

By email: ukisaconsultation@hmtreasury.gov.uk

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Dear HM Treasury Team

Barclays response to the Individual Savings Account: UK ISA Consultation

Barclays' vision is to be the UK-centred leader in global finance. We are a diversified bank with comprehensive UK consumer, corporate and wealth and private banking franchises, a leading investment bank and a strong, specialist US consumer bank. Through these five divisions, we are working together for a better financial future for our customers, clients and communities.

With over 330 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Executive Summary

Barclays welcomes innovations that support the UK economy and encourage people to invest for their futures, particularly as an alternative to cash savings. HMT states that the main objective for the UK ISA is to support a culture of investment in the UK and to give people the opportunity to invest and benefit from the UK's vibrant capital market and high-growth companies.

While the ISA is a simple and easy to understand wrapper, we do not think that the UK ISA on its own would result in greater investment in the UK. To attract and engage more of the British public to investing, we must collectively strive to make investing easier, simpler and more accessible. The introduction of a new ISA with differing rules to existing ISA wrappers risks doing the opposite. The ISA regime is already complicated to navigate, and consumers generally have a poor understanding of what is available to them. Therefore, the UK ISA rules needs to be as simple as possible, and closely aligned to the current Stocks and Shares ISA (S&S ISA) rules. Creating new rules for the UK ISA would not only make it hard to implement and administer, but also add complexity, meaning fewer people likely to invest in it.

As proposed, it is likely that the main beneficiaries of the UK ISA would be the 880,000 adults who already maximise their ISA allowance each year. For new investors, or those investing smaller amounts, there is little benefit to investing in a UK ISA over a S&S ISA, particularly if transfers are restricted. For customers who do not max out their S&S ISA allowance, they are likely to always be better off using that first, ahead of a UK ISA, as the S&S ISA will offer far broader investment flexibility, including cash holdings, and also greater transfer options in the future.

Similarly, if the eligibility criteria and design of the UK ISA is complex or requires significant investment to build, it is unclear whether providers would seek to offer it.

Barclays already offers a UK specific multi-asset fund (that customers can opt into via an S&S ISA). One factor of the UK ISA being successful will be ensuring critical mass, both in terms of the number of providers offering the ISA, but also in terms of the investment vehicles and products available within them.

As with all investment strategies, we consider diversification to be an important principle. Therefore, to enable its success, the types of assets that could be included in a UK ISA should be broad. A simple, objective, criteria for whether an asset is eligible is vitally important for providers. Eligibility criteria that is subject to judgement or complex tests would make administering a UK ISA unduly burdensome. Therefore, the eligibility criteria should allow ordinary shares in companies that are either listed or admitted to trading on a UK recognised stock exchange without having to be UK incorporated as well.

Other, potentially more effective, mechanisms to stimulate a culture of investment in the UK would be the HMT and FCA Advice Guidance Boundary Review, which seeks to allow firms to better support retail investors with their savings and investment decisions.

Consultation Questions

Question 1: Should ordinary shares in UK incorporated companies that are either listed on a UK recognised stock exchange or admitted to trading on UK recognised stock exchange be eligible for the UK ISA?

- Yes, ordinary shares in companies that are either listed on a UK recognised stock exchange or admitted to trading on UK recognised stock exchange should be eligible for the UK ISA. We do not think that it is necessary to include a test for UK incorporation as this unduly complicates the criteria. This definition would also ensure that investment companies are also eligible for the UK ISA.
- Qualifying criteria of UK ISA assets must be clear and simple to administer. Providers should not have to make a judgement to determine whether a company qualifies, or have to conduct burdensome analysis.
- HMT should also make clear what happens if a company ceases to be eligible/meet the definition (e.g., no longer listed or admitted to trading). We would recommend that customers should never be forced to sell an asset that no longer qualifies, but instead the asset should be moved to sell-only status. We would also recommend a standard review period, so that assets no longer qualifying are only removed at set intervals, for example, at the end of the tax year.

Question 2: Should collective investment vehicles be eligible for the UK ISA and if so, which vehicles specifically? What should be the minimum requirement for each of the underlying investments and how would each be monitored by ISA managers?

- Yes, to the extent that these vehicles are allowed under the existing S&S ISA.

- We think that there should be an entry criteria (with the onus on the fund manager to declare/certify eligibility). If the fund no longer meets eligibility, it would be moved to sell-only status.
- While we agree that there should be some minimum requirement, before setting this, HMRC should conduct an assessment of the market to understand the number of existing vehicles that would qualify for a UK ISA (as it is unlikely that fund managers would create new funds specifically to meet the criteria). There needs to be sufficient funds to make the UK ISA viable.
- Once determining an appropriate minimum requirement, if a fund breaks this, there should be a 30 or 60 day rule to allow the fund to get back within the threshold so that ISA managers are not required to deal with fluctuations in an out of eligibility.
- Again, the qualifying criteria needs to be clear and simple. Fundamentally, any requirements will need to be easy to communicate to customers to ensure their understanding. Requirements that are too onerous or restrictive, risks creating a class of investments that deliver sub-optimal client outcomes through poor performance and/or higher charges.

Question 3: Should corporate bonds be eligible for the UK ISA?

- Yes.

Question 4: Should gilts be eligible for the UK ISA?

- Yes.

Question 5: Are there other investments that already qualify for an ISA that should be eligible for the UK ISA? How would they meet the policy objectives?

- The types of investments that currently qualify for a S&S ISA should be eligible for the UK ISA.
- Deviation from the existing (well understood) S&S ISA scheme risks impacting on consumer understanding and, therefore, demand for the UK ISA.

Design of the UK ISA

Question 6: Should the UK ISA allow subscriptions to multiple UK ISAs in the same tax year?

- Yes, this should align with existing ISA rules to allow multiple subscriptions, with the onus on the customer to adhere to the scheme rules.

Question 7: Should transfers from any type of ISA to a UK ISA be allowed? Should there be a limit on transfers from other types of ISAs to a UK ISA?

- Transfers into UK ISAs should be permitted to align with the rules for other ISAs (on the proviso that HMT does not seek to create other restrictions in the design or scheme rules, which would add complexity to administration).

Question 8: Are there any downsides to the government's proposals on transfers out of a UK ISA?

- We do not agree with the proposal to limit transfers from a UK ISA to another type of ISA. Without the ability to transfer out of a UK ISA, there is little benefit to using the wrapper over a S&S ISA (except for those who already maximise their existing ISA allowance). Customers are likely to have a poor understanding of this restriction, which may deter them from investing in a UK ISA.
- We believe that customers should be afforded maximum flexibility, which outweighs the risk that some customers (potentially) use the scheme to 'gain' an additional £5,000 allowance.
- Trying to create a way of facilitating transfers, whilst protecting against the above behaviours, risks creating transfer rules that add further complexity for customers and burdensome administration for providers.
- ISA rules, and those relating to transfers, have in recent years been simplified to the benefit of customers and industry, we would caution heavily against anything that risks that good work.

Question 9: Should the UK ISA have cash holding rules? Which rules should be included in the UK ISA?

- We do not think that HMT should mandate cash holding rules. As part of encouraging a savings habit, customers may opt to save a regular amount into an ISA (e.g., £50 per month) and trade once reaching a certain amount. Ideally, the UK ISA could act as a pathway for newer investors who may perceive that the £5,000 allowance is a more achievable savings goal. However, rules that disincentivise investors from holding cash in the UK ISA may have the unintended consequence of preventing customers from building a savings habit or deterring investment altogether.
- Again, complex rules that stipulate that cash cannot be held in a UK ISA (or only held for a specific period or purpose) will be burdensome to administer.

Question 10: Are there any other design features that the government should consider at this stage?

- To reiterate, it is critical that wherever possible the design and rules around the UK ISA are aligned to existing S&S ISAs. Every deviation risks creating further complexity and risks for customers, whilst also increasing the operating overhead for providers.

Question 11: Are there any other unintended consequences from this approach?

- As outlined earlier, there is some risk that the UK ISA only benefits those who already benefit the most from ISAs (those who use their whole allowance each year) by giving them an additional £5,000 allowance, and may confuse or deter those new to investing. However, the government should not seek to design

complex rules to circumvent customer behaviour (as this would make administration of the wrapper unduly burdensome).

- Anti-avoidance rules should only be included where there is evidence of customer harm if the policy objective is circumvented (i.e., should customers circumvent the rules, the net effect may be that they gain a small amount of extra cash free savings rather than result in harm).
- Government should consider other mechanisms to encourage retail investing in the UK, including via mass information campaigns; and by permitting firms to provide the financial guidance and advice that best meets consumer needs through the proposed rule changes in the Advice Guidance Boundary Review.

Delivery and compliance

Our response to questions 12-15 contains commercially sensitive information that is private and confidential.