COFUNDS CAMPAIGNS TO UNLOCK INVESTORS FROZEN ASSETS

In their recent paper entitled "*Platforms: the role of wraps and fund supermarkets*" the FSA comments in 5.11 that "firms will need to consider any constraints on re-registering assets off the platform"

Cofunds agrees this is an important consideration. However, many advisers and commentators seem not to have fully understood the issues in the consolidation and free movement of old assets.

ISA re-registration will cease to be an issue

Re-registration in specie is most critical on unwrapped funds – where transfers between platforms could give rise to a CGT liability if the holdings were sold and moved in cash. Cofunds already supports cost free unwrapped transfers in specie on to and away from its platform.

On ISA re-registration, Cofunds originally helped to pioneer in specie transfers with fund managers on to platforms in 2001. It already provides for cash transfers out and manages about 85 of such transfers every working day.

Cofunds cash transfers should take no longer than 7 working days – as long as the underlying funds settle on time. The costs of this exercise should be no more than selling one fund and buying another and is, of course, free of CGT, just like the transfer process which has always existed in the PEP and ISA environment. Cofunds makes no charge for this process and so any costs that may arise depend on the underlying fund managers and the receiving platform.

Nevertheless, Cofunds is actively working with other leading platforms to improve functionality on in specie transfers. As this involves moving a bundle of funds from one platform to another, it is key that both parties can offer an integrated solution – and that the managers of all the funds being moved can also respond. This is therefore a tri-partite process and at present lack of uniformity in data standards makes it unfeasibly lengthy.

Common industry standards are needed to improve this situation further. Cofunds has decided that it will lead the way in improving processing standards by adopting open standard (ISO20022) transfers at an estimated cost to itself of over £1 million. It is working with other leading platforms and the major systems providers on this issue. As a result, we anticipate that this solution should be available across most of the industry in the first half of 2008.

ISAs re-registration is a minor problem compared to pensions and insurance bonds

While there is little or no difference between one platform ISA and another, huge differences remain between old life and pension products where billions of assets remain trapped in old, and sometimes expensive products with limited choice of investment vehicles. This is unfair to a considerable number of investors.

Pension transfers should be at a uniformly acceptable standard

First, we believe the FSA should also look at the problems in the transfer of pension products where standards seem to be very uneven and often unsatisfactory from an administration perspective. While some insurance companies provide a good service to their clients when a pension transfer is recommended by an adviser, others can take months to complete a pension transfer. We believe that if pension transfers cannot be completed in a reasonable time, this should be looked at as an issue in Treating Customers Fairly

The Treasury should liberate insurance bond investors

Second, the only way to transfer a single premium insurance bond is to encash it and to take out a new contract with the new insurance company. This creates a chargeable event for tax purposes which, especially for bonds held for some time, is a major barrier to moving assets to cheaper contracts with much greater choice of fund links.

We believe that the Treasury and HMRC should consider a change to the tax rules so that such a move (necessarily in cash as the assets underlying the contract are the property of the life company), from one single premium insurance bond to another, could be treated as no longer being taxable as long as no cash is surrendered to the investor. Any eventual surrenders would use the cost of the original investment for calculation purposes.

This would be at worst revenue neutral as the base cost of the original investment would be carried through. At best, lower costs and better choice of funds in the new contract should improve returns to the investor and, as surrender values rise, so should the government's eventual tax take.

Cofunds intends to work with the Tax Incentivised Savings Association to take more detailed proposals to the Treasury and HMRC. We believe that action in these areas will be a valuable step forward in allowing financial advisers to unlock assets frozen in outdated products and do a much better job for their clients.

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Notes To Editors
Cofunds:

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Cofunds Limited, launched in January 2001, is the leading independent fund platform for intermediaries with assets under administration in excess of £13.4 billion (at 30/06/2007). It is an independent company providing a one-stop fundmarket that provides flexible, reliable, convenient administration and management services for intermediaries and their clients. It does not offer investment management or advice, nor does it compete with intermediaries by offering its services direct to the end client. Cofunds exists to serve the needs of fund managers, intermediaries and their clients.