EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT No. 3) REGULATIONS 2005

2005 No. 3349

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs and is laid before the Parliament by Command of Her Majesty.

2. Description

2.1 These Regulations amend the Child Trust Funds Regulations 2004 (S.I. 2004/1450) to (a) to extend the qualifying investments eligible for a Child Trust fund account to include a wider range of collective investment schemes authorised or recognised by the Financial Services Authority, and "Alternative Finance Arrangements"; (b) allow Child Trust Fund providers to choose which stakeholder product to use when opening Revenue allocated accounts, and (c) make minor technical changes updating statutory references to reflect the introduction of the IT(Trading and Other Income) Act 2005.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Background

4.1 These regulations are being made under powers conferred by sections 3,6,13 and 28(1) to (4) of the Child Trust Funds Act 2004. The regulations are being made under the negative resolution procedure.

4.2 Regulation 12 of the Child Trust Funds Regulations 2004 (S.I. 2004/1450) sets out the qualifying investment rules for a Child Trust Fund account.

4.3 Chapter 5 of the Finance Act 2005 introduced the concept of 'Alternative Financial Arrangements'.

4.4 Section 3 of the Child Trust Funds Act 2004 provides for HM Treasury to make regulations to specify the kind of investments that may be purchased, made or held in a Child Trust Fund account.

4.5 Section 6 of the Child Trust Fund Act 2004 requires HM Inland Revenue (now HM Revenue and Customs) to open a Child Trust Fund account with a selected account provider for a child where no account has been opened by the responsible person or no responsible person exists. Section 6 also provides for HM Treasury to make regulations concerning the method of selection of the type of account opened.

5. Extent

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The Child Trust Funds Act 2004 provides for all Child Trust Fund accounts to be opened for all eligible children born on or after 1 September 2002. The Child Trust Fund is a savings and investment account for children. The Government will make contributions to this account with an additional payment for children from lower income families. In addition to the Government contributions, the child's family and friends can also subscribe to the account up to an annual limit. The funds are locked into the account until the child reaches the age of 18.

7.2 The Child Trust Funds Regulations 2004 (as amended) specify which investments funds within a child's account can be invested in.

7.3 The Financial Service Authorities New Collective Investment Schemes Sourcebook, which came into force in March 2004 introduced two types of authorised collective investment scheme for retail investors:

- UCITS schemes; and
- non-UCITS retail scheme.

7.4 Schemes that qualify as a UCITS scheme already qualify within the Child Trust Fund. These collective investment schemes satisfy the rules prescribed by the European Directive on undertakings for collective investment in transferable securities, which allow schemes to be sold across the European Community.

7.5 The new category of non-UCITS retail scheme will cover all other types of retail collective investment scheme authorised by the Financial Services Authority for sale in Great Britain from February 2007. These non-UCITS retail schemes can include products that:

- are very similar in nature to UCITS schemes or Fund of Fund Schemes, both of which already qualify for the Child Trust Fund; and
- were previously not included in the Child Trust Fund, such as authorised property schemes.

7.6 After discussion with the industry it was agreed that, in order to provide equitable treatment across retail collective investment schemes, both UCITS and non-UCITS retail schemes should have access to the Child Trust Fund provided those schemes do not restrict savers' rights to deal with their savings.

7.7 The regulations bring all non-UCITS retail schemes into the Child Trust Fund provided they do not restrict savers' ability to deal with those funds by more than 2 weeks. This will cover use of the Financial Services Authority rule specifically allowing providers to limit redemption rights or any amendment or waiver to more general redemption rules.

7.8 The existing Child Trust Funds regulations require a provider to open allocated accounts equally across the full range of stakeholders that the provider offers. After discussion with the industry it was agreed that this requirement would restrict the development of new CTF products, products which would be eligible for the stakeholder but which perhaps be more suitable for certain types of investor.

7.9 The amendment allows for the provider to select the stakeholder account to be used for allocated accounts provided the stakeholder account selected is also offered to the general public.

7.10 Chapter 5 of the Finance Act 2005 introduced the concept of alternative financial arrangements for savings products providing similar types of return to deposit savings account. The provisions aimed to give those arrangements similar tax treatment to deposit accounts. It covers savings products such as Shari'a accounts. These regulations will provide those accounts with similar treatment to deposit savings accounts by including them as qualifying investments of the Child Trust Fund account and by extending the tax exemption afforded to profits arising from such savings products.

7.11 The definition of the Revenue used in the regulations currently refers to the Commissioners of Inland Revenue: this needs updating to reflect the changes made by the Commissioners for Revenue and Customs Act 2005.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it imposes no new impacts on business, charities or voluntary bodies.

8.2 The impact on the public sector is negligible.

9. Contact

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