



WING TIPS

It ain't no Hay Day for unlisted

Pensions' administrators have suggested that the simplification of the pension's regime, heralded by A Day is unlikely to encourage a dramatic increase in investment in unlisted companies via Self Invested Personal Pensions (SIPPs), because unlisted companies can't be instantly valued or easily exited, unlike their listed counterparts.

On A-Day eight different sets of pension taxation rules will be replaced by one. The change in rules marks the most radical overhaul of Britain's pension system in the past 50 years. Whilst the Chancellor has already removed some of the most significant, proposed changes to the investment rules, i.e. the ability to invest in antiques and art, investors will still be able to invest in unlisted companies via their pension from the 6 April.

Suffolk Life, one of the UK's leading providers of specialist pension products has been receiving up to ten enquiries a day from people who want to move unlisted investments into their Self Invested Personal Pension (SIPP). However Gordon Banks, Head of Investments at Suffolk Life explained that whilst they will allow unlisted to be held in a SIPP, it may not prove straightforward because valuations will be very difficult and in the event of a client's death or certain other events, the shares can't be easily sold.

Banks went onto explain that Suffolk Life generally value the SIPP portfolios they administer on behalf of clients, on an annual basis but they may need to do additional valuations on an ad-hoc basis. To complete this process, SIPP administrators need a share price for each company within the portfolio. If the shares are unlisted, this may not be available. To supply it the investee company would have to go through a valuation process. Steve Clarke of JamesCowper Chartered Accountants advised that this could cost anything between £750 and £10,000 per valuation, depending on the complexity. Clearly if the cost is at the lower end of this range, then the problems of providing regular valuations are mitigated.

However, the company will still need to reassure the administrator that the shares can be fairly easily exited. This will be difficult without the provision of some kind of share trading facility. Even with a share trading facility in place, there still needs to be a buyer for the shares and many smaller companies struggle to generate buy side demand, although the use of services such as AngelNews can help stimulate demand. This problem becomes even more significant if the investment to be exited is particularly large as the company may have to find multiple buyers.

Commentators have also expressed concern that because a SIPP is not an occupational pension scheme, under the Finance Act 2004 definitions it will be possible, post A-Day for an investor to use their entire fund to invest in the shares of a single unlisted company. This scenario is most likely to occur where the unlisted company is also the individual's employer. This is an extremely high risk approach, and even if the company concerned was a FTSE 100 company, any financial adviser would discourage an investor from 'putting all their eggs in one basket'. It highlights the need for companies to ensure that employees have access to good quality financial advice at the point of plan maturity. Employers should also bear in mind that if the company's shares are unlisted then finding that advice could be challenging since very few financial advisers have experience of dealing with unlisted companies.

Whilst SIPPS tend to be more popular with Higher Net Worth and Sophisticated Investors, the new regime also impacts on occupational pensions. Consequentially unlisted companies, who offer employee share plans and plan to allow employees to transfer maturing shares into their occupational pension also need to plan ahead to ensure that their shares can be valued and traded, or employees may end up being disappointed and at worst disincentivised.

There is no doubt that if investors can hold unlisted investments in a pension, whilst also having access to a valuation and an exit route to satisfy administrators, then it will encourage more people to consider investing in unlisted companies. Given that encouraging more angel investments is one of the business angel industries key objectives, it may make sense if advisers, companies and angel networks were to work together to develop a simple, cost effective model for the provision of an exit route and valuation mechanism.

That model would have to address concerns that companies may have about cost, admission, ongoing reporting requirements and transferability of shares (and it is possible to provide a trading facility that accommodates restrictions on transferability) but all of these issues can be addressed through adequate consultation and good design.

A Day does present an opportunity, but the industry needs to put in some thought and hard work to make the best of that opportunity.

For further information on ShareMark please contact Emma Vigus, on 01296 439 435 or visit www.sharemark.co.uk.