

CHILD TRUST FUNDS ACT 2004

EXPLANATORY NOTES

COMMENTARY

Section 3: Requirements to be satisfied

19. This section sets out the requirements to be met for accounts to qualify as CTF accounts. *Subsection (1)* provides for financial institutions (referred to as “account providers”) to be approved by the Inland Revenue before they can offer CTF accounts. The details of this approvals process will be set out in regulations and will be based on the approvals process for Individual Savings Accounts (ISAs) with which financial institutions are already familiar.
20. *Subsection (2)* provides that the only accounts which will qualify as CTF accounts will be accounts of the descriptions specified in regulations. Under these regulations providers will be able to offer a wide range of accounts to meet different needs. The CTF account will be a “wrapper” in a similar way to the ISA, that is it can be wrapped around a variety of products such as cash, unit trusts or life insurance. Accounts which do not meet the requirements specified will not be CTF accounts.
21. *Subsection (3)* provides that the regulations governing the approval of providers may require providers to offer certain types of CTF account as a condition of approval as CTF account providers. The regulations will require all providers to offer the stakeholder CTF account which will include investment in equities. This will allow families to benefit from the potentially higher returns from equities over a long period such as eighteen years. The risk of a loss in value associated with equities will be reduced by the requirement to spread the equity investment over a number of companies and to move the CTF investment from equities to safer assets such as cash or gilts as the maturity date approaches.
22. *Subsection (4)* sets out the key requirements that CTF accounts will have to meet:
 - accounts will be held in the child’s name;
 - that child will be the beneficial owner of the savings and investments in the account;
 - income and gains on investments in the account will themselves become investments in the account, and so cannot be withdrawn;
 - no withdrawals will be allowed from the account except for providers’ administrative charges (these will be expressly permitted under regulations); and
 - the only person who will be entitled to give instructions to the account provider will be a person who has authority to manage the child trust fund.
23. *Subsections (6) and (7)* define who will be the person with authority to manage a child trust fund: namely, the child if the child is 16 or over; otherwise a responsible person (explained in subsection (8)). Where there is more than one responsible person, the responsible person as determined by the regulations will have that authority.

*These notes refer to the Child Trust Funds Act 2004
(c.6) which received Royal Assent on 13 May 2004*

24. *Subsection (8)* defines a “responsible person” in relation to a child under 16. This will be the person with parental responsibility but will not include a local authority looking after a child under 16. Although the account will be beneficially owned by the child from when it is first opened, the account can only be administered by an adult until the child is 16.
25. *Subsection (9)* defines “parental responsibility” by reference to the Children Act 1989 and its Northern Irish and Scottish equivalents. The 1989 Act defines "parental responsibility" as all the rights, duties, powers, responsibilities and authority which by law a parent of a child has in relation to the child and his property.
26. *Subsection (10)* provides that in circumstances prescribed by regulations the person who has authority to manage a CTF account for a child under 16 will be the Official Solicitor or the Accountant of Court.
27. *Subsection (11)* ensures that the Official Solicitor or Accountant of Court will have appropriate powers to manage a child’s CTF account.
28. *Subsection (12)* ensures that contracts made by 16 and 17 year olds in connection with a child trust fund have the same effect as contracts made by those aged 18 or over.