EXPLANATORY MEMORANDUM TO

THE NATIONAL SAVINGS STOCK REGISTER (AMENDMENT) REGULATIONS 2013

2013 No. 416

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

2. Purpose of the instrument

2.1 These Regulations amend the National Savings Stock Register Regulations 1976 S.I. 1976/2012 (the "1976 Regulations"). Their purpose is to alter certain features of the variable interest stock offered by National Savings and Investments ("NS&I") so as to modernise and make more cost-effective the administration of such stock and facilitate the introduction of a new computer system (which will enable online and telephone account management if required).

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

3.1 None.

4. Legislative Context

4.1 The Treasury raises money under section 12 of the National Loans Act 1968 (c. 13) by issuing securities under the auspices of the Director of Savings, who is a statutory office-holder and the Chief Executive of NS&I. Securities issued under the auspices of the Director of Savings (other than savings certificates), which offer a variable rate of interest for an unspecified period of time ("variable interest stock"), are governed by the 1976 Regulations and contractual terms and conditions.

4.2 The Treasury wish to change certain features of variable interest stock, as set out in paragraph 7 below, and to do so need to amend the 1976 Regulations.

4.3 The amendments made by these Regulations for variable interest stock are similar to those made to fixed interest stock by the National Savings Stock Register (Amendment) Regulations 2012, S.I. 2012/1877.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is not subject to affirmative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

7.1 NS&I is engaged in a programme to modernise its products, as part of its remit to provide the Government with cost-effective retail financing. The current phase of the programme requires changes to be made to its variable interest stock, namely Income Bonds, to facilitate the move to the new IT computer system.

7.2 The amendments made by these Regulations, and the changes that they facilitate, will have effect for all variable interest stock from 6 April 2013. This is the coming into force date.

7.3 These Regulations extend the definition of the term "new stock" to include "variable interest stock". This brings Income Bonds within the scope of the changes that were introduced to NS&I's fixed interest stock with effect from 20 September 2012 by S.I. 2012/1877. In addition to this, these Regulations make four further changes outlined below.

7.4 First, Regulation 4 inserts a provision whereby the Treasury may vary the terms and conditions of all variable interest stock at any time. This provision applies to existing and new stock. The provision is consistent with the existing terms and conditions for Income Bonds purchased from 2011. It is also consistent with how accounts are operated within the banking industry. As Income Bonds will operate on an account basis in the new computer system, this will ensure that Income Bonds operate on an equal footing with products offered by other firms. In providing that the change will apply to new and existing stock, NS&I will be able to operate Income Bonds on uniform terms and conditions, regardless of when they were purchased. It also allows NS&I more flexibility to make future changes in a more timely manner.

7.5 The amended regulation 5 requires that customers must be given at least 30 days' notice of any detrimental change made in accordance with this regulation. The terms and conditions for Income Bonds will set out the scenarios in which it may be necessary for NS&I and the Treasury to make changes. Customers who were not happy with the change would be able to redeem without penalty. In considering any future changes to terms and conditions, the Treasury is required to act compatibly with the Human Rights Act 1998 and in particular Article 1, protocol 1 of the European Convention on Human Rights. NS&I would also give full regard to treating its customers fairly in accordance with the Financial Services' Authority's banking conduct of business sourcebook, which NS&I follows.

7.6 Second, in order to offer an integrated and transparent product range using a single computer system it is necessary to adopt a uniform method for calculating and capitalising interest. Regulation 7 inserts provision providing for the accrual of interest on a daily basis, with the result that customers will receive an additional day of interest in a leap year than they would in a normal year. This mirrors the changes introduced in S.I. 2012/1877 for fixed interest products.

7.7 Third, changes to contractual arrangements with the Post Office mean that the facility for customers to obtain payment by cash at a branch will no longer be available. Regulation 8 removes redundant provisions that make reference to cash payments.

7.8 Fourth, currently children aged seven and over can purchase and manage Income Bonds by themselves. Income Bonds can be purchased on behalf of a child under seven years of age, but, until that child obtains control at the age of seven, withdrawals can only be made by a person considered by the Director of Savings to be a proper person to do so. Regulations 9 – 12 of these Regulations increase the age at which Income Bonds may be purchased to sixteen in accordance with NS&I's Children's Strategy.

7.9 Income Bonds already held by or on behalf of children under sixteen prior to these Regulations coming into force will be allowed to continue to be held. A child who holds Income Bonds and is already entitled to manage it (by virtue of being at least seven years old) when the amendments take effect on 6 April 2013 will be allowed to continue to do so.

- ***Consolidation***

7.10 It is intended that the rules set out in the 1976 Regulations and the enactments that amend them, will be consolidated within three years of these Regulations being made.

8. Consultation outcome

8.1 No consultation was conducted in relation to these Regulations.

9. Guidance

9.1 No guidance has been produced for this legislative change. However, NS&I will provide information and guidance to customers as they are impacted by the proposed changes, including personal communications where this is appropriate. Revised terms and conditions will be published on NS&I's website (www.nsandi.com).

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 While no specific review of these amendments is planned, the Treasury keeps all legislation governing NS&I under review, to ensure that NS&I is able to carry out its functions effectively.

13. Contact

13.1 Jackie Paterson-Borland at NS&I (Tel: 020 7932 6701 or email: jackie.paterson-borland@nsandi.com) can answer any queries regarding the instrument.