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## EXPLANATORY NOTE

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

These Regulations amend the Individual Savings Account Regulations 1998 (S.I.1998/1870). The principal effects of the amendments are (1) to provide that shares or units in non-UCITS retail schemes (a new type of collective investment scheme recognised by the Financial Services Authority) are qualifying investments for ISA stocks and shares components, provided that the shares or units can be redeemed at least twice monthly (2) to allow deposit accounts with Credit Unions to be qualifying investments for cash components (3) to clarify the wording of the “5% test” (which a number of investments must satisfy in order to qualify for stocks and shares components) and (4) to allow Alternative Financial Arrangements (provided for in the Finance Act 2005 and which include Shari'a contracts) to be qualifying investments for cash components.

Regulation 1 provides for citation and commencement and regulation 2 for amendment of the principal Regulations.

Regulations 3, 5, and 9(a) provide for deposit accounts with credit unions to be qualifying investments for cash components, and regulation 10 permits Credit Unions to manage cash ISAs provided that they have appropriate regulatory permission from the Financial Services Authority.

Regulation 4(a) and (b) make technical amendments to the definition of “fund of funds scheme”.

Regulation 4(c) and 6(d) provide for shares and units in non-UCITS retail schemes to be qualifying investments for stocks and shares components, subject to redemption conditions. Regulations 6(a) and 9(b) remove securities (temporarily) from the “5% test.” Regulation 8 clarifies the wording of the 5% test for other investments. Regulations 9(c) and 11 allow Alternative Financial Arrangements to be qualifying investments for cash components.

A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact (exceeding the de minimis limit) on business, charities or voluntary bodies.