

Press Release

London & Colonial raises concerns over a loophole which will allow esoteric and overseas property investments to continue to be promoted despite increased scrutiny from the FSA

London & Colonial has expressed concern that some advisers will continue to promote questionable esoteric and overseas property developments because of a loophole that will allow them to move the investments into unregulated environments rather than keep them in a SIPP.

The concerns have been raised by London & Colonial, one of the UK's leading pension wrapper providers for UK and overseas customers, despite renewed interest by the FSA which has started to take an increased interest in these investments and those advisers who promote them.

The FSA has become increasingly aware of some advisers having given advice on pension transfers or switches, without having fully assessed the advantages and disadvantages associated with the type of investment they are proposing their clients hold within their pension fund.

Adam Wrench, Head of Product & Business Development for London & Colonial comments:

"Clamping down on the inclusion of such investments may see those advisers who wish to continue promoting them simply start moving clients into some unregulated environment rather than using SIPPs. The most obvious alternatives are perhaps SSASs and QROPS where the FSA has no involvement. However, even if SSASs became regulated, schemes in overseas jurisdictions would be beyond the reach of the FSA.

"For example, one can envisage unscrupulous distributors contriving transfers from, perhaps, good occupational schemes into a QROPS – instead of using a SIPP as has been the concern recently. Also, SSASs may admit non-employees as members and then, given that these schemes do not have to be common trust funds but may be structured as a collection of individual funds, we have a "SIPP look alike" situation.

"This leaves clients' money open to even greater levels of risk, and rather than addressing the problem it simply transfers the problem from the regulated arena of SIPPs into an unregulated one, leaving the FSA powerless to address it."

London & Colonial also points out its belief that the FSA has no desire or intention to begin to regulate the SSAS market and they have no power to regulate the operation of QROPS, although there may well be strong regulation in the jurisdiction where the QROPS is located such as by the FSC in Gibraltar. Consequently, so long as the FSA does not directly control the promotion and sale of the investments themselves irrespective of the eventual holding vehicle, the responsibility for addressing these problems has to fall to the SIPP, SSAS and QROPS providers themselves, as it is they who have the power to either reject or accept any proposed investments.

Adam Wrench continues:

"Providers have a moral responsibility to ensure that any application concerning a potentially unsuitable investment is firmly rejected. The difficulty is that Providers generally do not have authorisation to advise on suitability – this is

one of the key roles of IFAs.

“Providers and IFAs should therefore be working together to avoid future problems and potentially detrimental outcomes for clients. It would be interesting to understand where SSAS providers stand in relation to investment approvals as well as the SIPP providers.”

London & Colonial last year opened an asset allocation investment matrix which takes account of the types of investments being proposed, any financial advice given and also the category of client, such as HNW or CSI.

Not only are these qualifying criteria strictly enforced and regularly reviewed, but London & Colonial also ensures they are applied equally to any potential investment, whether it be destined for a SIPP or a SSAS and also uses similar criteria for the QROPS product which is due to be launched shortly.

-ENDS-

Notes to Editors

About London & Colonial

London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

The London & Colonial Group includes

- (1) London & Colonial Holdings Limited – UK parent company
- (2) London & Colonial Services Limited which is regulated by the UK Financial Services Authority and operates SIPPs and SSASs
- (3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
- (4) L&C (Administration Services 2) Limited and London & Colonial (Trustee Services) Limited which are both based in Gibraltar and offer the EU SIPP.

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