

UK Structured Products Association shocked by flawed IMA research

www.ukstructuredproductsassociation.co.uk

The UK Structured Products Association is disappointed to read the latest announcement from the IMA regarding what they have described as Guaranteed Equity Bonds (“GEBs”).

James Harrington, spokesperson for the UK Structured Products Association, comments:

“The contents of a poorly constructed document that amazingly has the aim of giving a straightforward comparison of tracker funds versus UK government backed structured deposits shows a level of misunderstanding that unfortunately simply goes to highlight a failure within the IMA, rather than a failure of structured investments or structured deposits. Whilst National Savings and Investment (NS&I), as a state owned executive agency of H M treasury, is not a member of the UK Structured Products Association we wish to highlight some of the IMA’s research failures on their behalf in order to provide advisers and investors with some clarity on the subject.

“We note that the IMA has made no mention, nor comparison, in the paper to security backed structured investments, rather they have concentrated on the area they have described as GEB’s. For clarity, this type of product would be considered as a structured deposit.

“Firstly, the IMA has chosen to compare a government backed deposit with a direct equity-invested collective. This is clearly not a fair comparison and potentially very misleading, nor is this a comparison that we would hope any investor or adviser would make. The UK Structured Products Association would at no point suggest that the returns from a structured deposit are designed to outperform equities as the level of risk that is being taken is by definition very different.

“Secondly, the UK Structured Products Association understands from the phraseology used in the paper that they have used NS&I products for comparison because ‘NS&I are transparent about the returns that their investments have received from GEB’s that have matured’. For clarity, the UK Structured Products Association has not at any time, and nor as we understand it have any of its members, been asked to provide any data whatsoever to the IMA that would enable them to review maturities. Had we have been

approached, we would of course have provided any information on maturity values. The information is available in the public domain.

“Any product carrying the ultimate guarantee of the UK government that capital will be returned at a fixed point in time is likely to have a higher ‘premium’ for that guarantee and therefore we can only assume that these products were chosen for comparison in order to give the lowest potential returns. We would ask why, when pursuing this flawed research, the IMA did not choose to compare the returns against any of its members active managed funds? The likely impact of fees and charges against the oft mentioned ‘lost dividends’ would seemingly seem to be a much more relevant piece of research for an association such as the IMA to produce for its members.

“Thirdly, the paper contains many flawed assumptions about structured deposits in general. For example, as the IMA has chosen to use the generic term GEB for the paper, it has stated that GEBs are sold on the basis that there are no fees or charges. That is not the case and we would challenge the IMA to produce evidence that any structured deposit provider makes that claim. What is true, is that the returns a depositor is expecting from saving into a structured deposit is clear and up front. That is, no initial charge will be taken from the clients described returns and nor will any annual management charge have any impact on the prescribed, up front, marketed returns. Clearly, this differs from most equity-linked investments.

“The IMA, as a trade body for the investment fund industry, carries out an excellent role for its members and produces some excellent research that is vital in shaping the UK retail investment market, however, publishing a 13 page document that concludes savers should choose tracker funds instead of cash deposits going forward based on back testing, is not a view that is shared by the UK Structured Products Association, nor is it one we suspect would be shared by regulators and advisers alike.

“We would, as usual, welcome further debate on the matter.”

The membership of the UK Structured Products Association includes: Citi, Credit Suisse, Deutsche Bank, Investec, Legal & General, Morgan Stanley, Prudential, Royal Bank of Scotland, Santander, Skandia and Société Générale.

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Notes to Editors

About the UK Structured Products Association

The UK Structured Products Association (UK SPA) is an organisation established by companies that create and distribute structured products to the UK financial services market in order to provide a useful and responsive source of information, education and comment on structured products by promoting their contribution to effective financial planning.

The Association's formation is a direct response to the members' belief that structured products are sometimes misunderstood and misrepresented and that this lack of understanding can prevent structured products forming an integral part of financial planning for investors.

The UK SPA is committed to publishing research, information and educational material about structured products and so create greater acceptance about their potential.

The UK SPA is not a commercial organisation and education and research are its core activities.

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