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## EXPLANATORY NOTE

*(This note is not part of the regulations)*

These Regulations further amend the Individual Savings Account Regulations 1998 (S.I. 1998/1870). The principal effect of the amendments is to allow shares or units of UCITS schemes operating under the widened investment powers in the UCITS Amending Directive (2001/108/EC) within the stocks and shares component of Individual Savings Accounts. This is subject to a 5 year test that the investor is not certain (or near certain) of the return of 95% of his initial investment (the “95% test”). If the test is not met the shares or units can fall within the cash component.

Regulation 1 provides for citation, commencement and effect.

Regulations 2 to 8 amend S.I. 1998/1870. Regulations 3 and 4 deal with definitions in those Regulations. Regulation 5(a), and (b) provide for the replacement of an existing test for securities schemes, warrant schemes, fund of funds schemes and foreign UCITS, by the 95% test, with effect from 6th April 2004 (the position for existing investments on that date is preserved by regulation 5(d)). Regulations 5(c), 6 and 7 allow shares or units in UCITS schemes operating under Chapter 5 of the Financial Services Authority CIS Handbook (containing the widened UCITS investment powers referred to above) within the ISA, and introduce the 95% test. Shares or units of securities schemes, warrant schemes, fund of funds schemes, foreign UCITS and UCITS schemes operating under Chapter 5 are eligible for the stocks and shares component, or cash component, dependent on that test.

Regulation 8 makes consequential amendments to the reporting requirements for ISA managers.

A Regulatory Impact Assessment for these Regulations is available on the Inland Revenue website [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) or by post from Room 135, New Wing, Somerset House, Strand, London WC2R 1LB.