EXPLANATORY MEMORANDUM TO

THE NATIONAL SAVINGS STOCK REGISTER (AMENDMENT) REGULATIONS 2012

2012 No. 1877

1. This explanatory memorandum has been prepared by the Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 These Regulations amend the National Savings Stock Register Regulations 1976 S.I. 1976/2012 (the "1976 Regulations"). Their purpose is to alter certain features of the fixed interest stock offered by National Savings and Investments ("NS&I") so as to modernise and make more cost-effective the administration of such stock and facilitate the introduction of a new computer system. These Regulations will also assist NS&I to manage the risks of money laundering and fraud.

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

3.1 None.

4. Legislative Context

4.1 The Treasury raises money under section 12 of the National Loans Act 1968 (c. 13) by issuing securities under the auspices of the Director of Savings, who is a statutory office-holder and the Chief Executive of NS&I. Securities issued under the auspices of the Director of Savings (other than savings certificates), which offer a fixed rate of interest for a specified period of time ("fixed interest stock"), are governed by the 1976 Regulations and contractual terms and conditions.

4.2 The Treasury wish to change certain features of fixed interest stock, as set out in paragraph 7 below, and to do so need to amend the 1976 Regulations.

4.3 The amendments made by these Regulations are similar to those made by the Savings Certificates (Amendment) Regulations 2012 and the Savings Certificates (Children's Bonus Bonds) (Amendment) Regulations 2012. These instruments have been laid on the same date as these Regulations.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

- ***What is being done and why***

7.1 NS&I is engaged in a programme to modernise its products, as part of its remit to provide the Government with cost-effective retail financing. The current phase of the programme requires changes to be made to its fixed interest stock, such as Guaranteed Growth Bonds and Guaranteed Income Bonds.

7.2 The amendments made by these Regulations, and the changes that they facilitate (such as electronic applications and increased maximum holding limits for joint customers), will have effect for all fixed interest stock issued on or after 20 September 2012. This is the coming into force date.

7.3 Except where specifically described below, fixed interest stock issued before these Regulations come into force will continue to operate in an unchanged manner until the end of the fixed interest term that is current on 19 September 2012. If repayment of that fixed interest stock has not been requested by the end of that term and, instead, the stock commences a new fixed interest term, the amendments made by these Regulations, and the changes that they facilitate, will have effect from the beginning of that new term.

7.4 The Regulations use the term “new stock” to refer to the two categories of affected stock mentioned above.

<u>Communication and manner of operation</u>

7.5 Fixed interest stock is currently managed by post. To lower operating costs, to meet customer demand for easier access and to improve the security of fund transfers, NS&I intends to allow the holders of new stock the opportunity to manage it online or by telephone. In order to permit the Director of Savings to make these options available, it is necessary to amend certain provisions in the 1976 Regulations, which require applications to be made in writing.

7.6 In addition, the requirement to issue a certificate or subscription book in respect of stock is to be replaced by an obligation to make available to customers an investment record. This amendment will apply to fixed interest stock issued after 19 September 2012 and to other fixed interest stock from the anniversary of its date of issue that falls after 19 September 2012 and before 20 September 2013. It will facilitate the timely introduction of the new computer system.

<u>Holding limits</u>

7.7 The 1976 Regulations provide that a person may not purchase stock if that would result in that person holding more than is permitted by the terms and conditions of that stock. For these purposes a person’s holding includes the full value of both stock they hold individually and stock they hold jointly. This has been recognised as being unfair as it means customers who prefer to invest jointly are able to invest a smaller amount than those who prefer to invest individually.

7.8 To address this point, regulation 5 of these Regulations removes the requirement to take account of the full value of joint holdings and permits the manner in which the value of a person’s holding is to be calculated to be determined by the terms and conditions. It is intended that this flexibility will be used to offer a variation of the terms and conditions applying to new stock to the effect that each joint holder will be treated as holding an equal share of jointly held stock. This change will allow joint customers to subscribe for a greater value of stock than is currently the case.

7.9 Under the 1976 Regulations, stock inherited from a deceased holder does not count towards a person's holding for the purposes of applying the limit. Regulation 5 provides that this rule will not apply to new stock. This change is being made to bring the provisions governing fixed interest stock into line with the provisions governing savings certificates.

Forfeiture of new stock

7.10 Regulation 7 introduces different provision for forfeiture of new stock. New stock may be forfeited in a broader set of circumstances than is currently the case. However, unlike under the current provisions, holders of forfeited new stock will have the right to receive payment of at least the nominal value of their stock. This amendment will bring NS&I's position more into line with commercial banks which tend to benefit from extensive termination clauses in the terms and conditions of their products.

Interest

7.11 The terms and conditions for NS&I's products set out different methods for calculating and capitalising interest. In order to offer an integrated and transparent product range using a single computer system it is necessary to adopt a uniform method for calculating and capitalising interest. In this context, these Regulations address two issues.

7.12 The first is that, following changes in industry practice, it has been recognised that NS&I's existing practice in relation to interest in a leap year causes disadvantage to customers. Guaranteed Growth Bonds and Guaranteed Income Bonds currently operate on the basis that a customer will receive the same amount of interest in a leap year as they would in a normal year. Regulation 12 inserts provision providing for the accrual of interest on a daily basis, with the result that customers will receive an additional day of interest in a leap year than they would in a normal year. In order to facilitate the introduction of the new computer system this amendment is to take effect for fixed interest stock issued after 19 September 2012 and for other fixed interest stock, from the anniversary of its date of issue that falls after 19 September 2012 and before 20 September 2013.

7.13 The second relates to the manner in which interest is paid on a product called Fixed Rate Savings Bonds, which has not been offered to new customers since 2008. The terms and conditions of Fixed Rate Savings Bonds offer holders the opportunity to receive interest by dividends, received monthly or yearly, or by capital growth, received monthly or yearly. In order for Fixed Rate Savings Bonds to operate in the standardised environment of the new computer system, for any term commencing after 19 September 2012, the holder's election as to the payment of dividends or capital growth will become irrevocable. Interest will then be paid in the same manner as on other products, that is to say monthly dividends or annual capital growth.

Payment to third parties

7.14 Various provisions relating to payments to third parties, have, in respect of new stock, been replaced by the provision inserted by regulation 14 of these Regulations. This provision allows holders to authorise a third party to make application for, or receive, payment relating to new stock. However, this authority may only be given with the approval of the Director of Savings. Regulation 14 will allow NS&I to exercise greater control over this type of activity and will allow more effective management of potential money laundering and fraud risks.

Joint holders

7.15 These Regulations make two amendments with regard to the management of joint holdings. The first relates to the manner in which the Director of Savings communicates with joint holders. The 1976 Regulations are currently silent as to how such communication should occur. The existing administrative practice has been to communicate information solely to the joint holder first named in the National Savings Stock Register, unless other arrangements have been made with the holders of the stock. Regulation 15 provides legislative backing for this existing practice.

7.16 The second provides additional flexibility in the management of joint holdings. Where fixed interest stock is held in joint names the 1976 Regulations currently require all holders to give any instructions together. This requirement would prevent joint customers from operating their holding online or by telephone as there would be no practical means for NS&I to ensure that any instructions received had been given with the authority of all joint holders. To address this problem, regulation 16 of these Regulations permits joint holders of new stock to make an application authorising one of their number to manage the new stock on their behalf.

Trusts

7.17 Regulation 17 introduces increased protection for the Director of Savings in respect of trust holdings. This amendment is to apply straightaway for all stock, as it merely brings the protection offered by the 1976 Regulations into line with the protection offered by other legislation governing NS&I’s products.

Indemnity in respect of payments by electronic transfer

7.18 Making payments by electronic transfer gives rise to certain risks for the Treasury and the Director of Savings. Regulation 25 provides protection where loss is suffered by customers as a result of matters that are beyond the control of the Director of Savings.

Revocations

7.19 These Regulations revoke two obsolete provisions. The first relates to the charging of commission on certain transactions in stock. The Director of Savings has not charged a commission on transactions in stock since the closure of the National Savings Stock Register to gilts in 1998. The second relates to the charging of fees on awards made under section 5 of the National Debt Act 1972 (c. 65) by the Chief Registrar of Friendly Societies on the settlement of disputes. Section 5 of the 1972 Act has been repealed and it is no longer possible for disputes to be referred to the Chief Registrar. These revocations have effect in respect of all stock from 20 September 2012..

- ***Consolidation***

7.20 It is intended that the rules set out in the 1976 Regulations and the enactments that amend them, will be consolidated within three years of these Regulations being made.

8. Consultation outcome

8.1 No consultation was conducted in relation to these Regulations.

9. Guidance

9.1 No guidance has been produced for this legislative change. However, NS&I will provide information and guidance to customers before they are impacted by the proposed changes, including personal communications where this is appropriate. Revised terms and conditions will be published on NS&I's website (www.nsandi.com).

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 While no specific review of these amendments is planned, the Treasury keeps all legislation governing NS&I under review, to ensure that NS&I is able to carry out its functions effectively.

13. Contact

13.1 Jackie Paterson-Borland at NS&I (Tel: 020 7932 6701 or email: jackie.paterson-borland@nsandi.com) can answer any queries regarding the instrument.