BlackRock

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HM Treasury
1 Horse Guards Rd
London
SW1A 2HQ

Submitted via email to: ukisaconsultation@hmtreasury.gov.uk

RE: UK ISA

BlackRock[1] is pleased to have the opportunity to respond to the consultation on UK ISA, issued by HM Treasury ('**HMT**').

As an asset manager, BlackRock is a fiduciary that manages investments on behalf of investors across a range of markets and asset classes. Our investment approach is rooted in our fiduciary duty: we start with our client's objectives, we seek the best risk adjusted returns, and we underpin our work with research, data, and analytics.

We welcome the opportunity to comment on the issues raised by this Consultation Paper and will continue to contribute to the thinking of HMT on this and other topics.

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BlackRock welcomes the opportunity to respond to HMT's consultation on the design and implementation of the UK ISA. Indeed, BlackRock's mission is to help more and more people experience financial wellbeing and so we welcome HMT's objective to support a culture of investment in the UK.

Given the stated aim of the UK ISA is to support the competitiveness of UK businesses, the definition of qualifying investment must be suitably broad to ensure that all investment funds which support this aim are deemed eligible for the UK ISA, alongside UK listed companies, including Investment Trusts, and corporate bonds.

It is also vital that the inclusion of funds is done on a domicile agnostic basis to ensure that funds which are domiciled outside the UK, but support the UK economy, for example an ETF which tracks the FTSE 100, are captured by the definition.

Finally, we would stress the need to maintain as much consistency as possible with existing ISA rules to keep the wrapper simple to understand for investors. Any added complexity could cause confusion and ultimately damage the ISA brand.

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Defining the UK ISA

Collective Investment Vehicles

[1] BlackRock is a leading provider of investment, advisory and risk management solutions, and has been active in the UK for over 50 years. Our purpose is to help more and more people experience financial well-being.

Investment funds must be eligible for the UK ISA.

As the consultation document rightly notes, funds can offer a range of benefits, including simplicity, low cost, and flexibility. They also offer diversification which reduces risk in a way that would be nearly impossible for retail investors to achieve by their own direct investments.

Furthermore, because they pool the money of a number of investors and then invest it, they enable every individual to benefit from the growth of capital markets on the basis of small amounts of money.

With this in mind, it is imperative that funds are included in the UK ISA. Not doing so would reduce consumer choice and be detrimental to the attractiveness of the wrapper.

We would also stress the need to ensure that the inclusion of funds is done on a domicile agnostic basis. We believe it would be a poor investor outcome if a FTSE 100 ETF, domiciled in Ireland, was unable to qualify for the UK ISA, given the role of index products in supporting listings and the stated aim of supporting UK capital markets.

Funds sold into the UK have to comply with the Overseas Funds Regime, which means that, in terms of investor protection, they have been deemed to be equivalent to UK funds. We therefore see no need to restrict UK investor access in this wrapper.

Thinking specifically about ETFs, the benefits are scale, so setting up a new UK based fund of, say, £100m could not compete in terms of liquidity with a well-established one of £10bn. Indeed, our *iShares Core FTSE 100 UCITS ETF* and *iShares FTSE 250 ETF* are two of our popular funds for ISA investors, who have invested in these funds in order to get exposure to UK Capital Markets. It would be a confusing outcome for consumers if funds like these did not qualify for the UK ISA.

In terms of minimum requirements for each of the underlying investments and how this would be monitored by ISA managers, this needs to be as simple as possible and we would strongly caution against introducing a new labelling regime for UK investments. We would instead suggest aligning with classification schemes which are already in market, including the IA Fund Sectors. Funds which are classified within the UK sector should be deemed eligible for the UK ISA.

Corporate Bonds

We are supportive of corporate bonds being included in the UK ISA, as UK businesses can be supported both through equity and debt instruments. In line with this, we believe that collective investment vehicles which hold UK corporate bonds should be eligible for the UK ISA.

Design of the UK ISA

As a starting point we would stress the need for simplicity in the UK ISA regime.

With this in mind, we are supportive of HMT's proposals to maintain consistency with the existing Stocks and Shares ISA regime and rules, namely: having the same tax benefits as an ISA; allowing investors access to funds within 30 days; and including UK focused investments that would otherwise already qualify for an ISA.

There is a fundamental point to consider around how the wrapper is designed and its interaction with the existing market and Consumer Duty rules. As the consultation document lays out, there is a trade-off between consistency with the current ISA regime and ensuring the design meets the UK ISA policy objective. This trade-off includes much less flexibility within the UK ISA wrapper when compared with the Stocks and Shares ISA, for example stricter rules around transfers and holding cash.

What this means in practice, is that for people who have not used the entirety of their ISA limit, they would be better placed investing in UK Capital Markets via the Stocks and Shares ISA. This presents a challenge for ISA platforms whether they offer the UK ISA alongside existing ISAs, available to all customers, or on top of the existing Stocks and Shares ISA, available to those who utilise their entire ISA allowance.

The joint proposals from the FCA and HMT on *Targeted Support* could, in time, alleviate this issue. However, depending on the sequencing of these two proposals, ISA platforms may face challenges over how they market the UK ISA, while delivering good outcomes for customers.

Finally, we would encourage Government to think about resolving other barriers to retail investment in UK capital markets and further efforts to move people from cash to investment.

Notably, the level of stamp duty on share transactions is uniquely high among peers. Removing these taxes could lower transaction costs, potentially boosting trading volumes, enhancing liquidity, and ultimately fostering a more vibrant and competitive market environment.

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Conclusion

BlackRock's mission is to help more and more people experience financial wellbeing and so we welcome HMT's objective to support a culture of investment in the UK.

With this in mind, it is imperative that the UK ISA includes investment funds, which support the UK economy and provide an efficient way for investors to diversify their portfolio and ultimately reduce risk.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of HMT on any issues that may assist in the final outcome. We welcome further discussion on any of the points that we have raised.

Yours faithfully,

Nick Hutton
Head of BlackRock's UK iShares & Wealth
nick.hutton@blackrock.com

Muirinn O'Neill
Global Public Policy Group
muirinn.oneill@blackrock.com