issue but rather an industry issue. There are still a few fund managers who cannot manage to transfer even a single fund ISA in specie let alone a complex portfolio. Any solution must not just focus on a few platforms but embrace the totality of the PEP and ISA plan manager market.

Fortunately Ed Balls has just announced a white paper which includes the move to paperless settlement. This should be passed into law early in 2008. Furthermore, the open ISO20022 Transfer Standard has now been agreed and is now slated for Q2 delivery by key fund management systems.

## **Pension transfers a much more critical issue**

However, while current market comment has focussed on platform-to-platform transfers, and there is a far more substantial issue to be addressed – pension transfers.

We are aware of pension transfers taking months to accomplish. Over three months is common and six months is not unusual. There are a number of reasons why this is more critical than ISAs.

First, this is a rapidly growing market as investors seek to move from old, expensive pension products with limited investment choice into new pension arrangements with lower costs and greater flexibility.

The difference in charging structures between pension products is much greater than the difference between ISAs where generally the tax wrap is provided free. This means greater disparity in the possible levels of return available

Moreover, the sums involved are usually far greater than in the ISA world.

Is it not time that the FSA acted to improve the appalling record that is now being established for dealing with pension transfers as investors understandably seek to consolidate their pension pot?

Every intermediary has a tale of woe about the delays, obfuscation and inefficiencies that they face when trying to transfer their clients' pensions. Unlike the plans of the UK Platform Group to improve ISA transfers, there is not a word has been written or voice raised to suggest that the pension providers are even looking at this important issue."

- **Ends** -

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## **Notes To Editors**

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