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Via email to: cp12_33@fsa.gov.uk

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Response to Consultation on a New Capital Regime for Self-Invested Personal (SIPP) Pension Operators

Dear Mr Phillips,

Our responses to your specific questions on the above mentioned consultation are given below, but I would first like to make some general comments.

It appears to us that the existing capital requirements are grossly inadequate to cover the likely costs of sorting out the assets of any SIPP operator who got into financial difficulties (i.e. to correctly identify the assets, liquidate them if necessary or transfer them to a third party). These assets are effectively held in nominee accounts and we know from the past experience of companies such as Lehmans, MF-Global and others that identifying clear ownership of the assets and liquidating them can be enormously difficult and time consuming, particularly if the record keeping of the operating company is less than perfect (as it often is).

As is pointed out in the consultation document, there would also be particular difficulties with "non-standard assets" such as property or unlisted securities, so we agree that SIPP operators including such assets in SIPPs should be required to hold additional capital.

Although we generally oppose additional costs being imposed on financial institutions that the retail investor has to pay one way or another, in this case we believe the suggested increases are realistic and not excessively punitive. We would also expect that any capital required to be tied up by operating firms as a result of this change would, in normal financial markets, be able to generate some returns to offset those costs that might otherwise be imposed on retail clients.

Our detailed answers to your questions are given below:

Question 1. Do you agree that AUA is an appropriate measure of the risk of consumer harm posed by a SIPP operator? Yes

Question 2. Do you agree that non-standard asset types can significantly increase the costs a SIPP operator would incur in a wind-down scenario(including meeting overheads as this process is completed)? Yes

Question 3. Do you believe that it is necessary to raise the fixed minimum capital requirement and, if so, do you feel that £20k is appropriate? Yes, most definitely, but a £20k minimum seems to be on the low side. We agree that the capital requirements calculated from the proposed formula are appropriate for larger assets under management.

Question 4. Do you agree with the capital surcharge as a concept and/ or feel that it is an appropriate component of the capital requirement? If not, how else would you ensure that SIPP operators hold sufficient capital to wind-down a SIPP book containing non-standard asset types? Yes we agree that the proposals are appropriate.

Question 5. Do you have any comments on this approach, or evidence to support an alternative approach? No, this seems the most appropriate way to handle it.

Question 6. Do you think that this list covers all of those asset types that would not incur additional costs should they need to be transferred to another provider? Do you think there are any other asset types that should be included in this list? And, if so, why? Can't think of anything else that should be included.

Question 7. Do the timescales set out above appropriately reflect the time needed to access capital in a wind-down scenario? No comments.

Question 8. Would this rule change incur significant costs to your business? If so, please explain/quantify these costs. This question is only applicable to operators. Not applicable to us.

Question 9. Do you agree that not all of the existing components of Liquid Capital are relevant to SIPP operators and that Own Funds is a more appropriate form of financial resources? No comments.

Question 10. Do you believe that a transitional period of one year is appropriate? Yes.

Question 11. In your opinion, would this proposal lead to a significant reduction in the level of competition within the SIPP sector? Unlikely because the number of SIPP operators is already quite high. It might reduce the numbers and result in more larger firms because of the capital structure being imposed on smaller operators, but that might not be a bad thing in terms of quality of service to retail investors and would not necessarily reduce competition.

Question 12. Can you provide any evidence or data that might further inform our analysis of the likely impact of our proposal? We do not have that available.

Yours sincerely

Roger W. Lawson
Chairman

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