1 INTRODUCTION

1.1 The Association of British Insurers (ABI) welcomes the opportunity to respond to this consultation exercise and to have attended the seminar on 20 December.

1.2 We would draw attention to our response to the HM Treasury/Inland Revenue document “Promoting more flexible investment in property: a consultation” issued in March 2004.

1.3 Our assessment is that the UK-REIT, as proposed in the current consultation, is unlikely to prove an attractive vehicle to UK insurers, the largest institutional element in the UK commercial property market. This assessment may possibly be subject to modification when the conversion charge and its mechanism are announced in the 2006 Budget.

2 DETAILED COMMENTS

2.1 We note that UK-REIT will be restricted to companies resident in the UK and publicity listed on a Recognised Stock Exchange. In our response to the March 2004 consultation we proposed greater flexibility encompassing open ended, close ended unlisted and close ended listed vehicles. We remain unpersuaded that investor protection is best or only served by a close ended listed vehicle (see para 2.18 of our response to the March 2004 consultation).

2.2 The restriction of ownership to no more than 10% of the quoted vehicle is a major disincentive to insurance companies (and others). Given their fiduciary duties to policyholders/investors it is difficult to envisage that insurers will happily accept participation in a vehicle whose regulatory status will be at risk from the action of other shareholders over whom the insurer has no control.

2.3 Members are of the view that a requirement to distribute at least 95% of net taxable ring-fenced profits would leave insufficient retained finance
within the vehicle to maintain the quality of stock (see para 2.25 of our response to the March 2004 consultation).

2.4 Members note the proposed interest cover test and its impact on gearing and their preference for a market determined level (see A5 of our response to the March 2004 consultation).

3 CONCLUSION

3.1 Whilst acknowledging the tax issues that have been a significant driver to the current proposals, absent further significant changes to these proposals it is unlikely that UK-REIT will prove an attractive vehicle to UK insurers.