

# **CAT standards for individual savings accounts**

1. Individual savings accounts (ISAs) offer certain tax reliefs to people saving up to given limits in a given tax year in certain financial vehicles. Details are set out in Inland Revenue regulations.
2. This document defines voluntary standards for **Charges, Access and Terms** for certain kinds of ISA. ISAs which meet these may be described in marketing and other promotional literature as **CAT standard**. The term **CATmark** should be avoided as it may mislead savers by implying that there is an associated logo.

## **Status of the CAT standards**

3. This document defines minimum standards. ISAs which better the standards are also **CAT standard**. For example, an ISA which pays a bonus in certain circumstances (such as a minimum number of transactions) will be **CAT standard** provided that the **CAT standard** terms can be available through that ISA in other circumstances.
4. The standards are additional to the requirements in Inland Revenue regulations and the regulatory requirements about marketing. For example, all insurance ISAs must be single premium products. Similarly, there is only one set of annual limits for savings through ISAs: there is no separate limit for **CAT standard** ISAs.
5. The **CAT standards** are designed to identify a range of straightforward savings products which are simple, clear and fair so that savers should feel confident about choosing them. These products will not however be suitable for all savers. Nor is their performance guaranteed. Accordingly, literature about **CAT standard** ISAs should not imply in any way:

- that they are always suitable for savers; nor
- that their performance is guaranteed; nor
- that CAT standard ISAs are in some way Government approved.

## Mini and maxi ISAs

6. Any ISA can achieve the CAT standard, whether it is a mini ISA or a component within a maxi ISA:
  - a mini ISA meets the CAT standard if its features meet or better the specification for the relevant component set out below; a maxi ISA meets the CAT standard if each of its components meets or betters the relevant CAT standard in its own right;
  - a component of a maxi ISA meets the CAT standard if its features meet or better the specification for the relevant component, taking account of the effect, if any, of any features (such as charges) of the ISA wrapper itself. Where appropriate, the effect of the wrapper should be apportioned among the components of the ISA in proportion to the value of the savings held in each.
7. An ISA manager may sell maxi ISAs which contain both component(s) which are CAT standard and component(s) which are not. A maxi ISA which contains such a mixture of components is not itself CAT standard.
8. A mini ISA, or a component of a maxi ISA, may contain more than one financial product. For these ISAs, the combined effect of the products should be measured against the appropriate standard to determine whether the ISA is CAT standard.
9. A product designed to be held in an ISA may also be CAT standard in its own right. In this case the relevant CAT standard must be met

(or bettered) when the minimum subscription specified in the standard is held in the ISA wrapper. This will allow some providers to give savers the choice of holding a mix of CAT standard and other products in a single ISA.

## **Common features**

10. Providers of ISAs are responsible for establishing whether their ISAs meet the CAT standards. Neither the Treasury nor the regulators will test ISAs before launch. There will be no formal certification of CAT standard ISAs. The financial services regulators will take account of any false claims that ISAs meet the CAT standards in supervising the ISA providers and managers.
11. Providers of CAT standard ISAs must be committed to treating customers saving through these products fairly. This includes use of plain English, together with generally avoiding complex or misleading features in product design. So far as possible CAT standard ISAs should be simple, clear and fair.
12. CAT standard ISAs must be available for sale on their own. Customers should not be obliged to buy some other product with a CAT standard ISA.
13. Providers of CAT standard ISAs must be committed to continuing to provide the product to existing customers. After giving at least a month's notice, they may stop taking new subscriptions from existing customers. Providers may also stop offering a CAT standard ISA to new customers.

## **Changes**

14. Despite initial commitment to continue to provide a CAT standard ISA for existing customers, it may occasionally happen that a provider decides that this is no longer possible. In these unusual circumstances, the provider should where possible give existing

customers at least 3 months' notice. Such providers should also try to arrange for easy transfer of existing holdings in CAT standard ISAs to other ISAs offering equivalent or better terms. Where possible, transfers in these circumstances should entail no charges to be paid by existing savers.

15. Similar notice should apply to product mergers or reconstructions involving CAT standard ISAs, eg where a manager proposes to bring two investment funds together into a single fund.
16. Only in special cases should these standards of notice be disregarded. This might happen, for instance, if the regulator uses its powers of intervention; in insolvency; or in extreme market conditions. If an ISA provider cannot give 3 months' notice of stopping offering a CAT standard product, it should immediately notify its customers, with an explanation, including whether the change is expected to be permanent or temporary.
17. In future the Treasury may adjust the CAT standards. Where possible, the Treasury will consult about any changes which are being considered. Any statement adjusting the standards will specify what, if anything, the change it brings about will mean for existing ISAs which have been sold as CAT standard. In general, the goal will be that savers in existing CAT standard ISAs should not be worse off unless there is some unavoidable external change such as in taxation.

## Cash ISAs

18. The minimum standard for cash ISAs is set out in the table opposite.
19. The interest rate quoted is the annual rate, accrued daily by simple interest. So  $1/365$ th of the annual rate is added each day, and interest of  $n/365$  of the annual rate should be credited to holdings of  $n$  days (where  $n$  is less than 365).
20. There are no requirements about whether CAT standard cash ISA accounts should have particular features, eg cheque books or ATM cards. All kinds of accounts are eligible, providers using high street

outlets as well as those operating postal and telephone operated accounts.

21. Only accounts with credit institutions opened in the name of the saver are eligible for the CAT standard for cash ISAs. For example, there is no CAT standard for cash unit trusts.

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### **CAT standard for cash ISA**

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<b>Charges</b>	No one-off or regular charges of any kind, eg no charge for withdrawals or for any regular service (such as use of ATMs), except that charges for replacements (eg duplicate statements, lost cards) are permitted.
<b>Access</b>	Minimum transaction size no greater than £10. Withdrawals within 7 working days or less.
<b>Terms</b>	Interest rate no lower than 2 percentage points below base rate. Upward interest rate changes to reflect base rate movements within a calendar month. Downward changes may be slower. No other conditions, eg no limits on frequency of withdrawals.

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## Insurance ISA

22. The minimum standard for insurance policies eligible for inclusion in CAT standard ISAs is set out below.
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### CAT standard for insurance ISA

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Charges	Annual charge no more than 3% of the value of the fund. No other charges (eg no separate charge for the guarantee on surrender values).
Access	Minimum premium no greater than £250 lump sum a year, or £25 a month.
Terms	Surrender values should reflect, over time, the value of the underlying assets of the fund. No specific surrender penalties. After 3 years, and thereafter, surrender values should at least return the premium.

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23. The charge quoted is the maximum annual charge, accrued daily.
24. The annual charge covers all the costs of running the ISA. There are to be no additional charges paid by the saver. The cost of transactions in the assets of the fund underlying the insurance ISA (ie dealing costs including stamp duty) should be taken into account in setting the value of the fund.
25. A CAT standard insurance ISA may hold one or more insurance policies. If the ISA wrapper itself entails any additional features (eg additional charges), these should be taken into account in measuring the ISA against the CAT standard.

26. Any kind of insurance policy which qualifies under the ISA regulations is eligible for the CAT standards, provided it meets the criteria in the table. The value of the fund is to be determined, where appropriate, by the appointed actuary.
27. With profits policies can qualify for the CAT standard provided:
- charging arrangements ensure that there are no double charges, eg bonuses declared gross before the single charge (within the limit) is applied;
  - there are no explicit surrender penalties (this does not rule out lower allocation of bonuses in the early years).
28. A CAT standard insurance ISA may permit lump sum savings, or regular savings, or intermittent savings, or any combination of these, provided that the other requirements of the standard set out in the table are met.
29. Where a series of insurance ISA policies is sold, the surrender value underpin applies to each policy separately.
30. Where a sequence of premium payments is made into a single insurance ISA, the surrender value requirement applies to each premium separately. For example, if there are monthly premium payments, the surrender value after 3 years must be no less than the first premium (plus the surrender value without underpin for the other 35 premiums paid); the surrender value after 3 years and a month must be no less than the first 2 monthly premiums (plus the surrender value without underpin for the other 35 premiums paid); and so on.
31. Where a policy has received several premium payments and is partially surrendered, the surrender value guarantee applies to the first set of premium(s) paid, ie first in first out. For example, if a saver has paid regular annual premiums for four years, and on the fifth anniversary of the first payment decides to surrender half the policy, the part surrendered should be the first two payments, to both of which the surrender value underpin applies.

## Stocks and shares ISA

32. Pooled funds eligible for inclusion in CAT standard stocks and shares ISAs are defined in the table below.

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### CAT standard for stocks and shares ISA

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Charges	Total charge no more than 1% of net asset value per year. No other charges to be paid by the saver.
Access	Minimum saving no more than £500 lump sum a year or £50 a month.
Terms	Authorised unit trust, oeic or investment trust as defined below. Fund at least 50% invested in shares and securities (satisfying the requirements in the tax regulations) which are listed on EU stock exchanges. Units and shares to be single priced as in FSA regulations for authorised funds. Investment risk highlighted in literature.

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33. Charges are annual rates, accrued daily in accordance with FSA rules.
34. A stocks and shares ISA may offer facilities for lump sum savings, or for regular savings, or for intermittent savings, or for any combination of these, provided that the other requirements in the standard are met.
35. A CAT standard stocks and shares ISA may hold units or shares in one or more funds which meet the requirements in the table above. If the ISA wrapper itself entails any additional features (eg additional

charges), these should be taken into account in measuring the ISA against the CAT standard.

36. A CAT standard stocks and shares ISA may hold units in eligible unit trusts and/or shares in eligible OEICs and/or eligible investment trusts (as defined in Inland Revenue regulations, including those foreign funds which may be marketed in the UK). If the ISA wrapper itself entails any additional features (eg additional charges), these should be taken into account in measuring the ISA against the CAT standard.
37. The method of single pricing to be used is as permitted in FSA's regulations for authorised collective investment schemes. The unit or share price reflects the value of the underlying fund, which bears dealing costs and stamp duty on transactions in the fund assets. These dealing costs are not to be scored against the annual charge limit.
38. The total annual charge specified is the limit on all charges borne by the saver. Where dilution levy or stamp duty on dealings in units or shares is charged, the annual charge must cover these additional cost(s). The saver must pay nothing extra.
39. CAT standard funds authorised in 1999 or later must make only a single annual charge; there must be no other charges on the fund. Funds authorised before 1999 may meet the CAT standard provided that the total of all expenses charged to the fund is within the limit in the table.
40. For investment trust companies, the following conditions apply:
  - investments must be spread and limited in the same way as the FSA rules for authorised unit trusts and OEICs;
  - gearing must not exceed 10% of the fund's net asset value;
  - no split share classes;

- single pricing as in FSA's rules for collective investment schemes
- stamp duty charged on purchase of shares is to be met out of the annual charge.

The regulator will treat investment trust ISAs as packaged products.

41. Both actively and passively managed funds are eligible provided the conditions in the table above are met.
42. Gilt and bond funds are eligible, provided that all the other criteria are met. In the case of bond funds, this may rule out funds invested in shorter dated assets.

*Financial Services*

*H M Treasury*

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