Guardian Stockbrokers

UKVI Update: Statement of Changes to the Immigration Rules.

Following on from the announcement on 7th March 2019, we have outlined the changes to the qualifying investment rules for UK Tier 1 (Investor) visa applicants.

- £2m, £5m and £10m thresholds remain unchanged.
- 90 day requirement for investment funds now extended to 2-years, thus providing greater assurance regarding the provenance of applicants' funds.
- Tightening of the rules around investment in companies.
- Removal of government bonds (gilts) qualifying investment status.
- New provision to allow pooled investments which also receive funding from a UK or devolved government department or one of its agencies, such as the British Business Bank or the Scottish Investment Bank.
- The exclusion of other types of pooled investment vehicles remains.

7.22

Additional changes are being made to ***increase the economic benefits of qualifying investments to the UK:***

- ***Investment in UK government bonds is being excluded, to incentivise Tier 1 (Investor) migrants towards other forms of investment which have greater need to attract additional investment funds.***

The removal of UK government bonds (gilts) as a qualifying investment undoubtedly increases the risk profile for all new applicants. Historically Gilts have been considered a "safe haven investment" providing funds for the UK Government coffers.

- *New provision is being made to allow investment in pooled investments which also receive funding from a UK or devolved government department or one of its agencies, such as the British Business Bank or the Scottish Investment Bank**. This is because such vehicles will have been assessed as being of benefit to the UK economy by the department or agency providing the funding.*** *The exclusion of other types of pooled investment remains, as the Home Office cannot be satisfied that the applicant's funds are being invested to the benefit of the UK economy.*

This means of investment provides investors with exposure to predominantly small and medium sized UK companies. By its very nature this carries a high degree of risk as the failure rate among small and medium sized companies is disproportionately high.

No fewer than 80% of small and medium sized companies fail during the first 18 months compared to larger more established companies. (Source : Bloomberg 02-June-2016)

This failure rate coupled with the lack of transparency and illiquid nature of many of these investments inevitably means that from an FCA suitability perspective, many will consider this qualifying investment neither suitable nor desirable.

In light of the changes outlined in section 7.22 the new risk matrix for investors will now resemble the illustration below.

Low risk	**Medium Risk**	**High Risk**
Corporate bonds	Equity investment	Pooled investment

Post 29th March 2019 UK corporate bonds will become the low risk investment route, providing surety regarding redemption values, where held for the full term, coupled with a secure cash flow. It is worth noting that a corporate bonds credit rating will affect the yield, namely bonds with a rating of BBB (on S&P) or Baa (on Moody's rating) or better are considered "investment-grade."

It is these corporate bonds that seem most likely to become the new "safe haven investment" for the overwhelming majority of UK Tier 1 (Investor) visa applicants.

	MOODY'S	STANDARD & POORS
INVESTMENT GRADE		
Highest quality (Best quality, smallest degree of investment risk)	Aaa	AAA
High Quality (Often called high-grade bonds)	Aa	AA
Upper medium grade (Many favourite investment attributes)	A	A
Medium grade (Neither highly protected nor poorly secured)	Baa	BBB

Finally, equity portfolios remain a qualifying investment class post 29th March 2019.

Similar to corporate bonds, the risk-return payoff applies, thus a rational investor will demand a higher return in order to invest in a company that poses a higher risk.

Unlike corporate bonds, companies are not obliged to pay a dividend, and/or can reduce their dividend if markets deteriorate. This default risk does not apply when investing in corporate bonds.

A second fundamental difference between corporate bonds and equities is the redemption value.
Corporate bonds pay a guaranteed sum on redemption, namely par. This provides a degree of certainty for investors as they will be aware on investment what they will receive on redemption.

This does not apply to equity investing, the price of the equity will fluctuate and there is no redemption date as the equity listing continues indefinitely. For those requiring certainty regarding their initial investment capital, equity investing is generally not suitable.

If you would like to discuss further or have clients looking to invest before the changes on the 29th March, please do not hesitate to get in contact.

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