

**EXPLANATORY MEMORANDUM TO THE
THE FINANCIAL SERVICES AND MARKETS ACT 2000 (STAKEHOLDER
PRODUCTS) REGULATIONS 2004**

2004 No.2738

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

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Description**

- 2.1 The Regulations give legal form to the recommendations proposed by Ron Sandler (to create a suite of “stakeholder” products) in his Government commissioned review to identify the competitive forces that drive the retail financial industry. In his review, *Medium and Long-Term Retail Savings in the UK* (2002), he noted how industry suffered from complexity and opacity, from problems of access to those on low to medium incomes, and from an inability of consumers to drive the market effectively. One of the review’s principle recommendations was for the Government to develop specifications for a suite of simple, low cost, and risk controlled “stakeholder” products.

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

- 3.1 None

4. **Legislative Background**

- 4.1 The regulations specify kinds of investment that can be made in a “stakeholder product” and therefore define the “stakeholder products”. There is a draft order, Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No 2) Order 2004, that enables the regulations to come into force. The order and regulations come into force on the 6th April 2005.

5. **Extent**

- 5.1 This instrument applies to all of the United Kingdom.

6. **European Convention on Human Rights**

Not applicable.

7. Policy background

- 7.1 The Policies objective is to create a suite of simple, price controlled, and regulated “stakeholder products” that can be sold through a basic sales process, to help drive competition in the industry and improve access to financial services for those on moderate incomes. This instrument, together with the instrument amending the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, fulfil these objectives by creating a new regulated activity, and by specifying the kind of investment that can be defined as a “stakeholder product” for the purposes of that activity.
- 7.2 The policy addresses the problems highlighted in the Sandler review, *Medium and Long-Term Retail Savings in the UK*, of: complexity and opacity, problems of access to those on low to middle incomes, and weak consumers in the financial services industry.
- 7.3 A consultation paper, *Consultation on “stakeholder” saving and investment products regulations*, was published in June 2004. This included draft regulations and an initial Regulatory Impact Assessment and was the subject of a 3 month formal consultation period that concluded on 10 September 2004. The Treasury received 22 formal responses to the consultation from a wide variety of key interested parties.
- 7.4 The change imposed by the regulation is legally important for the implementation of “stakeholder products”.

8. Impact

- 8.1 A Regulatory Impact Assessment is attached to this memorandum.
- 8.2 The impact on the public sector is negligible.

9. Contact

Ted Hart at HM Treasury Tel: 020 7270 5234 or e-mail: ted.hart@hm-treasury.x.gsi.gov.uk who can answer queries regarding the instrument.