



### **Client Money held in Individual Savings Accounts**

ICAEW welcomes the opportunity to comment on the consultation paper 14/9 *Client Money held in Individual Savings Accounts* published by The Financial Conduct Authority on 11 June 2014, a copy of which is available from this [link](#).

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## MAJOR POINTS

### Communicating with customers

1. ISAs are an important savings product for many individuals. Changes to the way in which personal savings are protected must be communicated clearly to affected individuals and prospective savers in order to allow them to make informed choices. We encourage the FCA to work with ISA managers (both deposit takers and investment firms) and the Financial Services Compensation Scheme (FSCS) to present a clear and coherent picture of how savings are protected to ensure that disparities are apparent.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Do you agree with our proposal to require all money held within stocks and shares ISAs managed by investment firms to be held as client money? If not, please provide reasons?**

2. We agree that money held in stocks and shares ISAs managed by investment firms (separate to deposit takers) should be held as client money. Without this requirement any cash held in stocks and shares ISAs could be at greater risk, and a risk that is not fully understood by the consumer. The requirement will also mean that customers are treated in a consistent manner by firms, allowing them to make more informed choices about who to manage their savings and investments with.
3. If deposit-takers are not required to hold cash within stocks and shares ISAs as client money (because they can use the banking exemption) then this will create a skewed playing field between cash held in stocks and shares ISAs managed by a bank (where £85,000 FSCS protection is available), whether it is available for investment or not; cash held in stocks and shares ISAs which is available for investment (where £50,000 protection is available) and cash held in stocks and shares ISAs which is not available for investment (not protected). Such differences are likely to be very material to the consumer and must be taken into consideration when firms are meeting their responsibilities to treat customers fairly.

**Q2: Do you agree with our proposal to allow money held within cash ISAs managed by investment firms to be held as client money? If not, please provide reasons?**

4. We agree with the proposal and the advantage to firms of opting in to the client money regime, should a failure occur. However, we question whether firms will choose to opt in depending on their perception of the client money regime, whether it is embedded elsewhere in their business, the potential complexity and the associated costs of compliance.
5. We note that a separate client money pool created for Cash ISA clients at Investment Firms may provide clearer and better protection for those clients. However, we acknowledge that this will add more operation risk through the requirement for separate acknowledgment letters and reconciliations amongst other requirements. As noted above, unless there are consequent amendments to the rules around FSCS, then cash ISA money which investment firms 'opt in' to the client money rules will not be eligible for FSCS compensation if the investment firm fails.
6. As noted in our major points, clear communication about the impact this has on the protection of savings would be necessary. We encourage the FCA to consider the links to the HMRC ISA rules to help ensure a cohesive picture of tax efficient saving in this manner is presented to the consumer.

**Q3: Do you agree with our proposal to dis-apply the rules around unbreakable term deposits to money held within ISAs? If not, please provide reasons?**

7. We agree that dis-applying the rules around unbreakable term deposits to money held within ISAs will help ensure that all ISA providers can compete on a level playing field. However, the field will remain distorted, in particular for the risk averse saver with less than £85,000 savings as they may receive less protection holding cash in an ISA with an investment firm as opposed

to a deposit taker. We further note that investment firms use unbreakable term deposits many reasons other than to earn interest on customer deposits and therefore ask the FCA to reconsider whether there are other business models where unbreakable term deposits should be allowed.

8. Firms will need to communicate clearly to consumers the strategy for use of term deposits and how they are expected to benefit, as well as the possible downsides of holding fixed term contracts. Firms will have to consider how best to behaviouralise these ISAs so as to allow efficient use of term deposits, without compromising consumers' ability to access their savings.

**Q4: What are your views on the benefits and costs of these proposals? Please provide explanations and qualitative evidence to support your response where appropriate.**

9. We do not have any strong views on the costs and benefits of the proposals as set out by the FCA over and above the points made in response to the previous questions.