

170

Financial Services Authority

Informing consumers: product disclosure at the point of sale

February 2003



Contents

1	Executive Summary	5
	Summary of key proposals	7
	The costs and benefits of change	10
	Next steps	11
2	Introduction	12
	Why have a disclosure regime?	12
	The current Key Features regime	13
	The case for change	14
	Purpose of the paper	16
	Relationship with other FSA ‘retail market’ initiatives	17
	Who will be interested?	17
	Structure of the paper	17
	Next Steps	18
3	Feedback on the responses to 'Informing Consumers'	19
	Background	19
	Feedback on Discussion Paper questions	19
4	Sifting the options – our use of consumer research	31
	Getting the information read	32
	Getting the information understood	35
	Specific measures for the example	37
	Suitability letters	42
	Building on the research	43

5	The way forward – an analysis of the issues	44
	Information in the buying process	44
	Scope of the regime	45
	Appropriate differentiation	48
	Product information vs full disclosure: 'less is more'	49
	Getting consumers to read the material	52
	The proposed new regime	54
	Other point-of-sale information issues	65
	Consumer education and awareness	66
	Transitional arrangements	67
6	Detailed proposals: consumer information and disclosure for packaged products and cash deposit ISAs	68
	COB 6.1 Application and purpose	68
	COB 6.2 Product information: general	69
	COB 6.3 Production of the key facts document	70
	COB 6.4 Provision of the key facts document	71
	COB 6.5 Quality and presentation of key facts documents	73
	COB 6.6 Contents of the key facts document: general	75
	COB 6.7 Contents of the key facts document: life products and personal pensions including stakeholder pension schemes	78
	COB 6.8 Contents of the key facts document: schemes	78
	COB 6.9 Contents of the key facts document cash deposit ISAs; individual pension accounts; Friendly Society tax-exempt policies, ISAs (excluding cash deposit ISAs) and PEPs	81
	COB 6.10 Contents of the key facts document: the example	82
	COB 6.11 Projections	84
	COB 6.12 Stakeholder pension schemes decision trees	84
	COB 6.13 Cancellation and withdrawal	85
	COB 6.14 Variations to existing life policies	85
	COB 6.15 Information on existing contracts	85
	Current COBS material on pure protection products and the with-profits guide.	85
	COB 5.3	86
	Additions to the glossary	86

Consequential amendments	86
7 Cost Benefit Analysis	87
Introduction	87
The basis for comparison	88
FSA's direct costs	89
Costs estimates common to both life and non-life products	90
Costs estimates for the life industry	92
Non-life costs	93
Costs to consumers	94
Benefit from reducing the number of unsuitable purchases	97
Effect of greater shopping around	99
Summary of costs and benefits	100
8 Compatibility with the FSA's general duties under the Financial Services and Markets Act 2000	101
Introduction	101
The FSA's statutory objectives	101
Matters to which we must have regard when we carry out our general functions	105
Annex 1 Consolidated list of questions	
Annex 2 Summary of research	
Annex 3 Past Performance	
Annex 4 Disclosing charges for 'guaranteed' or derivative-backed products	
Annex 5 Mocked-up version of a key facts document and example for a personal pension product	
Annex 6 Draft rules	

We, the Financial Services Authority (FSA) invite comments on this consultation paper. Please send them by 2 May 2003 by electronic submission using the form on our website at:

www.fsa.gov.uk/pubs/cp/cp170_response.html

Alternatively, please send comments in writing to cp170@fsa.gov.uk or to:

Louise Evans
Conduct of Business Standards Division
The Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7676 5662

Fax: 020 7676 9717

It is our policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. The names of all non-confidential respondents will be published.

1 Introduction and executive summary

- 1.1 Consumers in the market for retail investment products are at a particular disadvantage: the products are widely marketed, but bought infrequently by each individual. The products themselves are often complex and opaque in terms of the way they work. And while the returns on an investment can exceed those available from alternatives such as deposits, there are also material risks that consumers need to understand and accept before they buy. So rules prescribing the delivery of information about products – a disclosure regime – are a familiar regulatory response to the information imbalance existing between customers and providers of financial services.
- 1.2 It is clearly in consumers' (and, we believe, in firms') interests that the disclosure regime for these products should be as effective as possible so that they can make more informed decisions about what they are buying and the consequences of their purchase.
- 1.3 This Consultation Paper (CP) explains the measures we propose to introduce to improve the effectiveness of product disclosure for packaged products¹.
- 1.4 The current regime was introduced in 1995 (1998 for non-life products²). Its purpose is to give consumers the information they need in order to make an informed decision, and to do so in a way that enables them to compare products. At its core is the Key Features Document (KFD) which firms must give to consumers before they buy a packaged product.
- 1.5 The content of KFDs is split into a number of sections covering aims, commitment, risks and charges information. The detailed information disclosed will vary depending on the different type of product, and the quality of production and language used can also vary considerably from firm to firm.

1 Packaged products are: life policies with an investment element; personal pensions, including stakeholder pension schemes; units or shares in collective investment schemes; investment trust savings schemes.

2 Non-life products are collective investment schemes and investment trust savings schemes.

- 1.6 KFDs also contain an illustration of how product charges affect what the consumer might get back. In many cases, mainly for life products, the illustration must reflect the particular consumer's circumstances. Firms may produce these illustrations in a document separate from the main text of the KFD.

The review

- 1.7 KFDs have had some success at a high level because their transparency about charges appears to have acted as a catalyst for firms to reduce the cost of their products. However, as a consumer information document, the KFD has been less successful.
- 1.8 Our November 2000 Discussion Paper (DP) *Informing consumers: a review of product information at the point of sale* signalled our intention to review the KFD regime, and offered ideas for discussion about what improvements could be made.
- 1.9 The paper explored the evidence that suggested that the current regime is ineffective. One of the key problems in the current regime is the fact that consumers do not read the KFDs they are given. Many rely on what they are told by advisers, or they confuse the KFD with marketing material and dismiss it.
- 1.10 So the main focus of our work has been to develop a document that consumers will recognise and be better motivated to read, and which, when read, is well understood. In addition, a significant aspect of making an informed choice is understanding what factors influence the suitability of a product. This issue is also central to our design of the new regime. We have sought to reduce the overall volume of information to be provided in the core document, and to focus on suitability and product costs.
- 1.11 In this CP, we give detailed feedback on the responses to '*Informing Consumers*'. In general, these were broadly supportive of our approach, although many respondents were concerned about the cost and upheaval of revising the regime at a time when the industry faces other significant changes.
- 1.12 The paper also explains how the proposed new regime will act as the vehicle for the UK's implementation of the simplified prospectus requirements of the UCITS III Directive³.
- 1.13 We have attached, at Annex 2, a summary of the consumer research conducted to identify revisions to the disclosure requirements, which were capable of delivering significant improvements to the current regime. And we

3 A UCITS is an undertaking for collective investment in transferable securities – broadly, a collective investment scheme or OEIC.

comment in the CP on the particular findings that have influenced the new design.

- 1.14 We then examine the policy issues underlying the revisions to the regime, and set out the scope and detailed content of the new regime. Lastly, we explain our analysis of the costs and benefits of the proposals, and set out our reasons for believing our proposals to be compatible with our statutory objectives.

Summary of key proposals

Scope of the regime

- 1.15 The overall scope of the regime – in terms of the products to which it relates - will be largely unchanged, although we have slightly extended the circumstances in which product information has to be given (largely to comply with EU directive requirements). We also explain that we are still considering whether suitably tailored disclosure requirements for some classes of complex product not currently caught by the regime could help address the risks to consumers.

Changes to Key Features

- 1.16 The new regime will replace ‘KFDs’ and ‘illustrations’ with ‘key facts documents’ and ‘examples’. The main features of the new regime will be:
- we will prescribe the front cover of the key facts document, and permit only limited provider branding (and very limited co-branding). We will also require the FSA logo to be shown with a ‘regulatory message’ explaining that firms are required to deliver the document.
 - The structure and content of the key facts document will be prescribed and will differ in some respects between those for non-life products and those for life and pension products. Our preferred basic structure is that which we will apply to life products; but due to particular constraints arising from the UCITS III Directive, we have had to modify our approach in relation to non-life packaged products (such as unit trusts).
 - Most of the information in the key facts document will follow a Question and Answer format expressed in plain, direct language, using no jargon and simple sentence construction. This will be supplemented, in the case of life and pension products, by a checklist-style ‘Quick Guide’ designed to encourage the consumer to understand key product features relevant to its suitability for their needs.
 - The current illustration for life and pension products and the charges table in non-life key facts documents will be simplified to focus more clearly on

comparability of cost information. This new set of information will be known as the ‘example’. Firms will no longer have to give ‘what you might get back’ projections (except in the case of pension products, to illustrate the ‘buying power’ of an accumulated fund). Pension examples will also include a ‘today’s money’ income equivalent. We have also proposed a standardised way to disclose the ‘critical yield’⁴ in relation to income withdrawal products. And we have proposed a new method for disclosing charges for derivative-backed ‘guaranteed’ products.

Product information vs full disclosure

- 1.17 The new rules make clear that we do not expect the new document to include all possible information about a product (whether in terms of subject matter in some cases or level of detail in others) that a firm should disclose to consumers. Full, clear, fair and not misleading product disclosure, with guidance on the matters to be covered and the timing of their disclosure, is still a fundamental element of the regime. But we recognise that less is more. Attempting to highlight in a consumer-focused document every aspect of a product would be self-defeating, as many consumers would discard the document unread. So firms should not develop the key facts document content beyond a moderate, consumer-orientated level of detail about the issues. Where necessary, they should signpost where more can be found on topics not covered in the key facts text.

Consistency of approach

- 1.18 Ideally, we would have applied broadly the same approach to life and non-life products. But the requirements of the UCITS III directive have constrained our ability to deliver a single set of modifications to the regime.
- 1.19 For most unit trusts, the UCITS III directive requires that investors (whether or not private customers) be offered a simplified prospectus (SP) before they buy. The directive adopts a ‘maximum harmonisation’ approach, which means that Member States cannot add to or subtract from the information that must be included in the SP.
- 1.20 We have therefore designed the key facts document for unit trusts and OEICs to fulfil the SP requirements of the directive. This has meant that, while we could make sure that the SP information is provided in a consumer-friendly way, the key facts documents may still be longer than we might prefer, and we are unable to require the inclusion of material not prescribed by the directive.

4 This is the notional rate of growth that an income withdrawal fund would need to achieve to provide and maintain an income equal to that which the investor could have secured by buying an immediate annuity at the outset.

Branding

- 1.21 We have developed a wider ‘brand identity’ for FSA-mandated material, based around the ‘key facts’ brand and logo. This is central to the identity of the product information document, but the logo can also be used in a much wider range of contexts. This approach should make our consumer awareness messages about important information more consistent and effective.
- 1.22 By including the FSA logo and a ‘regulatory message’ on the front page, we address two problems. First, research told us we needed to make our documents look more ‘official’ without making them boring. And second, consumers were puzzled when shown material that seemed to be from a firm but contained information that was possibly contrary to the firm’s marketing effort. We needed to explain that there was a regulatory influence over what they were being told. Of course, we did not want consumers to take the presence of the FSA ‘brand’ to imply some sort of endorsement. But our testing suggests that the message is sufficiently clear.

Use of Reduction in Yield and its calculation

- 1.23 We have not changed the basis for price disclosure from the current ‘Reduction in Yield’ measure, although we propose a number of measures to improve consumer understanding of the message behind the figure.
- 1.24 We also propose a small change to the rules defining how RIY is calculated. We intend to tighten the existing COB rules to prevent mutual life companies offsetting assumed surplus from non-profit business against charges and expenses so as to disclose a smaller RIY. The rationale for this is that the RIY should be a fair and consistent reflection of the effect of all the charges on a product’s growth, to allow consumers to compare between product providers on a like-for-like basis.

Presentation of past performance information within UCITS documents

- 1.25 Our proposed rules and guidance will require a standardised presentation of a fund’s past performance in key facts documents for schemes.
- 1.26 The question of whether past performance is any indication of future performance and the usefulness of such information to consumers, is a matter of continuing debate. In CP132⁵, we explained that we do not consider past performance to be a useful indicator of future performance for consumers. But the UCITS III Directive requires this information to be included, although the precise form that it should take is subject to current discussions that seek to produce a common EU approach. So the paper sets out our current

5 CP132: The presentation of past performance and bond fund yields in financial promotions April 2002

position, but recognises that we may have to modify or supplement our approach to accommodate the outcome of the EU discussions.

Suitability letters

- 1.27 Our research has shown that the ‘suitability letter’ is read and used effectively by consumers. So we intend to continue to require the delivery of a suitability letter, but will give guidance to the effect that it should be provided as soon as possible after the recommendation. But we have added to the required content to give consumers a wider understanding of the factors that may have influenced a recommendation.

Post-sale confirmation

- 1.28 In contrast with our experience on suitability letters, we have found no evidence that the provision of confirmatory post-sale product information improves consumer use, understanding or likely retention of the information. So we intend to remove the requirement to provide duplicate information post-sale.

The costs and benefits of change

- 1.29 The initial costs to firms arising from these proposals will be substantial – we have estimated them conservatively to be in the region of £100m for life product providers and £10m for non-life product providers. But the continuing costs of compliance with the new regime are unlikely to differ significantly from the current costs.
- 1.30 The system changes required to produce the new example will be particularly significant for life product providers. The one-off costs may also impact more on smaller firms. However, we do consider that these changes are proportionate, whereas in contrast, we rejected options such as greater personalisation because it was judged unlikely that they would deliver benefits that outweighed the costs.
- 1.31 We have estimated the cost of unsuitable sales, which improved disclosure is designed to reduce. We found that for life products, benefits would exceed costs if as few as 36,000 unsuitable purchases a year were avoided over ten years from the start of the full regime. This is around 0.6% of the six million such products purchased a year. A similar proportion of non-life sales would bring benefits off-setting costs for those products.
- 1.32 We will propose substantial transitional relief to reduce some of the initial costs. This will be phased over three years by product type, beginning with non-life products and personal pensions. This approach has the particular advantage of delivering some of the benefits of the new regime early. It also

promotes consistency within product type so consumers will be able to compare like with like at any given time.

- 1.33 We consider these proposals to be compatible with our statutory objectives and the principles of good regulation. We expect the benefits to be substantial and in the longer term to outweigh the costs. There is general recognition that current product information is not effective in informing consumers and we have good evidence to show that many consumers do not have an adequate understanding of products they have bought.
- 1.34 By improving consumers' awareness of factors affecting suitability, and the absolute and relative cost of products, we should reduce the number of unsuitable or poor value products bought, and increase consumer satisfaction and confidence in the system (encouraging growth in the market for investment products).

Next steps

Non-life products: further detail on the content of the simplified prospectus/key facts document

- 1.35 The European Commission is currently facilitating discussions between Member States to agree a common approach to implementation of the simplified prospectus. This work is focusing on the description of the objectives and risk profile of a fund; the costs of a fund; and its past performance, and should be concluded by mid-February.
- 1.36 Therefore, while we set out in this paper our intention to apply a comparable regime to life and non-life products, we will need to publish a supplement to this CP on the detailed content of key facts for UCITS products in February/March 2003, with a shorter, eight-week consultation period, to reflect the outcome of the EU discussions.

Delivery of the final rules

- 1.37 Based on the responses to the CP, we expect to make our final rules in July this year, with a transitional period of one year for non-life products, and phased transition over three years for life products.

This paper will be of interest to consumers. The issues it discusses relate mainly to the consumer protection and public awareness objectives.

In the paper, we set out the measures we propose to introduce to improve the quality of information firms provide to consumers about life policies, personal pensions including stakeholder pensions, unit trusts, investment trust savings schemes and other retail investments.

2 Introduction

Why have a disclosure regime?

- 2.1 The fact that an information imbalance exists between customers and providers of financial services is not new. The products are widely sold but, for many consumers, will be bought only a few times during their lives. The products themselves are often complex and opaque in terms of the way they work. So there is a significant risk of detriment, particularly arising from high front-end charges, but also where a consumer has not fully understood what the product can or cannot deliver, and where its risks lie.
- 2.2 It is clearly in consumers' (and, we believe, in firms') interests that consumers are given full, clear, fair and not misleading information about financial products. This will allow them to make more informed decisions about what they are buying and the consequences of their purchase. But full disclosure is not the end of the story. By regulating the information given to consumers at the point of sale – the disclosure regime – we seek not only to ensure the consumer is informed, but to help him or her make effective use of the information provided.
- 2.3 The product disclosure regime is the subject of great expectations, and also much criticism. It is the most detailed of all the regulatory measures aimed at delivering information to consumers, and it represents the final opportunity in the sales process for us to help consumers understand precisely what it is they are committing to. As such, we must make sure that it operates effectively and efficiently.

The original objectives of disclosure

- 2.4 The regime was originally conceived to meet two objectives:
 - to give consumers the information they need about a product and its charges so that they can make informed decisions about whether or not to buy; and

- to ensure that the information is presented in a format and at a time that helps consumers to make comparisons between products and providers.
- 2.5 In reviewing the regime, we have considered whether those objectives remain reasonable and realistic in the light of experience, and developments both in the marketplace and the regulatory framework. Specifically, we have taken into account consumer buying behaviour, the impact of new technology, and the development of other sources of information for consumers, including our comparative tables. We have also been careful to take account of the way product disclosure operates within the broader context of all of the information sources available to consumers, including other prescribed regulatory material, and the general advice and marketing material supplied by the provider and adviser.

The current Key Features regime

- 2.6 The current regime for disclosure of information about packaged products⁶ at the point of sale was introduced in 1995 for life products and pensions and extended to non-life products in 1997. Known as the ‘Key Features’ regime, it requires firms to give consumers a document – Key Features – before the purchase is concluded. Some of the information must then be provided again after the transaction has been completed.
- 2.7 The content and some presentational aspects of the document are prescribed by the regulator. Broadly, Key Features must set out the aims of the product, the risks involved, the charges to be taken and the commitment that the consumer will be making. This is followed by questions and answers on the principal terms of the product and any other information necessary to enable a consumer to make an informed decision. The timing and manner in which Key Features are delivered are dependent on factors such as whether the sale was the subject of advice or not, and the medium through which the product was sold.
- 2.8 The way that charges are explained is closely prescribed, and is known as an ‘illustration’. It uses detailed tables of projected outcomes based on assumed growth rates to show how charges can affect the return on the product throughout its life. Often, in the case of life and pension products, a consumer’s personal information is used to calculate the figures in the illustration.
- 2.9 In practice, though, the quality and quantity of information contained in Key Features documents may vary greatly. Generally, the documents are produced

6 Packaged products are: life policies with an investment element; personal pensions, including stakeholder pension schemes; units or shares in collective investment schemes; investment trust savings schemes.

as part of a ‘suite’ of brochures provided at the point of sale, and can be indistinguishable from other marketing material.

The case for change

- 2.10 It is difficult to disentangle precisely the impact that disclosure has made when other aspects of the environment have also changed (although we would argue that the introduction of CAT (Charges, Access and Terms) standards was not a significant factor, as it came relatively late in the period we are concerned with).
- 2.11 Many firms have moved voluntarily to a more customer-centred approach to their provision of information, and we acknowledge elsewhere in this paper the contribution that the Association of British Insurers’ (ABI) ‘Raising Standards’ initiative has made in this self-regulatory process. But we still think that removing disclosure requirements would remove some incentives on firms to provide good value products and clear information about them. It is also important to remember that some of the positive effects of transparency do not depend only on consumers’ use of the information.
- 2.12 When we consolidated the regimes of our predecessor regulators into the Conduct of Business chapter of our Handbook⁷, we indicated that we felt the time was right for a fundamental review of the Key Features regime. The market for retail products has changed and developed, including our creation and the development of our new regulatory responsibilities and approach. And the regime itself is known to have had only partial success.
- 2.13 From the introduction of the regime, the Personal Investment Authority (PIA) published an annual Disclosure Report tracking trends in product charges. This suggested that, over the years, charges had fallen in a moderate but steady way, showing improvements from 1995 to 1999 of between 12% for 10 year with-profit endowments and 24% for 25 year mortgage endowments.
- 2.14 But as a means of improving overall consumer understanding and awareness the regime has had less obvious success. Our research has shown that in practice, Key Features rarely form part of the process of shopping around. Consumers are often either unwilling to read the material (largely because they prefer to rely on what they are told by advisers) or they have difficulty understanding and using it⁸.
- 2.15 In our November 2000 Discussion Paper *Informing Consumers: a review of product information at the point of sale* (DP4), we opened the discussion on how the regime could be re-shaped, and offered ideas for discussion about

7 CP45: the Conduct of Business Sourcebook (February 2000)

8 Reflexions Communication Research: *Consumers’ understanding of Key Features Documents* June 2000

what improvements could be made. We set out our understanding of consumers' information needs in both the wider context of the whole buying process, and in terms of their specific needs when deciding whether or not to buy a particular product.

- 2.16 In our consultation on changes to the polarisation regime⁹, we consider the information needs that arise throughout the buying process. We discuss such issues as disclosures about the service to be provided by an adviser and the range of products on which he or she may advise. So in this chapter, we touch on those wider issues only when we explore the use of the 'suitability letter' – the explanation a firm must give to consumers when making a specific recommendation – and the proposals we are making to enhance their effectiveness and value to consumers.

Sandler and simplified products

- 2.17 In July this year, the Treasury published a report prepared for them by Ron Sandler, entitled '*Medium and Long-term Retail Savings in the UK: a Review*'. This looked at the competitive forces and incentives driving the retail investment market and offered policy suggestions to improve competition in the industry and to make retail products more accessible for consumers.
- 2.18 An important element of the report's recommendations was the introduction of a suite of 'simple regulated products', for which the present approach of regulating the advice process should be removed. In making that recommendation, the report recognised that the transmission of effective warnings to consumers about the limitations of the products would be an essential element of any new regime.
- 2.19 Our approach to the development of an appropriate conduct of business regime for simplified products is explained in detail in our Discussion Paper 19: *Options for regulating the sale of 'simplified investment products'* (DP19)¹⁰. But it is clear that this new approach does not relieve the need to improve the current disclosure regime. Consumers will continue to need effective disclosure within the current range of investment products.
- 2.20 We do not yet know whether a modified version of this new regime, or a bespoke disclosure regime, will be appropriate for these new products. This will depend largely on the outcome of the matters discussed in DP19, and the nature of the new products themselves.

9 CP 166 Reforming polarisation: removing the barriers to choice January 2003

10 DP 19: Options for regulating the sale of 'simplified investment products' January 2003

11 Council Directive of 20 December 1985 (85/611/EEC) as subsequently amended.

The UCITS III simplified prospectus

- 2.21 The timing of this review has been influenced by the need to implement the UCITS III Directive¹¹ by August 2003. This directive applies to most collective investment schemes and requires that firms offer a 'simplified prospectus' to consumers.
- 2.22 The content of the simplified prospectus is similar to, but not exactly the same as, current Key Features. So it is clear that we would have had to revise our disclosure regime for schemes to fulfil our obligations under the directive, whether or not we changed the regime for other policy reasons.
- 2.23 We consider the policy implications of the directive in detail in later chapters. However, it is important to note that we have not been able to include all of the proposals we shall be making to implement the directive in this CP. Discussions on the consistent application of certain aspects of the simplified prospectus across all EU member states are currently under way in Brussels.
- 2.24 These discussions have not ended in time for the outcome to be incorporated in this CP. And delaying publication was not an option, if we were to provide a reasonable period for consultation and still have time to prepare our final rules by the deadline. So we plan to publish a supplement to this CP at the end of February 2003 on the further measures that we propose to apply to reflect the outcome of the discussions. This will affect, in particular, the proposals on the way fund objectives and risk profile are described, the disclosure of charges, and the presentation of past performance.

Other considerations

- 2.25 We have liaised with the ABI (in particular with the representatives of the Raising Standards initiative) to ensure that they are aware of progress with the review, and with the Department for Work and Pensions (DWP) so that we could take account of developments in relation to the annual benefit statement (Statutory Money Purchase Illustrations). We have also discussed our interpretation of the UCITS simplified prospectus proposal with the Investment Management Association (IMA).
- 2.26 We have also had regard to the possible implications of the new Distance Marketing directive in developing options for a possible new regime, although work on the implementation of that directive continues in conjunction with HM Treasury.

Purpose of the paper

- 2.27 This CP has two purposes. The first is to summarise and respond to the feedback we received to the questions we asked in *'Informing Consumers'*. The second is to explain the work we have done since then and to open consultation on a set of firm proposals for revising the regime for product information for packaged products.
- 2.28 In this paper we propose changes to that regime, designed to improve the quality, accessibility and comparability of the product information given by firms to their customers at the point of sale.

Relationship with other FSA 'retail market' initiatives

- 2.29 To help understand how all our work affects the retail market for investments, mortgages and general insurance, readers may wish to refer to the special edition of the Handbook Development Newsletter published in December 2002. It can be downloaded from our website at:
http://www.fsa.gov.uk/pubs/handbook/hb_special_dec02/pdf .
- 2.30 This CP is referred to there as paper RM3/3a and relates to the sale of investment products, such as collective investment schemes (unit trusts, OEICS etc) and investment-based life products. We have not discussed the product information regimes for mortgages and general insurance in this paper, as this issue is being dealt with separately for those industry sectors. But some aspects of our approach, and the broad principles we apply, could be applied to a wide range of consumer information and may be relevant to these sectors as well.

Who will be interested?

- 2.31 The proposals in this CP will be of interest to:
- all firms who sell, arrange deals in or advise on packaged products;
 - firms selling units or shares in UCITS to non-retail customers; and
 - consumers, their advisers, and their representative bodies.

Structure of the paper

- 2.32 Chapter 3 sets out our analysis of the responses to *'Informing Consumers: a review of product information at the point of sale'*, and explains the conclusions we reached in the light of those responses.

- 2.33 Chapter 4 comments on the highlights of the research conducted since the publication of *'Informing Consumers'*, and explains how that research has influenced the development of the new regime.
- 2.34 Chapter 5 explores the policy issues that we have encountered in taking the work forward and explains the transitional relief proposed for the implementation of the new regime.
- 2.35 Chapter 6 explains and comments on the proposed new rules.
- 2.36 Chapter 7 contains our cost-benefit analysis of the proposals, and Chapter 8 sets out our statement of compatibility with our regulatory objectives and principles of good regulation.
- Annex 1 gives the full list of questions asked throughout the paper.
 - Annex 2 contains summaries of each of the research projects we undertook since *'Informing Consumers'*.
 - Annex 3 gives the background to our approach to past performance.
 - Annex 4 sets our proposed method for disclosing the charges on 'guaranteed' or derivative-backed products.
 - Annex 5 contains a mocked-up version of the new disclosure document for a pension product.
 - Annex 6 contains the draft Handbook text and amended rules and guidance on which we are consulting.

Next Steps

- 2.37 We will publish a supplement to this CP setting out the detailed content for key facts for collective investment schemes in February. This will form part of this consultation.
- 2.38 This consultation will close on 2 May. We will then review all the responses and amend our draft rules in the light of comments made. We expect to publish our policy statement giving feedback on the consultation at the end of July 2003, when we shall also publish the final rules.

3 Feedback on the responses to 'Informing Consumers'

- 3.1 This chapter summarises the feedback we received in response to DP 19. We have not commented here on the responses, as our final position on most of the issues raised has been reached not only in the light of these comments, but has also been informed by the extensive research we have carried out following the conclusion of the DP process. The next two chapters therefore explain in detail the rationale behind the proposals made in this CP.

Background

- 3.2 We received over 70 responses to the DP. Most were from firms who provide packaged products, but we also heard from consumer representatives (such as the Financial Services Consumer Panel), trade associations, independent financial advisers and individuals. We also held a forum for consumer-facing organisations to learn about our approach to disclosure and to feed back concerns and ideas for the way forward.
- 3.3 We are grateful to all those who took the time to send us their comments.

Feedback on Discussion Paper questions

Questions 1 to 4: Focus of the consultation, scope of the regime, costs and impact

- 3.4 We asked for comments on any aspects of the disclosure regime that were not specifically addressed in the paper. Many respondents mentioned the need for us to consider ongoing initiatives within the industry, most importantly the ABI's Raising Standards initiative. Concern focused on the potential costs of implementing a new regime so soon after the changes proposed by the ABI and those costs resulting from changes dictated by developments in Europe such as the Distance Marketing Directive and the UCITS simplified prospectus

proposal. Other factors to consider were the requirements for Stakeholder pension disclosure and the annual pension statements due to be introduced by the Department for Work and Pensions (DWP).

- 3.5 Some respondents felt that the scope of the regime was not wide enough at present and should have a wider remit than just investment business packaged products. Others felt that there was scope to look at other pre-sale information such as the 'suitability' letter. There were calls for account to be taken of fund supermarkets as an increasingly popular channel for the purchase of packaged investment products. We have ensured that, in line with some respondents' comments, this review has been carried out in close co-ordination with the With-profits Review.
- 3.6 We also asked for feedback on the impact and effectiveness of the regime to date. There was general disagreement with our assertion that disclosure had contributed to a reduction in charges. Most respondents argued that this could be attributed to greater competition and the introduction of CAT standard products.
- 3.7 However, there was a consensus that the present regime is an improvement on the pre-regulation days. The main benefits are perceived to be for advisers, who now have a greater understanding of products and can usefully employ disclosure material as an aid to selling and a failsafe to ensure that they are complying with the requirements for disclosure of information.
- 3.8 Most respondents believe that the regime has had little impact on the propensity of consumers to shop around and cite the materials' positioning in the buying process as the main reason for this failure. Other reasons proposed include a reliance on the adviser to shop around on the consumer's behalf and the conscious decision of many consumers to rely on a particular brand or ongoing provider relationship.

Questions 5 - 8: objectives, scope and positioning of the new regime

- 3.9 **Consumer information needs before purchase:** in 'Informing Consumers', we argued that there is still a role for product disclosure in helping us to achieve our consumer protection and public awareness objectives. We set out a 'map' of consumer information needs prior to purchase and the tools that we anticipated using to address them. We proposed that the main tool for helping comparison would in future be the Comparative Tables, with the primary aim of the product disclosure regime being to inform consumer decision-making at point of sale.
- 3.10 The majority of respondents to the DP found the map both logical and effective in summarising an ideal of how the buying process should function, although some felt that it was more systematic than the actual process consumers go through. Some concern was expressed that the role of the

adviser was ignored by the map, particularly during the early stages, where the consumer is most likely to delegate responsibility for analysing and identifying needs and a generic solution to the adviser.

- 3.11 It then follows that the first exposure the consumer has to disclosure material is at the point they decide whether to buy a specific product. If the decision to be made is one of whether or not to take up a recommendation, then consumers' natural reluctance to unpick or repeat the whole advice process means that, as already noted, the information probably comes too late in the process for effective product comparison.
- 3.12 Most respondents agreed that the main objective of the disclosure regime should be to inform consumer decision-making at the point of sale. But, despite the observations made above, there was some support for the role of point-of-sale product information as a means for comparing products.
- 3.13 Many respondents doubted the usefulness of the comparative tables in the buying process and felt that consumers would be just as unlikely to use the tables for comparison as they are reluctant to read and understand Key Features. Concern was also expressed that consumers may believe that comparative tables given them enough data from which to choose a product and as a result may be less inclined to read disclosure material.
- 3.14 **Scope of the regime:** we argued that a consideration of the risks posed and implementation costs suggested that the regime should continue to extend to packaged products. This is because these products are widely sold and bring a significant risk of detriment when they are mis-sold or mis-bought, for example through early termination of products with front-end loaded charging structures.
- 3.15 Responses overwhelmingly agreed that the regime should continue to apply to packaged products, Some questioned the current definition of a 'packaged product', arguing that collective investment schemes should not be included because:
- their structure and charges are different to those of life products;
 - typically, they are bought by more 'sophisticated consumers';
 - they are usually bought as part of a portfolio; and
 - product information would have to conform to the EU requirements for a simplified prospectus for UCITS products.
- 3.16 Some respondents argued for the extension of the regime to encompass such products as bank deposit accounts and general insurance. A small minority felt that the regime should, in time, be extended to cover all financial products.

- 3.17 It was also argued that the regime could be relaxed for those products that carry a CAT (charges, access and terms) standard as these already meet many of the requirements that the disclosure regime was designed to address.
- 3.18 The current regime applies to direct offer and advised sales only. We asked whether there was a case for changing this scope to include all transactions. Some respondents welcomed the absence of a KFD for execution only sales. They felt that consumers are buying a product rather than being sold one and are usually of the more ‘sophisticated’ kind. Others felt that the regime should be extended to execution-only because consumers do not have the benefit of an adviser and face a greater risk of purchasing an unsuitable product.
- 3.19 The main reason cited for an extension of the scope was the need for uniformity and accountability across the financial industry. This would also allow product comparison to be made across all delivery channels.
- 3.20 Other issues addressed on the subject of scope were that increments to policies should not require further disclosure, and that any change to the scope of the regime should be considered once the likely structure of any new regime has been examined.

Questions 9 to 11: Getting the material read

- 3.21 Our consumer and practitioner research had indicated that the biggest challenge was getting the information read in the first place. We suggested a range of ways in which we might increase the likelihood that consumers would read disclosure material (we use the expression ‘stand out’ to describe this feature). These were:
- improving the clarity of the material;
 - identifying a core of the most important information;
 - some form of FSA badging;
 - a separate checklist highlighting things to think about before deciding to purchase or to cancel;
 - making a requirement to draw attention to key features; and
 - personalising the material.
- 3.22 We asked which of these options, or which combination of them, would be the most effective, what difficulties might need to be overcome and what other strategies we should be considering.
- 3.23 **Clarity:** responses acknowledged the need for action to improve the likelihood of consumers reading Key Features material and agreed that it would be in everyone’s best interest to do so. Layout and language are seen as important

factors in achieving this aim, particularly the need to use simple language that avoids technical terms.

- 3.24 **Separation of core information:** the majority of respondents were in favour of some form of separation of core and supplementary information. However, there was concern that this might create more paperwork unless the information could be separated but presented within the same document.
- 3.25 **Badging:** views on the FSA badging of documents were divided. Those against the idea felt that it might be seen as an endorsement of the firm and product, and detract from the notion that consumers must be more responsible for their own decisions. Those in favour felt that a regulatory badge might lend more authority to the document and encourage consumers to read it. A proviso here was that our profile would have to be raised amongst consumers. Many respondents favoured an FSA information box as they felt that it could act as a ‘watchdog’-type attention grabber.
- 3.26 **Additional checklist:** the idea of an additional checklist received a more cautious response with some pointing out that it might just add to the paper consumers receive. Others were more welcoming and argued that the checklist would be of benefit if consumers were required to sign the document as proof that they had read the information.
- 3.27 **Adviser to highlight document:** the importance of the role of the adviser was mentioned by many as being crucial to raising the profile of the KFD. Many felt that it should be the job of the adviser to highlight the document’s importance, but few felt that a mandated oral statement would work in practice, due to the difficulties in policing such an initiative.
- 3.28 **Personalisation:** all respondents recognised the benefits of greater personalisation, both in attracting consumers to the material and conveying the information in an effective way. Many felt that this was the most important of the options in achieving our aims. But there was also concern that greater personalisation was likely to result in substantially greater costs for document production.
- 3.29 Costs were a recurring concern for respondents who considered the options for improving the stand out of Key Features documents. These relate in the main to systems and administrations costs. It was also pointed out that costs are likely to be felt more acutely coming so soon after some firms have adapted their Key Features material to gain accreditation under the ABI’s Raising Standards initiative.
- 3.30 Other strategies considered by respondents centred on the way in which the document should be designed to encourage readership. The size and positioning of information were felt to be important, as was the use of visual devices to capture the attention of consumers. Most respondents cited the

need for greater consumer education as the single biggest initiative to improve stand out of the document, both in terms of general financial literacy and in awareness of disclosure information and its importance during the buying process.

Question 12: getting the information understood

- 3.31 Our research showed that when consumers do read disclosure information, some have problems understanding what is provided. We outlined a number of options in the DP for addressing this. These were:
- continuing to prescribe some wording but working with the industry to improve the clarity of elements that are not prescribed;
 - setting up a mechanism for accrediting material as meeting a plain language standard; and
 - placing core information about a particular fund or product together.
- 3.32 The prescription of wording received a mixed response. Some respondents felt that it would be a good means of delivering more consistent documents, as long as the level of prescription was not prohibitive and the resultant wording was simple and appropriate. Other respondents felt that the prescription of content was acceptable but prescriptive wording would be a step too far in terms of regulatory intervention.
- 3.33 The majority of respondents favoured the use of plain language, although there is some concern about how best to convey complex and legal information without using technical language. Accreditation was a contentious issue. Many responses were influenced by the Raising Standards initiative, with some feeling that we should give credit to those firms who achieve accreditation. Others felt that the initiative was unlikely to be taken up by a large number of firms who, it was alleged, would prefer to wait and see the outcomes of this review. One firm observed that accreditation has the potential to result in a uniform blandness of KFDs, which may become a greater disincentive to read the document.

Question 13: suitability

- 3.34 The first issue we raised was whether to include more information on suitability of the product. The rationale for this proposal was that the greatest consumer detriment was likely to arise from buying the wrong type of product than from buying a product that is less than best-of-breed.
- 3.35 Overall there was a cautious welcome to this proposal as long as care is taken to avoid the perception of us as a pseudo-adviser. There was concern that there needs to be careful consideration of the thin line that exists between generic suitability information and advice. A number of respondents held the

view that suitability is best addressed in the suitability letter without the need to further complicate the Key Features material.

Questions 14 to 16: projections

- 3.36 Key Features contain projections for three reasons: to illustrate the effect of charges, to show in a hypothetical way ‘what you might get back’ when standard assumptions are applied, and (a development of this latter reason) to illustrate how a specific target sum could be achieved. In ‘Informing Consumers’, we envisaged continuing to use projections. However, we raised the possibility of reducing the number of growth rates used from 3 to 1 if we could find a more effective way of conveying the uncertainty surrounding projections.
- 3.37 Responses on the issue of conveying the uncertainty surrounding projections in a more effective manner focused primarily on two approaches. The first is to provide a better explanation of what can – and cannot - be inferred from projections, and the second is to strengthen the warning associated with them.
- 3.38 Those in favour of greater explanation argue that consumers should have more information about how the arbitrary rates are chosen and further reinforcement of the uncertainty of investment performance. To strengthen the warnings associated with projections respondents suggested that we use stronger language in the warning message and possibly reinforced this with a verbal warning, within the advice process.
- 3.39 In addition to strengthening the language, some respondents suggested we make the warning more prominent in the material through positioning and by increasing the font size used. Many respondents have stated that whichever approach is adopted, we must take care to ensure that it is consistent with that used in post-sale disclosure. This would include the annual pension benefit statements required under the Department of Work and Pension’s regulations.
- 3.40 The issue of whether to change the number of projection rates provoked a very mixed response. There were some who argued that a single rate is more likely to be misinterpreted as a guarantee, or that an excessively high, or unrepresentative, rate would lead to over-optimistic expectations. They pointed to the current problems of consumers who bought an endowment mortgage and are not on track to reach their investment target.
- 3.41 The main reason for supporting a reduction to one rate appeared to be that it would simplify the presentation of a projection and it might be easier to apply effective risk warnings around the rate. One rate would also bring the regime into line with that for stakeholder pensions and complement the yearly statement introduced as part of the Raising Standards initiative, allowing a comparison of the current fund value with that projected at point of sale.

- 3.42 Arguments in favour of maintaining the current position rested on the belief that this informs consumers about the uncertain nature of investment growth and that they can also apply their own attitude to investment when targeting an amount of return.
- 3.43 We also raised the issue of whether projections should show real values rather than nominal amounts and asked for feedback on how this might affect consumer behaviour.
- 3.44 The issue of whether to use real values for projections also received a mixed response. Among those who supported this move there was a consensus that real terms should only be used for those products, such as pensions, where the buying power of the benefit is integral to the product. For those products such as mortgages where the consumer has an investment target real terms were not thought to have any value for consumers. Consistency with the DWP's annual benefit statements for pensions is also cited as a reason for switching to real terms.
- 3.45 Conversely there were many respondents who argued that a consistent approach to projection terms must be maintained for all products so that those with a monetary rate are not perceived to be superior to real term products. There was also concern that real terms may act as a disincentive to save or lead to consumers choosing to place their money in deposits instead. Another common concern about real terms was that they rest on an assumption about the future rate of inflation and so may themselves prove inaccurate in later years.
- 3.46 An alternative to real terms was suggested in that a monetary term should be kept but accompanied by a reinforced warning about the likely future effects of inflation on the buying power of the fund.

Questions 17 to 19: explaining charges

- 3.47 The current disclosure material contains a table which shows:
- the effect of deductions over the life of the product;
 - the resultant 'what you might get back' figure, across the life of the product; and
 - final figures showing the cost of the product if held to maturity.
- 3.48 Our research suggested that some consumers struggled to work out what the table was trying to tell them. So we raised the possibility of identifying a simplified measure of price to convey the concept more clearly.
- 3.49 Respondents tended to address the idea of a simplified expression of price without reference to the specific ideas outlined in the DP. Many stated that a simplified expression would be unlikely to have an effect on consumer

behaviour because it would continue to be misunderstood by consumers. Firms and IFAs were unanimous in their belief that price is not the only, or indeed main, factor to consider in comparing and choosing a product and felt that too much emphasis was being placed on price without reference to the benefits associated with the cost of the product.

- 3.50 Almost half the firms and IFAs who responded to the question of a simplified expression of price felt that Reduction In Yield (RIY) should continue to be used for disclosure. Many noted that our research did not test a simplified RIY figure and felt that this measure is the best available and is understood by most advisers. It was proposed by a number of firms that RIY be kept, but in a simpler format if possible and renamed to appear more attractive to consumers.
- 3.51 Consumer bodies felt that any effect on consumer behaviour would depend on the simplified expression chosen and that we should not concentrate solely on price to the detriment of other important factors which consumers should consider, such as risk and suitability.
- 3.52 Focus on price was also felt to be a danger to consumer decision-making where the selection of measure would cause short-term products to appear to be better value than long term ones. Industry respondents were keen that any measure should promote fair and impartial comparisons.
- 3.53 We also suggested that the current disclosure material did little to help with relative price - that is, how the cost of one provider's offering compares with that of another provider. We sought views on the desirability and feasibility of either using information from the Comparative Tables in the disclosure material or referring to the Tables in the disclosure material as a source of relative price information.
- 3.54 The overwhelming response from firms and IFAs was that the option of using information from the Comparative Information Tables (CITs) in the disclosure document would be too technical, too confusing for consumers, and would require constant updating. They felt that this would result in costs for firms that could not be justified by the benefits for consumers that they would provide. There was also concern that inclusion could lead to information overload for consumers and result in a greater reluctance to read and use the material.
- 3.55 There was more support for the second option of signposting the existence of the CITs in the document, although many firms felt that consumers would be unlikely to refer to the tables and that they would be of more use to advisers and commentators. Consumer groups supported the value of tables to consumers but felt that research should determine how best to use them in the disclosure document.

- 3.56 A number of firms and advisers opposed both options, citing information overload and the potential to create confusion amongst consumers as their main reasons. It was also stated that in IFA sales the adviser should have completed the product comparison for the consumer and consumers will ultimately prefer to make their selection based on the trust they hold for the adviser rather than an individual assessment of the products on offer.

Question 20: Dealing costs

- 3.57 We raised the question of how dealing costs and other hidden charges could be included in the disclosure of charges. We sought views on the merit of requiring providers to publish data on portfolio turnover as a partial substitute for dealing costs.
- 3.58 A number of respondents pointed out that the proposal appears to address an area of commercial sensitivity and it should not be within our remit to publish such information. Many of the larger providers argued that portfolio turnover is not an effective indication of dealing costs because there are many other factors which affect the rate of turnover and the costs of dealing. Elements such as deal size, portfolio type, brokerage discounts, volumes and soft commissions can all have an impact on the relationship between turnover and dealing costs, as can the philosophy of the fund manager.
- 3.59 Many firms were concerned that we were working from the premise that a high portfolio turnover is bad and a low one good. As some pointed out, this is too simplistic an approach and the publication of turnover will not in itself indicate why trading has taken place. For instance, a firm may have a relatively high turnover but this could stem from the manager taking advantage of short-term opportunities in order to maximise returns for consumers.
- 3.60 A number of respondents argued strongly that there is an inherent contradiction in the proposal to publish portfolio turnover. This rests on the notion that past figures for turnover rates are some indication of future rates, when we have always stated that past performance is no indication of future performance.
- 3.61 It was also argued that data on portfolio turnover is too complicated to be understood by all but the most sophisticated consumers and would add little value to the decision making process.

Questions 21 and 22: differentiation

- 3.62 We also asked questions about the extent to which the delivery of the material needs to be tailored, either by sales channel or medium, by type of product or by type of consumer.

- 3.63 Differentiation of presentation by sales medium was the most popular suggestion among respondents. They recognised that we should bear in mind the medium used, e.g. the difficulties associated with reading a long cross-referenced document on screen. However, they felt that content should remain consistent to ensure technical neutrality and the provision of all relevant information.
- 3.64 There was little enthusiasm for differentiation based on distribution channel. This stemmed mostly from a desire for consumers to receive consistent core information regardless of the way they buy.
- 3.65 Differentiation across product type was also poorly received. Some felt that the current regime already allows enough differentiation but that there was scope for reducing prescription for CAT standard products. Another area where differentiation was considered was between life and non-life products. This was supported by a handful of product providers who felt that the distinction between protection products and investment products allowed for a tailored approach to disclosure. The main concerns were that the effectiveness of disclosure was not compromised and that all relevant risks were communicated.
- 3.66 Those opposed to any differentiation by product type argued that the regime was likely to become too complex and that comparing products that were deemed to be different would become more difficult. There would also be a likely increase in costs to firms in producing differentiated disclosure information.
- 3.67 Differentiation according to consumer type was rejected. Most felt that this could result in consumers receiving insufficient information because of their perceived type, and that the regime should aim to provide an accessible amount of information for all consumers to meet its objectives.
- 3.68 Respondents felt that disclosure across ‘new’ types of media should be clear, concise and use plain language. It should also have the ability to be accessed at speed and sufficiently sign-posted to ensure navigability. A Friendly Society also expressed concern that the medium should not allow for information to be bypassed during the buying process.
- 3.69 A couple of respondents noted that these media are usually used by consumers who are buying a product rather than being sold to. So it is argued that there is a greater scope for separation of core and supplementary information so that consumers can look for more detailed information if they choose to do so. Consumers should also be given the option to print Key Features information and receive a hard copy if they wish to.

Question 23: Post-sale key features

- 3.70 At the moment, we require firms to provide Key Features pre-sale and to provide some of the information again immediately after sale. We raised the question of what the role, if any, of post-sale product information should be.
- 3.71 A number of product providers and IFAs argued that confirmatory post-sale disclosure should be abolished. A common argument was that if the pre-sale document was usually ignored there was no great likelihood that one will be read and understood after the sale, so post-sale disclosure is an unnecessary duplication and cost to the firm. The only justification for a post-sale document would arise when there has been a material change to the product after pre-sale disclosure, such as a revised personal illustration.
- 3.72 A number of respondents were in favour of different information being issued post-sale. This might increase the likelihood of the document being read and could take the form of a more concise document such as a checklist of the key points.
- 3.73 A minority, including the FSA Consumer Panel, wanted the status quo maintained to act as a safeguard for the adviser and ensure that the consumer had at least one copy of the document. They argued that the post-sale document also acts as a companion document to be read with the cancellation notice in the days following the purchase.

4 Sifting the options – our use of consumer research

- 4.1 Throughout this project, we have used consumer research to inform our policy development. This has proven invaluable: as we indicate below, there were several points at which test results caused us to revise our approach significantly. In this chapter, we comment on the research and explain how it has influenced the development of our current proposals, highlighting the research findings that made significant contributions to our development of the new regime.
- 4.2 Following the November 2000 DP: Informing Consumers, we commissioned three research projects:
- *Pricing research*: this project, conducted by DVL Smith Ltd (DVL Smith), tested a range of alternative and innovative ways of presenting product information, focusing mainly on the presentation of charges;
 - *KFD development research*: our aim was to gauge whether, in the round, the new material (developed for both this project and the DVL Smith project mentioned above) represented an improvement over existing KFDs. This work was undertaken by H2B and sought the views of both consumers and industry professionals; and
 - *Taking forward the KFD*: this project, also conducted by H2B, tested further model documents produced in the light of the findings of the earlier projects.
- 4.3 There is a summary of each of these projects in Annex 2. We have also drawn on the findings of other relevant research, not commissioned for this project; where relevant, these are identified by footnote.
- 4.4 The research findings can be grouped into three broad areas:
- getting the information to stand out;
 - getting the information read and understood; and

- how to illustrate charges.
- 4.5 We also comment on how a fourth research project influenced our proposals on the current suitability letter requirements:
- *'Suitability letter' and the fact find process*: we asked Reflexions Communication Research to examine consumers' attitudes to, and use of, suitability letters, and consumers' attitudes to the fact finding process.

Getting the information read

- 4.6 Our earlier research had indicated that a key reason why consumers do not read the KFD is because it does not stand out as an important document. To the consumer, it appears indistinguishable from general marketing material, and particularly in the advised context, this material is generally dismissed as 'bumf'¹².
- 4.7 We therefore looked for ways to change the appearance of the material. We focussed on the front page to make it look less like marketing material and more like a document the consumer might perceive as containing useful, relevant information and that they would be motivated to read.
- 4.8 In particular we decided to test the following changes:
- personalisation of the document;
 - a different name;
 - simplifying the layout and partially de-branding the material;
 - highlighting the content of the document on the front page, and giving a brief summary of the product; and
 - incorporating the FSA logo and a statement to explain that the firm was required to provide the document, but that the consumer had to decide whether the product was right for him.

Personalisation

- 4.9 Personalisation on the front page does help to attract the consumer to read the document. But it was not always noticed on the design tested. Our researchers also commented that consumers need to understand the significance that the document has been specifically prepared for them, and contains their own details, before they will be drawn to the contents.
- 4.10 *Our conclusions*: in an ideal world we would require personalisation of the front page of the disclosure document. We believe that it would attract more

12 Reflexions Communication Research: *Consumers' understanding of Key Features Documents* June 2000

consumers to pick up and read the document. However, the costs of such an approach would be high (particularly for smaller firms) and our research findings were not sufficiently conclusive to persuade us that the benefits of adopting this approach would outweigh those costs. So we have concentrated on identifying other measures that would increase the document's initial stand-out in a more cost-effective way.

A different name

- 4.11 We tested various new names for the document with limited success. In general, readers found 'Key Features Document' rather stuffy, boring and unattractive.¹³ Of the new names initially tested 'Simple Facts' emerged as the preferred name for both consumers and professionals, although this was not a particularly strong preference.
- 4.12 So we tested the name 'Simple Facts' again and assessed it against a new name, 'key facts' which we thought gave a better explanation of the contents of the document. The research found that 'key facts' was found to be the most appealing and appropriate.¹⁴ But our researchers suggested that perhaps a more distinctive design should be developed to aid recognition by consumers.
- 4.13 *Our conclusions:* we agreed that there would be potential benefits from developing a more distinctive design and foresaw further benefits from incorporating this in other key disclosure information documents. With that in mind, we commissioned a design company, Sage Associates, to develop a 'brand' for us, principally for use in packaged product point of sale documentation but with the potential for wider use on other documentation. The results of this work have been incorporated into the templates for the new key facts document, and are likely to be used in other contexts across the retail financial sector.

Simplifying the layout and partially de-branding the material

- 4.14 One of the simplest ways to make the document stand out from other marketing literature would be to make it visually distinct. We looked at a range of plain, simple designs without features such as 'lifestyle pictures' that many firms use as part of their corporate image. But it was important to us that the document should not look so different that it was no longer 'owned' by the provider. We have therefore always kept the brand logo and the corporate colours of the provider in models tested.
- 4.15 Our simplification of the content of the cover opened up more space and we tested whether it would be useful to add a 'list of contents' as a navigational

13 H2B: *KFD Development Research* February 2002

14 H2B: *Taking forward the KFD* August 2002

aid for the consumer. We thought the consumer might be drawn into the document if there was a brief summary or ‘taster’ of the main features of the product.¹⁵

- 4.16 In general, consumers felt the document looked more like serious information than a sales document, designed with the aim of helping them make a decision. Text areas in the middle of the page tended to be read but the bullet-point summary of the product was often missed. And on the whole, the impression was that the cover was too ‘busy’: readers would often merely glance at it and go to the inside. Some also felt the references were too cryptic and there were calls for a more prominent explanation on the front cover about the actual purpose of the document.
- 4.17 In our second round of testing, therefore, we stripped out all but essential information from the cover. This delivered significant improvements in standout.¹⁶ However, some consumers found our rather unsophisticated design left them unclear as to the function of the document, and associated it more with administrative material such as application forms.
- 4.18 *Our conclusions:* we believe that we can improve standout by making the document look different to the other literature the consumer will receive, and by presenting it as important but interesting. Testing has underscored the need for a strong visual identity, which we believe, will be delivered through our new design.

FSA logo

- 4.19 We tested whether the FSA logo and explanatory statement improved consumers’ appreciation of the role of the document and its general standout.
- 4.20 This measure was developed to tackle two problems. First, earlier research had indicated we needed to make our documents look more important or ‘official’ without putting them off.¹⁷ And second, we knew from research into consumer attitudes to financial promotions, that some consumers were puzzled when shown material that seemed to contain information (such as risk warnings) that was possibly contrary to the marketing ‘style’ of the material.¹⁸ So we needed to explain that there was a regulatory influence over what they were being told.
- 4.21 Our aim was to give a brief insight into our role and the reason why the consumer was being given the information. We are highly sensitive to the risk that consumers would take the presence of our ‘brand’ to imply some sort of endorsement. But our testing suggests that the message is sufficiently clear,

15 H2B: *KFD Development Research* February 2002

16 H2B: *Taking forward the KFD* August 2002

17 Reflexions Communication Research: *Consumers’ understanding of Key Features Documents* June 2000

18 IFF Research Ltd: *Financial Promotions* January 2002

and that consumers generally understand our ‘positioning’ points.¹⁹ And this explanation of the role of the document helps consumers understand why some of the material may appear counter-intuitive in a marketing context.

4.22 However, the research indicated that more often than not the information was not being read because it was seen as small print.

4.23 *Our conclusions:* we think that incorporation of our logo and the accompanying statement will prove beneficial, if we can overcome the design problems that cause the ‘small print’ problem. So our new design involves a sensitive balance in the hierarchy of information on the page: we do not, for example, want to make our logo and statement detract from the key facts brand itself.

Other standout issues

4.24 Our research highlighted other issues that influence how well the disclosure document stands out from other information the consumer receives.

- **Colour:** we tested some versions in black and white as well as in colour. When presented with colour documentation, black and white versions are overlooked. So we have decided to encourage the use of colour, while at the same time developing a design that works as well as possible in black-and-white, for those firms who do not have the facilities to produce colour documentation.
- **Position:** consumers tend to go through a marketing pack in the order it comes in, or they pick out one document that catches their attention. We think that consumers will be more likely to look at the document if it is the first document they see in a pack of information.

Getting the information understood

4.25 We researched a number of techniques that we thought would make the document more accessible and understandable as a whole. In particular we looked at:

- layout and other presentational issues;
- the use of plain language; and
- incorporating the personal example (illustration) in the main text.

Layout and other presentational issues

4.26 We looked at the merits of using specific types of page layout to see if any would engage the reader better than the traditional format of block text. The

19 H2B: *Taking forward the KFD* August 2002

first round of testing looked at an innovative way of presenting the information that split the page into vertical thirds.²⁰ The first two thirds were devoted to the main text and the last third devoted to questions and answers.

- 4.27 The new design showed some improvement generally over the current versions of the KFD. The layout and use of understandable, active questioning language was particularly successful in drawing in less sophisticated consumers. However, the busy layout of the design reduced the accessibility for some consumers, particularly older people who are more comfortable with the more conventional text style of current versions.
- 4.28 For the second stage of testing we took as our ‘performance benchmark’ a Raising Standards version of the KFD (‘version 1a’ in the research). Our earlier research had demonstrated that Raising Standards documents were significantly better understood than non-accredited documents.²¹ So, we wanted to find out whether we could improve again on aspects over which Raising Standards had little control because of existing regulatory constraints, such as the substance of the content and the overall appearance of the documents. A detailed account of the different versions tested in this stage and the findings of the testing is given in Annex 3.
- 4.29 Of all the versions tested, version 2 - the modified existing KFD - was found to be the most successful, performing better even than our fully remodelled version.²²
- 4.30 The inclusion of questions and answers in all versions was shown to be a particularly effective way of conveying information. Consumers find that Q&As structure the information into accessible ‘chunks’, and encourage them to think about things that might not have occurred to them. They also give an element of reassurance that these questions are typical of what others might ask.
- 4.31 *Our conclusions:* as with our experience on personalisation, while there appeared to be some merit in developing a specific layout style, the potential benefits of a totally new and innovative approach did not appear so significant as to outweigh the potential costs.
- 4.32 However, the Q&A method of presentation performed well, and should remain a core part of the disclosure documentation.
- 4.33 The use of a checklist promises to engage more consumers with the document as a whole. We have taken on board the feedback from the research and have adapted the version tested accordingly.

20 H2B: *KFD Development Research* February 2002

21 H2B: *KFD Development Research* February 2002

22 H2B: *Taking forward the KFD* August 2002

The use of plain language

- 4.34 Plain language is more than the use of simple to understand words. It also covers things like using short sentences, speaking in the first person and using active, engaging language.
- 4.35 We aimed to apply plain language principles to all the models we tested. The research indicated that the use of simpler language and a direct style made the documentation more effective than a current, non-Raising Standards-accredited KFD.²³ But while our completely remodelled version was preferred marginally by consumers, it was not significantly better understood than the Raising Standards version.²⁴
- 4.36 *Our conclusions:* consumers clearly benefit from the use of plain language, and the principles for this are reflected in the Raising Standards approach. We will adopt a similar approach in our own guidance.

Incorporating the illustration in the main text

- 4.37 Our research shows that where the personal illustration is separated from the general product information document, it may not be read together with that text.²⁵ Often, the consumer will read either one or other of the documents but not necessarily both. It is fair to assume that the consumer would be more likely to read both if they were combined within the one document; but to require this would significantly increase the cost of production as each document would have to be produced on a bespoke basis.
- 4.38 *Our conclusions:* integrating personalised information into the general text would not be a cost-effective measure. So instead we will use cross-referencing between the main product information text and the personalised example. We will combine this with guidance on providing the documents together and drawing the consumer's attention to the importance of reading both, as a means of improving consumer use of the example. We will also introduce the new 'key facts' logo into the template for the example to provide a further visual cue.

Specific measures for the example

- 4.39 Our research shows that current illustrations are inaccessible and even threatening to consumers because of the volume and detail of the numbers.²⁶ The information is poorly presented and perceived as incomprehensible. It

23 H2B: *KFD Development Research* February 2002

24 H2B: *Taking forward the KFD* August 2002

25 H2B: *Taking forward the KFD* August 2002

26 Saville Rossiter Base: *Consumer understanding of the personal illustration and its influence on buying behaviour*. 2000

seems that consumers are unwilling to even attempt to read it even though it contains information they claim they wish to know such as contribution amounts and ‘What you might get back’.

- 4.40 We remodelled the illustration to make it visually less daunting and easier to read and understand. We also reviewed the messages that the illustration was designed to get across and concluded that it was trying to communicate too many concepts at one time. Reducing the key messages would help the consumer understand what the point of the information was. Lastly, we wanted to guide consumers more explicitly so they understood how they could use the information.
- 4.41 We also tested the effect of removing messages that concentrate purely on ‘what you might get back’.²⁷ We saw the most important role of the example as being an explanation of the absolute cost of the product (how the provider’s charges would affect the outcome of their investment) and how the consumer could compare this with other offerings. This is reflected in our decision to entitle the document ‘example’ rather than an ‘illustration’.

Explaining charges

- 4.42 Charges are disclosed in a number of ways in current KFDs.
- 4.43 **Actual charges:** the actual product charges deducted from a product by its provider are shown. They can be expressed as a monetary amount, a percentage of the value of the fund, a percentage of the amount invested or as in the case of with-profits a deduction made at the discretion of the appointed actuary. They can be entry/exit or other one-off charges, or annual charges. And there can be one, several or all of these in one contract.
- 4.44 The benefits of this disclosure are that they require the product provider to show in detail the number, timing and method of taking charges. However, charges can be very complex with their structure varying significantly from contract to contract and provider to provider. Overall this format of disclosure – which gives the consumer no hint about typical charges on the market - does not facilitate shopping around between providers.
- 4.45 **Reduction in yield (RIY):** this shows the effect of all product charges on performance, expressed as a single percentage reduction in annual yield. To calculate this number, firms must model the future performance of their product over time, using assumptions prescribed by the FSA about the rate of fund growth, and applying their own charges. This approach has the benefit of reducing complex charges to one number. However, research shows consumer understanding of RIY, as currently disclosed, to be poor.²⁸ A further problem in using RIY is that it appears to consumers to be a very

27 DVL Smith: *Pricing research* October 2001

28 H2B: *Taking forward the KFD* August 2002

small number (often less than 2%). It may not therefore drive home to them how much will be deducted from their fund through time and is less likely to encourage shopping around.

- 4.46 **Effect of deductions:** the effect of all product charges on performance is expressed as tables of cumulative monetary amounts. This method of disclosure should, in theory, be easier for consumers to understand and compare to the amount they are paying-in and their expectations of what they will get out. But our research showed that consumers found this table very difficult to understand.²⁹
- 4.47 In our search for the most efficient way to communicate the ‘cost’ of a product to the average consumer, we concluded that there was little value in setting out the specific individual charges within our core product information.³⁰ We have concentrated, therefore, on finding effective ways of presenting information about the effect of the total charges on the performance of a product.

The Charges Table

- 4.48 We tested a range of different versions of a redesigned table against an alternative form of presentation that relied more on detailed explanations and visually highlighting the charges in a very simple and stylised presentation. We expected the latter approach to be preferred, as it appeared simpler and more direct.
- 4.49 However, the research indicated clearly that consumers preferred the information to be given in a table.³¹ The alternative presentation did not work as well; consumers found it less involving and engaging. A four-column table was preferred to a five-column version and emboldening or enlarging some figures worked well. But consumers still failed to understand immediately that the information was being provided to help them compare the charges of different firms, and they found some of the information in the table difficult, as column headings were cryptic or over-technical.
- 4.50 We therefore decided to be more explicit about this point. So, for the second stage of testing we produced a charges table which was significantly different from the current model in that it showed clearly the ‘before charges’ and ‘after charges’ view of a product’s performance at a specified rate of growth. Such an approach has in the past been avoided because it is not possible to have a plan without charges, and the industry in particular argued that it would give consumers false expectations. However, we felt that if this point were made sufficiently clear, the broader message would be very powerful. We were

29 H2B: *Taking forward the KFD* August 2002

30 This information will still have to be disclosed, but should be made available elsewhere in a firm's literature about a product, clearly signposted from within the Key Facts document.

31 DVL Smith: *Pricing research* October 2001

pleased to find in our second round of testing that consumers found the information about charges significantly easier to understand because of the approach we had adopted.³²

- 4.51 *Our conclusions:* in the absence of any measures to eliminate complex charging systems, the effect of charges is always likely to be a difficult concept to communicate (this is demonstrated by the much-simplified presentation of charges for stakeholder pensions). However, we have found that we can significantly improve the levels of consumer understanding by adjusting the format of the information and improving the explanatory text.

Reduction in Yield

- 4.52 In all our work on charges, we have sought the option most simple and accessible to the average consumer. So we questioned whether the RIY was useful to consumers. But our research has shown that a combination of expressions of price works well. It also confirms that, while there is not a strong case for a change of price measures as no new measure improved on RIY, the case for changing the presentation of the material is convincing.
- 4.53 The research indicated that the best method of presenting this information was to explain the loss of growth in the context of an assumed growth rate, for example: ‘the investment would grow at only 4.5% a year instead of 6%’.³³ By comparing ‘before’ and ‘after’ figures again to explain the ‘reduction in yield’ concept, we found that consumer understanding was greatly improved. And the explanation ‘so the bigger the gap between these two rates, the more expensive the plan’ was found to be very clear and ‘honest’.³⁴
- 4.54 *Our conclusions:* We think it is still appropriate to keep a long term measure of the impact of charges to put the charges table into the context of the assumed growth rate. Our preferred choice of measurement is RIY because it is technically accurate and our research indicated that we could find a way to explain it effectively to consumers. Not replacing RIY also has the added benefit of not increasing costs to firms.

Explanatory text

- 4.55 The research indicated that consumers found explanatory text useful. It was widely felt that the messages explaining what the document was trying to convey could be more explicit and the text would be better if it provided practical tips and examples of things to look out for when making comparisons. In general, we found that consumers who had seen the example

32 H2B: *Taking forward the KFD* August 2002

33 DVL Smith: *Pricing research* October 2001

34 H2B: *Taking forward the KFD* August 2002

were more likely to identify charges as being a point of comparison between products than those who saw a traditional personal illustration.³⁵

- 4.56 *Our conclusions:* in principle, introductory and explanatory text within the table is useful, particularly where they avoid long or technical statements. We have changed the language used in the model tested to clarify how the information can be used.

The number of projections

- 4.57 The current personal illustration uses three growth rates to illustrate to consumers a range of possible outcomes for their investment. The intention behind this is to emphasise the uncertainty of investment returns. The charges table then takes the intermediate grow rate as a basis for modelling the product's performance after charges in more detail, to explain the effect of charges.
- 4.58 We have long been concerned about consumers' interpretation of any figures showing possible outcomes for an investment. We have found across a number of our research projects that consumers interpret the three growth rates given in a number of ways – but few appreciate the uncertainty that forms the core message of the illustration.³⁶ Our conclusion from this was that there was no benefit from showing multiple outcomes, and that we should focus more on improving consumers' understanding of the fact that the outcome of an investment cannot be predicted accurately.
- 4.59 We developed an example (for a personal pension product) that used a single set of assumptions, including a single growth rate, to provide illustrative figures. This was designed to show the cumulative effect of charges on the fund at a given growth rate, and to show how for some products, the charges taken in the early years can have a significant impact both in the short and the longer term.
- 4.60 In the new format, we took the final figure in the charges table and applied further assumptions to it to illustrate what size of annuity a fund of that size might buy. Lastly, we added real money figures showing what the future income would be worth 'in today's money'. This means that the information the consumer is given at point of sale will be consistent with the Statutory Money Purchase Illustrations (SMPIs) they will be sent periodically after buying the pension plan.³⁷
- 4.61 By reducing the number of figures used, we hoped to make the document more accessible for consumers. However, we were conscious that our actions could have the effect of leading the consumer to think that the return was

35 H2B: *Taking forward the KFD* August 2002

36 H2B: *Taking forward the KFD* August 2002

37 See *Pension projections: feedback on CP134 and made text* (October 2002) for more about statutory money purchase illustrations.

guaranteed. So we took great care to make clear in the explanatory text that outcomes for investments are unpredictable, and depend on a number of factors.

- 4.62 We tested the new design against the current illustration.³⁸ The results indicated that using the three growth rates does communicate the potential variation in the resulting pension, with limited success. But they also show that the three rates confuse and inhibit understanding as they can be seen as a meaningless array of figures.
- 4.63 The use of one growth rate on the other hand focused the individual on a smaller set of numbers. This meant they were more likely to be read and seemed to result in greater identification with and consideration of the numbers involved. And the research suggested that there were much better levels of understanding that the figures were not guaranteed and were not attempting to predict the outcome.
- 4.64 Consumers understood well the ‘today’s money’ example, to the extent that some in our test were shocked at the levels illustrated. This new knowledge may encourage some to invest more for the future; equally, others may question whether any investment is worthwhile if it is to be eroded by factors they perceive to be beyond their control.
- 4.65 *Our conclusions:* This is a difficult area and whatever we do there is a risk that some consumers will misunderstand our examples and think that the outcome shown is guaranteed. We have more confidence in relying on explanatory text rather than assuming that a consumer will correctly interpret the implicit message underlying the use of a range of growth rates. And we do have further work to do to educate consumers about how our growth rate is selected and what its relationship is with actual market conditions.
- 4.66 There is clearly a risk that some consumers will abandon their plans to save for the future if they do not perceive it to be worthwhile. However, our task is simply to ensure that consumers make such decisions about the future in an informed way.

Suitability letters

- 4.67 In the light of our interest in consumer’s understanding of suitability issues, we decided that it would be useful to gain an understanding of the way that consumers used the suitability letter given to them when their adviser makes a recommendation. We did not expect this letter to be significant to consumers, particularly given the point in the process at which it is provided. But our research showed that the ‘suitability letter’ is read and used effectively by

38 H2B: *Taking forward the KFD* August 2002

consumers, although the research identified some (unsurprising) issues about consistency of quality.³⁹

- 4.68 *Our conclusions:* given the positive views expressed about suitability letters, we now see it as a useful way to convey information to consumers relevant to their wider understanding of the transaction at hand.

Building on the research

- 4.69 In many cases, our testing showed where we could further improve on models tested, or combine measures in a way we had not anticipated. We have factored these findings into the models that we are now putting forward for consultation.
- 4.70 It has not been possible to test further our final versions. However, we are confident that we have applied the learning we have acquired from our earlier work in a systematic and logical way, and that our proposed models will substantially improve the current regime.

39 Reflexions Communication Research: 'Suitability letters' and the fact-find process January 2003

5 The way forward – an analysis of the issues

- 5.1 In this chapter, we explain our policy on disclosure and set out the rationale behind the core changes that we are proposing to the Key Features regime. We explore the role of consumer education in supporting and delivering a successful product information regime, and propose some changes to related measures, such as the content of the suitability letter. We also explain how we plan to phase the implementation of the new regime to allow firms to manage better the process of change.

Information in the buying process

- 5.2 We recognise that many consumers will not follow the route to purchase in the logical sequence that we might like, and that it may be difficult to predict, and to meet, their information needs in a timely way. But we have still found it useful throughout this project to think in a structured way about the different points at which people may enter the buying process. And we have thought about how they might get to the information they need to make an informed decision.

Timing of delivery

- 5.3 The current regime requires Key Features to be delivered ‘before the customer completes an application’ for the product. Where the customer is not making a written application, the firm is allowed to give ‘an adequate oral explanation’ at the time of the transaction, and then provide the Key Features within five business days of the sale.
- 5.4 In advised sales in particular, there is a concern that Key Features often come too late to be an effective aid to shopping around. This suggests that the main role of the new product information should be to inform consumer decision-making about a specific product. But we believe there are benefits from

ensuring that the information is sufficiently standardised (and any necessary explanations given) to enable consumers to make comparisons if they want to.

- 5.5 So timing of delivery is an important factor. Our new standard will be that product information must be provided as early as possible in the sales process. Where a firm makes a recommendation, it will be required to give the customer a product information document at the same time or as soon as possible afterwards, and before the customer completes the application. If the firm sells without giving advice, the requirement will be to provide the document without delay. Similarly, the relaxation for telephone sales will continue, but instead of five working days, the firm will be required to send the document without delay. This better reflects the requirements of several European directives.

Q.1: Do you agree with our proposal to emphasise the importance of early delivery of product information?

The interface with Comparative Information

- 5.6 The relationship between the Comparative Tables and point-of-sale product information is important. The main function of the Tables is to enable consumers to identify a few examples of a particular product for further investigation. The main aim of point-of-sale product information is to enable consumers to decide whether a specific product is right for them. We think Comparative Tables will play an increasingly significant role in promoting shopping around in future, and so we have incorporated references to the Tables in our proposed new texts for product information.
- 5.7 But we also recognise that consumers may not necessarily have made a considered choice of what generic product best suits their needs at either stage. Since the biggest risk to consumers is likely to arise from buying the wrong type of product, we have included some information about generic products in the Comparative Tables, for those who want it. And for the same reason, point of sale product information will also aim to convey the principal aspects of what the generic product type can and cannot do.

Scope of the regime

Scope - products

- 5.8 We will continue to apply the regime to all packaged products. This is because these products are widely sold and bring a significant risk of detriment, for

example through early termination of products with front-end loaded charging structures,⁴⁰ or through poor understanding of risk.

- 5.9 In the broadest terms, we do not think that there is a compelling case for extending disclosure requirements more widely at the moment. But there may be some exceptions to this. We have not identified widespread significant levels of risk to consumers from investment products where the current Key Features information regime does not currently apply. But certain types of complex products have increasingly been a source of concern. Many such products are share-based, and product information may be confined to that issued under the listing and prospectus rules.
- 5.10 Advisers are not currently required to produce a Key Features Document for these products. But the products often incorporate financial instruments that are less familiar to ordinary investors. Typically, their marketing highlights the high returns that may be achieved, but not necessarily the associated risks to capital. These products can expose consumers to a greater risk of mis-selling than simpler, traditional products. So there may be arguments to suggest that some complex products should be brought within the scope of the product information regime. However, the new application of a disclosure regime to any product does not come without cost to the industry and, ultimately, to consumers. So we must weigh carefully the costs and benefits of any such measure before making proposals for change.
- 5.11 **Deposit products:** at the moment, the key features regime applies to cash ISAs only where they do not meet the information requirements set out in the Banking Code.⁴¹ We have thought carefully about whether or not it would be appropriate to bring cash ISAs fully into the product information regime. As we explain below, one of the features of the new regime will be a high level of consistency. It is also arguable that, the more widely the regime is applied, the more effective it will be as consumers learn to recognise the documents. But there would be a cost associated with imposing this regime, and we are not yet satisfied that doing so would deliver significant benefits over what is achieved through the current approach, in terms of tackling risks that may arise from these products.
- 5.12 However, as we observed in our paper *The FSA's regulatory approach to financial promotions* (April 2002), the distinction between deposit and investment products (at least from the consumer's perspective) has become more blurred. This is because of the development of structured deposit

40 Front-end loading of charges is a practice where a firm takes higher charges in the early years, rather than applying a fixed rate of charge throughout the term of the product. So if a customer ends a front-end loaded contract early, there is a real risk that they may get back less than they put in.

41 See the Banking Code issued by the British Bankers' Association, the Building Societies' Association and the Association for Payment Clearing Services.

products using derivatives.⁴² These differ considerably from traditional deposit products and have similarities with non-deposit investments. This could be an argument in favour of extending an investment business-style approach to the point-of-sale product information for such products. We are currently examining in more detail the risks these products pose to consumers, and the balance of costs and benefits that would arise from any proposals for change.

- 5.13 **CAT standards:** we intend to defer any decision on reducing the disclosure requirements to be applied to CAT standard products. We will wait for the results of the wider work taking place on the development of a simplified product regime arising from the Sandler report. However, in the context of the current market, the arguments for relaxing our requirements are not strong. This is because the disclosure requirements address the function and suitability of the product as well as whether it is good value.
- 5.14 In CP160 *Insurance Selling and Administration the FSA's high-level approach to regulation*, we are consulting on product disclosure proposals for general insurance and non-investment life insurance (including pure protection products). In the light of the scope of that consultation, we have not proposed any changes to those parts of the Conduct of Business Sourcebook (COB) that relate to information requirements for pure protection products. These rules will be dealt with in due course, in the light of the responses to CP160.⁴³

Q.2: Do you agree with our proposal not to change the scope of the current key features regime, in terms of the products caught?

Scope - transactions

- 5.15 We propose to make few changes to the scope of the regime in terms of the transactions covered. The most significant will be the requirement to *offer* a product information document to customers seeking an execution-only transaction in a non-life product. The customer will be given the option of delaying the transaction until he or she has received the document, or proceeding with the transaction and receiving it without delay after the transaction has been effected. The customer may also decline to receive the document and proceed with the transaction, and firms will not be required to provide further information.
- 5.16 This change has been driven principally by the UCITS III requirement that a simplified prospectus must be offered to all customers. But we have concluded that there is merit in extending this change in the scope of the

42 Structured deposits can be described as: 'deposit products providing either capital growth or income benefits where the returns are typically linked by a pre-determined formula to the performance of an index/indices or a basket of stocks and where the product structure relies on a package of derivative instruments to provide those returns'.

43 CP160: Insurance selling and administration – the FSA's high-level approach to regulation December 2002

regime to all execution-only sales. This is partly so that advisers do not have to check whether the requirement to provide product information applies to a given product. It is also more importantly to ensure that the level of consumer protection provided is consistent for all products.

Q.3: Do you agree with our proposal to require information to be offered in relation to all execution-only transactions?

Appropriate differentiation

- 5.17 There is a limited case for allowing product information to be adapted to suit the medium of delivery. We will incorporate guidance on how the material should be delivered on the internet, and will provide templates for an internet version of the new front cover.
- 5.18 Our consumer research suggests that, while large-scale differentiation by product might not be warranted, some product-specific measures might be needed to make sure that the purpose of the product is clear to consumers. For example, consumers in our sample found it hard to understand the link between investment concepts and whole of life policies, which they seemed to think of as an insurance product rather than an assurance product. For certain products, we expect that some more detailed and specific information will need to be included. However, we have looked for flexible and user-friendly ways of doing this. We also want to avoid detailed prescription where we can as this could make product information documents too long.
- 5.19 Our new design does try to take account of consumers' differing levels of interest and sophistication through the way information is structured. The aim here is to layer the information, by giving first the absolute headlines, then the main points, and for those particularly keen to know more, cross references to detailed information in other material.

One size fits all? Life and non-life products

- 5.20 Ideally, we would have applied broadly the same approach to life and non-life products alike. But UCITS III has constrained significantly our ability to deliver a single, consistent, regime.
- 5.21 For collective investment schemes which are UCITS, UCITS III requires that investors (whether or not private customers) must be offered a Simplified Prospectus (SP) before conclusion of the contract to buy shares or units. The SP must include the information laid down in the directive, which Member States cannot then add to or subtract from.
- 5.22 So we propose that our product information document for collective investment schemes will also fulfil the SP requirements of the directive. That

approach will promote, where possible, comparability between life and non-life products, and ensure, that the information about collective investment schemes is prominent and consumer-friendly.

- 5.23 The downside of this approach is that while we could apply our best efforts to delivering the SP information in a consumer-friendly way, we have not been free to define or control the content. The content of the product information document for schemes is more extensive than we would prefer, and we are unable to require the inclusion of items that do not fall within the UCITS III prescription (for example, our ‘Quick Guide’). Despite this, we are confident that the new document will deliver improved consumer understanding.
- 5.24 Our approach also means that we will impose a more sophisticated regime on the non-life industry than might be necessary simply to fulfil the UCITS III Directive.
- 5.25 This is acknowledged in our cost benefit analysis and compatibility statement. But to carve UCITS out of the product information regime would create inconsistencies not only with life and pensions products, but also with other non-life products. This approach is not new: our current KFD regime goes far beyond the information requirements of the Third Life Directive, and this has long been accepted as being in the public interest.

Q.4: Do you agree with the proposed extent to which the regime will be different for life and non-life products?

Product information vs full disclosure: ‘less is more’

- 5.26 Notably, the proposed new regime makes clear that we do not expect the new document to include all possible information about a product (whether in terms of subject matter in some cases or level of detail in others) that a firm should disclose to consumers. Our proposed guidance suggests to firms that they should not develop points beyond a moderate, consumer-orientated level of detail and should instead signpost other locations where customers can find out on topics not covered in the main text.
- 5.27 This core:supplementary information split was first signalled in ‘*Informing Consumers*’, and was developed in relation to with-profits products in our Issues Paper No 3,⁴⁴ (IP3). In IP3, we suggested tailoring the information that consumers should receive about their products, and classifying the information into ‘core’ and ‘supplementary’. In our Feedback Statement on IP3, we indicated that we intended to carry forward the approach proposed in the paper, and that this review was the most appropriate mechanism for doing so. Accordingly, we have reflected the IP3 proposals for core and supplementary information in the new rules.

44 With-profits Review: Issues Paper 3 Disclosure to consumers January 2002

- 5.28 We recognise that our approach may be contentious, and some may see it as risky. It is easy, after the event, to blame inadequate disclosure for weak consumer understanding of products. But we are neither advocating nor causing inadequate disclosure; and increasing ‘disclosure’ requirements is generally not the key to improving consumer understanding.
- 5.29 ‘Product disclosure’ is the provision of all the information that a consumer has a right to receive about a product before, at and beyond the point of purchase. Full, clear, fair and not misleading product disclosure, with guidance on the matters to be covered and the timing of their delivery, will still form a fundamental element of our regime. But our efforts to improve consumer understanding must set priorities and focus on material we have identified as central to the consumer making a sound decision at point of sale. In terms of product information for consumers, we must accept that less is more. To try to highlight in that document every aspect of a product, its terms, conditions, and even its risks, would be self-defeating, as many consumers would continue to discard the document unread.
- 5.30 Firms will be required to disclose all information that might be considered relevant to a consumer’s decision whether or not to invest, and to deliver the information to consumers in a clear, fair and not misleading way before the consumer completes the transaction. We do not, however, prescribe the medium for delivery of all of this ‘disclosable’ information in our proposed rules. For life products, firms will be free to include it in any of the literature they produce to market their products (including policy documents or the PPFM⁴⁵), so long as they ensure their timely delivery to the consumer. This should not result in a significant increase in the amount of documentation, as firms routinely send out a number of documents in the course of marketing a product. But the approach will allow firms to absorb this wider disclosure requirement into their own information structures.
- 5.31 The non-life product regime offers slightly less flexibility, because of the UCITS III requirements. Here, the directive expects only two disclosure documents: the Simplified and the Full Prospectus. But in this case, our proposed guidance will encourage firms to limit the degree of detail given in the Simplified Prospectus – the consumer-focused document - in favour of signposting to detail in the Full Prospectus.

Q.5: Do you understand and accept the distinction we draw between product disclosure and consumer information at point of sale?

Q.6: Do you think that this distinction will lead to consumer detriment?

45 Our policy on the Principles and Practices of Financial Management (PPFM) are currently the subject of consultation in CP167 *With-profits governance, the role of actuaries in life insurers, and certification of insurance returns* January 2003. In the CP, we suggest that the PPFM should be provided at the point of sale and with policy documentation.

Q.7: Do you think that this approach will cause problems for firms and the way they design their marketing literature?

Focusing on suitability

- 5.32 In prioritising the information to be delivered, we have placed greater emphasis on suitability. There are clearly limitations on what can be achieved through any product information document. And it is, of course, the job of the adviser to assess the client's needs and circumstances, and to ensure that advice given reflects those needs and circumstances. But we think it is realistic to aim for the information to:
- help consumers spot if a product (at the generic level) is wrong for them; and
 - where relevant, identify obvious alternatives - such as term assurance where whole of life is being considered, or an occupational pension where a personal pension is being considered.
- 5.33 We do not think this means that the material has to be negative in tone. It is simply important that consumers can take an informed view about whether the possible benefits, and the possible risks, are consistent with their needs.
- 5.34 We know through research that the suitability letter plays an important role in consumers' decision making. But we cannot rely solely on that document to ensure that consumers understand and accept the suitability of a product for their needs – not least because, in unadvised sales, no suitability letter is delivered.
- 5.35 So our guidance will direct firms to use the product information document as a vehicle for explaining the factors that might impact on the suitability of a product for a typical consumer. In the case of life products, we have also developed a specific measure to support this approach.
- 5.36 But we propose also to enhance the content of the suitability letter, to include a requirement to disclose any significant links with other financial services companies. This will underpin the disclosure that will be proposed for the initial status disclosure document being developed as part of the de-polarisation proposals.⁴⁶ The suitability letter will also confirm to the customer the amount of any commission paid to the adviser. This information is regularly provided to the consumer at the end of the personal illustration, but we know that it is not well observed and rarely considered by the consumer.
- 5.37 We also give guidance to the effect that it should be given or sent as early as possible in the process following a recommendation (at the moment, the

46 CP166 *Reforming polarisation: removing the barriers to choice* January 2003

requirement is ‘no later than the start of cooling off’, which means that the consumer may have accepted the advice before receiving the letter). This is because we found that, where consumers had received the letter before making their decision to proceed, they used it effectively as a tool when considering the product and their further conversations with their advisers.

Q.8: Do you agree that the new product information document should focus on suitability issues?

Disclosing risk

- 5.38 We want to be particularly clear about what we mean by ‘less is more’ in relation to the disclosure of risks.
- 5.39 The requirement to disclose adequately the risks associated with a product will apply to all products. It will not vary significantly from the current requirement to disclose ‘factors which may have an adverse effect on performance or are otherwise material to the decision to invest’ (current COB 6.5.13).
- 5.40 The provider may ultimately choose where and how to explain risk. This is most likely to be done in the main text of the product information document. But the provider should not necessarily attempt here to give a comprehensive insight into every risk associated with the product, however insignificant or unlikely. We expect some less material or more exceptional risk factors to be discussed in other product literature, including policy documents or product guides, and to be signposted clearly from within the product information document.
- 5.41 We do not expect the provider to give, in a generic document, an overview of risk that is tailored to a particular consumer’s circumstances. It is inevitable that some factors may not be of concern to some consumers or, more notably, that others will not be mentioned because they are not material for most consumers but will be significant to a few. The most important point is that consumers’ attention should be drawn immediately to the most significant risks, but that they can also find their way to all information about the potential ‘downsides’ of a product.

Q.9: Do you agree with our proposed approach to the disclosure of risk?

Q.10: Do you think that it will deliver an appropriate level of consumer protection?

Getting consumers to read the material

- 5.42 Visual design has evolved as a key element in improving the ‘standout’ and readability of material. But we believe that consumers are more likely to use

the material if we (and firms) take steps to raise awareness of the existence of the information and of how it could be used.

- 5.43 It is important that advisers help to increase the effectiveness of the disclosure material by drawing attention to it. This is in their interests, as well as consumers': effective use of the information will make it less likely that consumers make incorrect or unrealistic assumptions about the product. So we propose to introduce a requirement on firms either orally or in their accompanying material (where there is no personal contact) to draw the consumer's attention to the importance of reading the material and seeking clarification if it is not understood.
- 5.44 On consumer education, we already have a number of resources which draw attention to the role of key features material, and we set out below our intention to apply our consumer awareness tools more intensively in support of the launch and continuing effectiveness of the new regime.
- 5.45 We have also examined a range of approaches that would increase the personalisation of product information. But we concluded that, with the exception of the charges example, the costs of any of these would be prohibitive, even when set against the benefits of improved stand out.
- 5.46 As Chapter 3 explains, the use of a Questions and Answers (Q&A) style of presentation when setting out larger sections of information drew very positive feedback in consumer testing. Q&As form part of the existing regime, and Raising Standards has achieved particularly significant improvements in readability through its useful and effective guidance on how this should be structured. So we have carried forward the requirement for firms to set out the main terms, conditions and features of their product in a Q&A format.
- 5.47 It is also clear that some firms have been very successful in the use of plain language – particularly Raising Standards accredited firms – but that this is by no means true of all. While there is a general requirement in our existing rules to deliver clear, fair and not misleading communications, Raising Standards has dramatically improved the user-friendliness of language used in KFDs. So we have dealt specifically with the issue of plain language in our proposed rules and guidance, incorporating and expanding on some of the measures applied by Raising Standards.
- 5.48 To consolidate our messages about form and content, we have prepared a range of examples of model documents to form part of our guidance. These should give firms a clearer idea of what we are aiming to achieve, particularly in terms of coverage, level of detail and sequencing of the information.

Q.11: Do you think that our new approach will encourage consumers to read the information?

Getting the information understood

- 5.49 Our research showed that when consumers do read disclosure information, some have problems understanding what is provided. We think that writing such material in plain language is an important part of getting the material understood. The question is how best to make it happen.
- 5.50 It will become clear from our proposals that, on occasion, we believe that there is value in prescribing some of the text. We have also included guidance on plain language, influenced substantially by the standards applied in the Raising Standards scheme. (This recognises the significant achievement of that scheme in compiling useable and effective standards for this sort of material.) But we do not propose to require firms to gain plain language accreditation, as we believe that the standards we expect are deliverable without recourse to the expense of such a measure.

The proposed new regime

- 5.51 We have concluded there is potential to improve on the existing regime. The following chapter explains the measures that we consider are likely to deliver a significant improvement over Key Features in terms of consumer take-up and use; but in broad terms, these are:
- a new name ('key facts') and visual identity, distinct from both the firm and the FSA. This will help product information to stand out from other material, will make it clearer to consumers how they can use the material, and will make it easier to promote public awareness of the documents;
 - the incorporation of a reasonably prominent FSA logo and message explaining that firms are required to deliver the document;
 - focusing on 'core' product information and giving firms greater discretion as to the treatment of other disclosable information;
 - a greater emphasis on 'suitability', reflected in the design of the content, so that the material is positioned as an aid to decision-making, rather than a comprehensive digest of product terms and conditions. For life products, this is helped by the inclusion of a short, checklist-style, 'suitability' guide at the start of the document;
 - the use of a question-and-answer format for delivering general information about the product;
 - encouraging plain language and the explanation of financial terms (to ensure that unfamiliar concepts are explained as well as more technical terms), and explanations about how to use the material within the document; and

- extensive revisions to the charges illustration, with further signposting to draw attention to its content.

The key facts ‘brand’

- 5.52 The proposed new rules prescribe the appearance and content of the front page of the new document. This approach has three benefits:
- consumers can identify the document as being different from other marketing literature;
 - the recognition factor will increase as consumers buy additional products; and
 - we can ‘market’ the key facts approach to further raise consumer awareness.
- 5.53 Our designers have produced a plain and simple cover incorporating a new logo that we can use more widely to identify documents, which provide important information. The ‘key facts’ logo is central to the identity of the product information document – but it will also be usable as a logo in a much wider range of contexts. For example, by incorporating the key facts symbol into status disclosure documents. The first example of this wider use can be seen in the initial status disclosure document, which is discussed in our consultation on changes to the polarisation regime.⁴⁷
- 5.54 This approach allows us to maximise the ‘recognition factor’ for the symbol, and will allow us to make our consumer awareness messages more consistent and effective. We are optimistic that ‘key facts’ as a brand identifying important, regulated, information for consumers has the flexibility to add value in a wide range of contexts across all sectors.

Q.12: Do you agree that the proposed brand-style use of the key facts logo will be of value to consumers?

Use of the FSA logo

- 5.55 A further significant element of our front cover design is the inclusion of the FSA logo and a ‘regulatory message’.⁴⁸ This message explains to consumers that firms are required to deliver the document, but that the choice of product is a matter for the consumer.

⁴⁷ CP166 *Reforming Polarisation: removing the barriers to choice* January 2003.

⁴⁸ Wider use of the FSA logo: In May 2002 we issued temporary guidance as Guidance Note No3, which has the effect of permitting the use of the FSA logo on a firm's letterhead, and explains that if firms wish to use the logo in other contexts they must apply for a licence. We consulted on guidance about this in CP138, and this has now been made permanent. We have considered whether any value could be derived from permitting wider use in a more generalised way, but have concluded that this is unlikely to outweigh the risks arising from inappropriate associations being made - if consumers are to get the right message from the logo, we need to control how it is used very carefully. We will therefore consider with care any requests for further licence to use the logo, but do not expect to issue such licences for other customer-facing material except in exceptional circumstances.

5.56 It is important that we make the brand as cheap to use as possible, particularly if it is adopted in sectors where firms are predominantly very small and 'low-tech'. So our publications department is working on software solutions that we can offer to firms using even the most basic technology.

Q.13: Do you agree that the incorporation of the FSA logo and regulatory message will be useful for consumers?

Explaining the cost of a product

5.57 The example – our re-structured illustration (or charges table, in the case of non-life products) – produced the most dramatically positive feedback of all the measures we tested. Consumers found a significant improvement in terms of readability and comprehension. So to make the example as effective as possible, we propose to prescribe much of the wording accompanying the financial information. There are also some key policy changes proposed:

- there will no longer be a projection expressed as 'what you might get back'. We want to emphasise to consumers that the return on their investment cannot be predicted (unless this is guaranteed);
- examples for personal pensions will now include calculations of what the projected income shown in the charges example would be worth 'in today's money';
- the charges table has been streamlined to emphasise the effect of charges on the investment through the life of the product, and to explain how consumers can compare with other providers' charges;
- the charges table includes an indication that comparative information about many providers' charges is available from our CIT website;
- a revised form of disclosure based on RIY will be prescribed;
- examples for income withdrawals will include an estimate of the critical yield – the investment return needed to match the income that could have been secured using an immediate annuity contract;
- the example will not contain disclosure of actual commission. Our proposition is that this would be better done by the recipient of the commission, within the suitability letter (see below) or other separate disclosure.

Projections

5.58 Key Features contain projections for three reasons:

- to illustrate the effect of charges;

- to show in a hypothetical way ‘what you might get back’ when standard assumptions are applied; and
 - (a development of the second reason) to illustrate how a specific target sum could be achieved.
- 5.59 Under the current rules, in most circumstances firms must give consumers three projections based on low, intermediate and high growth rates. Our pension projections consultation⁴⁹ introduced further rules for ‘type P’ and ‘type Q’ projections. These are single projections of pension income in today’s money terms, allowing for future price (type P) and earnings (type Q) increases. These were introduced to allow firms to give customers projections that are consistent with those they will later receive as part of the Government’s statutory money purchase illustration initiative.
- 5.60 In *‘Informing Consumers’*, we envisaged continuing to use projections. However, we raised the possibility of reducing the number of growth rates used from three to one if we could find a more effective way of conveying the uncertainty surrounding projections.
- 5.61 We have tested versions of the disclosure material using only one growth rate to see how consumer understanding of the uncertainty surrounding the projections compares with the existing three rates.
- 5.62 The testing did not produce any evidence that the level of misunderstanding was significantly higher with only one rate than with three. However, it did confirm our suspicion that consumers tend to interpret multiple rates as setting the extremes of possible outcomes and, depending on their own outlook, will focus on one or other of them as reflecting the likely future for their investment. The expectations set by this approach are extremely difficult to remove through warning messages. We concluded that, on the balance of the arguments, it was preferable to end the practice of providing three projections of ‘What you might get back’.
- 5.63 However, in the light of what we now know about consumers’ tendency to find certainty in the weakest of indications, we have also reconsidered whether there is any value in providing consumers with projections of ‘what they might get back’. In most circumstances, such a projection can be highly misleading. It is extremely difficult to communicate to consumers the fact that projections are dependent on the fulfilment of a number of assumptions, and that it is most likely that one or more will fail to be met. And if you do get the message across, consumers then question why, if the information is so weak, it is presented at all.

49 CP 134 Pension projections, April 2002

- 5.64 A notional growth rate is needed to demonstrate the effect of charges on the performance of a product over time. This is a projection of sorts, and the approach has been carried forward in our proposals. But we have decided not to include any projections of ‘what you might get back’ in a key facts document, except in the case of personal pensions and income withdrawals. Instead, we have strengthened messages explaining that outcomes for investment products are unpredictable and dependent on a number of factors.
- 5.65 However, for pension plans or income withdrawals, consumers will still be given a projection to show what income a future fund might buy. This will be based on a single rate of investment growth.
- 5.66 In the case of targeted investments, such as mortgage endowments, firms will continue to apply their own choice of assumed growth rate to determine the level of contributions needed to meet a target. Consumers will be warned that achievement of their target is contingent on meeting that and other assumptions.
- 5.67 Because only one growth rate will have been used for information given at point of sale to these consumers, we propose that where firms are giving projections as part of their post-sale information, they should also be based on a single rate for the sake of consistency. So for projections in contexts apart from the key facts document, we propose that firms may give consumers:
- three projections using the lower, intermediate and higher rates of return;
 - two projections using the lower and higher rates of return, for existing contracts only;
 - a single type P or type Q projection; or
 - a single projection based on the intermediate rate of return if the customer has previously been given a key facts document for a pension plan or other contract with a target.

Q.14: Do you agree with our proposals in relation to the use and number of projections?

Real value projections

- 5.68 Real value information is only relevant to consumers where the purchasing power of the benefits is the key focus. We first explored the merits of such a measure in CP134 ‘*Personal Pensions*’ in April 2002 as a way of promoting consistency with the post-sale information required under the DWP’s new Statutory Money Purchase Illustrations. In the policy statement on CP134, we noted that there was general support for this measure, and we undertook to implement it as part of this review.

- 5.69 Research on stakeholder pensions suggested that many consumers grasp the principle of inflation but few, if any, are able to calculate the scale of the impact it might have over the long term. It will also make it easier for consumers to understand how point of sale projections relate to the Department for Work and Pensions' proposed annual benefit statements.
- 5.70 We have consumer-tested a version of the new material for a personal pension which contains both nominal figures and an indication of what income the benefits might buy in real terms. Consumers welcomed the inclusion of this material and generally understood what it was trying to tell them. Some were surprised at the figures shown, but we cannot conclude from that that consumers would be less inclined to save if they had a better understanding of what their situation in retirement would be. Given this, and the benefits of consistency with the figures that will be given in annual benefits statements, we propose to require the inclusion of real terms figures for what income pension benefits might buy.

Q.15: Do you agree with our proposed inclusion of real terms figures in examples relating to personal pensions?

Comparison projections – rebate only personal projections.

- 5.71 We propose to continue with the policy that requires comparison projections for the rebate element of Appropriate Personal Pensions (APPs) to give individuals an illustration of how this part of their APP would compare with the State pension given up. But these comparison projections are separate from the projections currently used in the Key Features Document and will not form part of the Key facts document. We are concerned, however, that such comparison projections are generally not presented as well as they might be and so we may return to the question of they should be presented in a future consultation paper.

Q.16: Do respondents agree that further work is needed in relation to the presentation of comparison projections for contracting out of SERPS?

Use and calculation of reduction in yield figures

- 5.72 We have concluded that there is no strong case for changing the basis for price disclosure from the current Reduction in Yield. Although we have used the feedback received from our research to improve the way in which it is expressed in the example.
- 5.73 However, we are proposing a change to the rules defining how RIY is calculated. We intend to tighten up the existing COB rules to prevent mutual life companies offsetting surplus from non-profit business against charges and expenses in order to disclose a smaller reduction in yield in the example. The rationale for this is that the RIY should be a fair and consistent reflection of

the effect of all the charges on a product's growth, to allow consumers to compare between product providers on a like-for-like basis.

- 5.74 The current COB 6.6.23(2)(c) allows firms to have regard to “any transfers to shareholders’ funds, or equivalent transfers from established surplus offset by any sustainable rate of transfer of surplus from non-profit business”. This allows proprietary companies to use non-profit surplus to offset shareholders’ transfers. The rule relates to transfers to shareholders’ funds (or equivalent transfers from established surplus). But there is nothing in the COB rules that explicitly prevents mutuals from using non-profits surplus to offset charges and expenses, although the intention is that they should not be allowed to do this.
- 5.75 Some mutuals argue that using the non-profit surplus to subsidise with profit charges and expenses allows them to disclose the benefits of mutuality. They also suggest that it is an inconsistency that allows proprietary companies to use non-profit surplus to offset shareholders transfers where a mutual cannot disclose any benefit from such surplus – even though there are no such shareholders to pay.
- 5.76 The argument for allowing such an offset for proprietary companies is that they would not have structured the with profits fund in the way they had done if they had not been able to offset shareholders’ transfers from non-profit surplus. That is, where non-profit business is written within the with profits fund, with profits policyholders participate in the surplus and shareholders only receive transfers that go through the 90:10 gate (or whatever structure chosen). If the offset from non-profits was not allowed, the fund may have developed in a different way.
- 5.77 We would not wish to prevent firms, in certain circumstances, from meeting some expenses from the estate or shareholders’ funds (if they would otherwise be misleading) – as long as specific conditions are fulfilled. Our intention is therefore:
- to allow firms to offset surplus from non profit business against shareholders transfers or equivalent transfers from established surplus;
 - to prevent any other use of non-profit surplus to offset expenses; and
 - to allow firms, in certain circumstances, to meet some expenses from the estate or other shareholders funds where they would otherwise be misleading.
- 5.78 The new rule makes clear that no offset against charges or expenses may be made by the transfer of surplus from non profit business unless it is to offset transfers to shareholders’ or equivalent retentions. The rule will also indicate that any offset must not be greater than the cost of transfers to shareholders’ funds or equivalent retentions.

- 5.79 Also, we define circumstances when expenses can be met from the estate, where they would otherwise be misleading, and state the conditions that must be met if this is to be allowed. One of the conditions that must be fulfilled is “any reductions in incurred costs anticipated in future years must be evidenced by definite business plans using realistic assumptions”. This should prevent a mutual from, for example, stating that they are using transfer of surplus from non profit business to offset retentions from established surplus and then using this retention (now part of the estate) to reduce charges or expenses. We also give guidance on the circumstances under which firms may be allowed to subsidise expenses.
- 5.80 We believe that these proposals reflect accepted actuarial practice as set out in the Faculty and Institute of Actuaries’ Guidance Note 22.
- Q.17: Do you agree that our revisions to the calculation method for the Reduction in Yield better reflect accepted actuarial practice?
- Q.18: Do you agree that our revisions will result in a more transparent, consistent and consumer-friendly outcome?

Dealing costs

- 5.81 We have concluded that portfolio turnover information would, as some respondents suggested, be very difficult to interpret in a useful way. We accept that it would be over-simplistic to interpret low turnover as a good thing. We also accept that for the information to have any validity a correlation would need to be demonstrated between past turnover and future turnover. We have not yet determined whether such a correlation exists. For those reasons we have decided that we will not bring forward proposals to require disclosure of portfolio turnover.

Guaranteed and other derivative backed products

- 5.82 For certain products, often marketed as guaranteed bonds, our ‘standard’ charges table will not adequately disclose the full impact of charges to the investor. It can be particularly difficult for consumers to compare charges between these and other packaged products.
- 5.83 Typically, the products provide a return to the investor based on a formula linked to one or more stock-market indices, such as the FTSE 100 index. They often guarantee the return of capital at the end of a fixed period (for example, five or six years). But there are also variants provide income and return the capital only if the stock market has performed to a certain level, making it difficult to classify the products neatly.
- 5.84 Although the return to the investor will usually be clearly based on the performance of a common stock market index, the underlying structure of the

product can be very complicated. The provider will commonly use complex financial derivatives to reproduce the returns implied by the particular formula.

- 5.85 This product structure does not fit in well with our proposed charges table. For most packaged products the premium can be accumulated, using an assumed growth rate, with and without charges. So consumers can see the effect of charges and expenses on their product, in a particular year, by comparing the two figures.
- 5.86 In contrast, the proceeds from derivative-backed products are based on a formula rather than on the return on the underlying assets. These products can, in fact, appear, and be marketed, as if they have no explicit charges. So the concept of accumulating the premium with and without charges has little meaning and would not help consumer understanding of these products.
- 5.87 But the provider will, of course, expect to make a profit. The profit comes from the difference between what it costs to set up the product (including the cost of the derivatives) and the initial premium paid by the investor (although the product may additionally include explicit charges).
- 5.88 So, our aim has been to develop a disclosure regime that would allow consumers to understand the impact of charges for derivative-backed products. We also want to present the information in such a way that it could be compared with other packaged products.
- 5.89 An analysis of the different options for disclosing the charges, including an explanation of the approach that we propose to adopt in our new rules, is set out in Annex 4.

Q.19: Do you agree that our proposed charge disclosure rules for 'guaranteed' or derivative-backed products offers consumers a useful indication of the cost of such products?

Products with a term of five years or less

- 5.90 Our current disclosure rules do not require providers to disclose the 'effect of deductions to date' and the RIY for life policies where the term does not exceed five years. Many derivative-backed products are written for a term of five years, which means that currently these products do not need to disclose charges.
- 5.91 To ensure that all products (apart from without-profits policies), whatever their term, disclose their charges we propose to remove this exemption.

Q.20: Do you agree that life policies with a term of five years or less should not be exempt from disclosing the effect of charges and expenses?

Income withdrawals – the disclosure of critical yields

- 5.92 Income withdrawal policies allow an investor who has accumulated a pension fund and is retiring to defer buying an immediate annuity and instead draw income direct from the pension fund itself. The amounts that can be withdrawn are governed by rules laid down by the Inland Revenue.
- 5.93 There are significant risks involved with this type of product. The main risks are the continuing exposure to investment risk of the underlying funds, and the extra charges associated with running the product. Consumers need to understand these before committing to something that could in the longer term leave them worse off in retirement.
- 5.94 Annual reviews are important for buyers of income withdrawal products. The plan and the consumer's circumstances must be reviewed regularly so that the consumer can decide when it is most suitable to purchase an immediate annuity. Our examples for income withdrawal plans explain to the consumer that income withdrawal or weak investment growth may erode the value of their pension fund (and consequentially their long-term income when they come to buy an annuity).
- 5.95 Under income withdrawal, the investor retains the opportunity to switch to an annuity at any time. The longer he or she delays buying an annuity, the greater the investment required becomes, since the mortality subsidy⁵⁰ in the corresponding annuity reduces with age. But it is unlikely that an investor will understand this at the outset of the plan, and so could unwittingly be taking an ever-greater investment risk.
- 5.96 A critical yield figure provides an indicator to help the consumer understand this risk. But to be effective, the basis on which the critical yield is quoted must be simple enough for the investor to understand its relevance. This is more important than getting the investor to understand the complex underlying issue of mortality subsidy.
- 5.97 Many firms are aware of the value of critical yields and produce and provide them voluntarily as part of the advice process for income withdrawal plans. So most product providers and some IFAs already have the systems and procedures in place to meet our proposals. Our aim in prescribing the calculation and disclosure of the critical yield is to ensure a consistent approach across the IFA and product provider sectors so that all customers are provided with this information.

50 When someone who buys an annuity dies early, the total income they have received will usually be much less than the cost of that annuity. This 'saving' lets the annuity provider subsidise the cost of similar annuities for people who live longer than expected. People who take income withdrawals rather than buy an annuity will not benefit from this subsidy.

Calculating the critical yield for the example

- 5.98 The critical yield should be calculated in a similar way to that calculated for reduction in yield. That is, including the effect of charges and ensuring that the effect of mortality is included. This method is derived from the ‘Type A’ method as defined in PIA Regulatory Update 55: ‘the growth rate needed on the drawdown investment sufficient to provide and maintain an income equal to that obtainable under an equivalent immediate annuity’.
- 5.99 Firms producing critical yields need to make assumptions about certain aspects of the contract - in particular, the annuity rate to be used for comparison. We recognise that product providers who offer a competitive income withdrawal plan may also offer poor direct annuity rates. This could make the critical yield look better and may make the income withdrawal option look more favourable in comparison with the provider’s own annuities. So the rules will not permit providers simply to use their own annuity rates in calculating the critical yield. Instead, firms must use either a competitive rate that reflects good value in the market, or the higher of either the current rate published by the Government Actuaries Department, or their own in-house rate.
- 5.100 The annuity used for comparison should also be investor-specific. That is, it should reflect the customer’s actual circumstances and requirements, such as the customer’s state of health. It will be shown assuming annuity purchase at either age 75 or the date at which it is reasonably assumed an annuity will be bought. This will allow the investor to weigh up the critical yield figure against the immediate annuity figure disclosed in the example (and which is a current requirement for income withdrawals).
- 5.101 The rules are intended to provide a basis that will enable all firms to access a reasonable figure for the annuity that could have been bought. We have provided this flexibility to reduce the cost of implementation, as many providers already generate critical yields on one of the bases permitted. Also, we do not believe that the difference between the results of either option will be material in terms of the value of the information to the consumer.

Critical yields at post-sale advised reviews

- 5.102 Current rules require product providers to send every policyholder each year a statement on their income withdrawal plan. Providers are also required to re-calculate the minimum and maximum income that the policyholder can draw every three years. At this stage, we will require the provider to supply the investor with a new example and critical yield. The rules will require the critical yield to be calculated on the same basis as at the point of sale.

Q.21: Do you agree that a critical yield figure will be useful for consumers considering an income withdrawal plan?

Q.22: Is one critical yield figure sufficient, or should the critical yields for annuity purchase at ages 65, 70 and 75 be shown?

Q.23: Do you agree with the basis for calculation proposed?

Other point-of-sale information issues

Suitability letters

- 5.103 Contrary to our expectations, our research has shown that the ‘suitability letter’ is read and used effectively by consumers. We intend, therefore, to continue to require the delivery of a suitability letter. But we propose to give guidance to the effect that it should be provided as early as possible in the process following a recommendation (at the moment, this is expressed as a ‘no later than’ standard). This is because we found that consumers made best use of the letter before their final decision to proceed had been made. They used it either as a means of validating their own recollection of what was said, or as a basis for further discussions with their adviser.⁵¹
- 5.104 We also propose to include a requirement to disclose in the suitability letter any significant links with other financial services companies. This should remind the consumer of disclosures made in the initial status disclosure document being developed as part of the de-polarisation proposals.
- 5.105 As indicated above, the suitability letter will also confirm to the customer the cash amount of any commission paid to the adviser. Currently, the adviser is required to disclose the cash amount of commission to the consumer before effecting the transaction. Guidance indicates that the disclosure should be in writing. But this requirement is waived if the Key Features document contains an appropriate commission disclosure, provided that the adviser also makes a cash disclosure within five working days of effecting the transaction. In other words, the disclosure is frequently made via cash disclosure at the end of the Key Features personal illustration.
- 5.106 But we know from research that consumers rarely pick up the Key Features. So we are removing this relaxation. The responsibility for disclosure of actual amounts of commission will therefore fall fully to the advising or arranging firm.
- 5.107 We announced in October that, under our proposals for advising and selling in a de-polarised market, adviser/arranger remuneration will be disclosed in general terms at a much earlier stage in the process.⁵² Our CP on this new approach is due in the Spring. This proposal will mean that the final

51 Reflexions Communication Research ‘*Suitability letters*’ and the fact find process January 2003.

52 FSA Press Notice FSA to develop ‘Menu’ approach for paying for financial advice 28 October 2002

disclosure of the actual cash amount will act mainly as a confirmation, after the recommendation is made but before the transaction is concluded.

Q.24: Do you agree with the revised timing and content requirements for the suitability letter?

Post-sale confirmation

- 5.108 In contrast to our findings on the suitability letter, we have found no evidence that the provision of confirmatory post-sale product information improves consumer use or understanding of the information. So we intend to remove the requirement to provide duplicate information post-sale.
- 5.109 At the moment, we require firms to provide Key Features pre-sale and to provide some of the information again immediately after sale. We raised the question of what the role, if any, of post-sale product information should be.
- 5.110 We believe that the primary role of point-of-sale product information is to be as an aid to decision-making, although we acknowledge that some consumers will also wish to retain it as a reference source. It will also be (under the new design) a guide to the location of more detailed product disclosure.
- 5.111 We found no evidence, in our research for this project or in other sources of regulatory intelligence, that advisers were failing to transmit pre-sale Key Features documents as they are required to do. Nor did we find evidence to suggest that post-sale confirmatory information improved the likelihood of consumers using or retaining the information.
- 5.112 In contrast, our measures to improve the ‘stand-out’ and use of the pre-sale document will, we believe, also support retention of the document as an important source of information. We do not therefore believe that there are strong arguments for retaining a belt-and-braces approach to providing that information, and propose to abolish the requirement for duplicate information to be provided. Firms may, of course, continue to re-issue product information post-sale, if they wish.

Q.25: Do you agree with our proposal to abolish post-sale confirmatory information?

Consumer education and awareness

- 5.113 We plan to develop a substantial consumer education programme in support of the introduction and ongoing effectiveness of the new proposals. The homogeneity of key facts documents and the strong key facts symbol will allow us to deliver simple but effective guidance to consumers about what to look for and how to use it. We are optimistic that ‘key facts’ as a brand identifying important, regulated, information for consumers has the flexibility

to add value in a wide range of contexts across all sectors. So we will incorporate consideration of its use into our development of all new regulatory information directed at consumers.

Transitional arrangements

- 5.114 We acknowledge that the initial cost to the industry of implementing these changes is high, in absolute terms, and will fall mainly to life product providers due to the systems costs of delivering the new examples. For that reason, we are proposing to phase in the introduction of the new regime to allow product providers to manage the cost and scale of the task of converting to the new regime.
- 5.115 For non-life products that are UCITS, the new regime will apply from 13 February 2004. This deadline is necessary to meet the requirements of the UCITS Directive.
- 5.116 All other non-life products, including equity ISAs, will have to comply with the new rules by 1 August 2004.
- 5.117 For life products, the new regime will be phased in by product type:
- regular and single premium personal pensions, including stakeholder pensions, and income withdrawal plans will have to comply by 1 August 2004;
 - savings and mortgage endowment policies will have to comply by 1 August 2005; and
 - all other life products will have to comply by August 2006.

This approach has the particular advantage of delivering consistency within product type so consumers will be able to compare like with like at any given time.

- 5.118 The amendments to the existing COB 6.5.45 and to COB 5.3 to implement our proposals in respect of the suitability letter will not be subject to any transitional provisions.

Q.26: Are our proposals in respect of the phased implementation of the new regime proportionate and practicable?

6 Detailed proposals: consumer information and disclosure for packaged products and cash deposit ISAs

- 6.1 This chapter provides a commentary on the proposed new rules for point-of-sale product disclosure. It does not note every provision contained in those rules, but highlights notable changes. It does not, therefore, replace the need for respondents to read the draft rules in full. The chapter describes the purpose and effect of the new rules, but does not repeat in each case the fact that the rules described are all proposals for comment. This is purely for economy of language in an already lengthy document, and readers should not assume that we pre-empt the outcome of this consultation.
- 6.2 For ease of reference, we have followed the new structure proposed for COB6. Sections 1 to 7 of Chapter 6 of the current COB Sourcebook will be deleted, and Sections 6.8 and 6.9 will be re-numbered and remain as COB 6A.8 and COB 6A.9. These will be dealt with under later consultations about related matters.

COB 6.1 Application and purpose

- 6.3 The application of the new regime is initially drawn widely. This is to allow us to apply certain EU directive disclosure requirements to non-private customers as well as private customers. These requirements are not extensive, and the application of the detailed key facts document regime is limited to private customers.
- 6.4 Territorial application is unchanged from the existing regime, except where the requirement to offer a simplified prospectus is applied to all EEA clients.
- 6.5 COB 6.1.3G explains in some detail the structure and purpose of the new chapter. The purpose of COB 6 is to amplify Principle 7, which requires a firm to pay due regard to the information needs of its customers. In the guidance, we explain that in the context of product information, there is a particular need for consumers to understand the suitability of a product for their needs.

Q.27: Do you agree with the proposed application provisions for the new regime?

COB 6.2 Product information: general

- 6.6 In this section, we establish the overarching requirements for product disclosure that will apply to all packaged products. This includes provisions that require the disclosure of sufficient information to a customer for him or her to make an informed decision.
- 6.7 We also set out the minimum information requirements imposed by the Third Life Directive and the UCITS Directive, which have wider application than the key facts document regime.
- 6.8 Firms are asked to take reasonable steps to provide or make available any information to customers about any factors that might be relevant to his or her decision to invest, and to do so in a clear, fair and not misleading way before the customer has completed an application. This includes information that is not specifically about the product, but may relate to the product provider, such as information about the provider's complaints or compensation arrangements, or the fact that commission may be payable to a third party. Guidance on the rule also makes clear that relevant factors may include information about other factors which are not purely derived from the product, such as cross-liabilities between funds or different classes of investor, or material liabilities faced by the provider or its associate.
- 6.9 The guidance then explains that we do not consider the key facts document to be an appropriate vehicle for all of the information that may fall to be disclosed. Key facts documents should be concise and focused, and contain any necessary signposting to allow a consumer to find his way to any further relevant information.

Requirements of the UCITS III Directive

- 6.10 As indicated earlier in this CP, we are not yet in a position to specify the detail of how the information required to be included in a simplified prospectus under the UCITS Directive is to be presented. This will form the subject of a supplement to this CP to be published in February 2003.

Q.28: Do you agree with our proposals concerning the overarching disclosure requirements for packaged products?

Q.29: Do you agree with our approach to the implementation of the consumer information requirements of the Third Life Directive and the UCITS Directive?

COB 6.3 Production of the key facts document

- 6.11 This section deals with the requirement on firms to produce a key facts document for the products they sell. The main responsibility for this lies with product providers; but in some cases, advisers will also be required to produce key facts.

Combining key facts documents with other material

- 6.12 Key facts documents will not generally be allowed to be combined with or incorporated into other documents. There is, of course, no restriction on reproducing the key facts information in documents used for the purposes of, say, informing advisers about a product range. But for the purposes of the requirement to deliver a key facts document to a consumer, a key facts document must be stand-alone.
- 6.13 The exception to this rule is where such a combination is necessary to ensure the integrity of the content of a direct offer financial promotion; for example, where the direct offer financial promotion is designed as an insert or brochure in a newspaper or magazine. In this circumstance, COB 6.5.6(2) requires that the key facts document must be at least as prominent as any other information contained in the direct offer financial promotion. The guidance given in COB 6.4.2 on drawing the consumer's attention to the key facts document will also still apply in these circumstances.

Compendium key facts documents

- 6.14 Many firms market their ranges of funds in a single 'compendium'-style document containing Key Features information. COB 6.3.2R(2) makes clear that we plan to continue to allow this approach, but with certain restrictions designed to protect the integrity of the key facts regime.
- 6.15 Firms will be allowed to amalgamate the key facts document for individual funds into one document (which should include information about any ISA wrapper available). This may include information about funds not available to retail customers, subject to clear warnings that this is the case.
- 6.16 In the case of an umbrella scheme, a single consolidated document is required by the UCITS Directive, but permission to produce separate key facts documents for sub-funds is given. But our guidance indicates that it is not our preferred approach to incorporate all of the detailed information about a range of funds in the key facts document. So we indicate to firms providing life policies offering a choice of a range of funds that they should consider setting out the detailed information about each fund in a separate document.

Q.30: Do you agree that key facts should not be combined with other material except in the exceptional circumstances described?

Q.31: Do our rules on compendium documents offer sufficient flexibility without risk to consumer understanding?

Cash deposit ISAs

- 6.17 COB 6.3.2.R(3) and (4) carry forward the current relaxation of the Key Features requirements for cash deposits ISAs that meet the information requirements of the Banking Code.

Voluntary use of the key facts document approach

- 6.18 We are keen to ensure that, if a consumer is given a 'key facts document' that it meets all of our requirements. So we have proposed a rule that would require a firm that chooses to produce a product information document in the style of a key facts document to ensure that it complies with all of the rules that would have applied were it actually subject to the regime.

COB 6.4 Provision of the key facts document

- 6.19 The intention here is broadly to carry forward the current circumstances in which a firm is required to provide a Key Features document, but to instead require a key facts document. This will apply across all packaged products.
- 6.20 The section deals first with the general requirements for life policies and for non-life products, then addresses special situations, pre-completion variations and telephone transactions.
- 6.21 The overarching requirement is that when a firm sells, arranges or personally recommends the sale of a life policy or a scheme to a private customer, the firm must provide the customer with the appropriate key facts document without delay. Where a firm makes a recommendation, the information should be given at the same time as the recommendation, or as soon as possible afterwards. In all cases (except telephone sales), the information must be provided before an application form is completed.
- 6.22 The rules make clear that the requirement to provide falls first upon the firm making a recommendation or arranging a sale; so a product provider is not required to provide a key facts document to a customer where that is also the responsibility of a third party.
- 6.23 These requirements modify the current rules that require the KFD to be provided only before the customer completes an application.
- 6.24 For both life and non-life products, the guidance to the rules explains that it is important that the customer gets this information as early as possible, to gain maximum benefit from its use. Firms are also encouraged, through guidance, to draw the customer's attention to the document, to explain its content and

encourage the customer to read it. In the case of direct offer financial promotions, firms are encouraged to place each element of the key facts document together in the marketing package.

Life policies: pre-completion variations

- 6.25 The current rules requiring Key Features to be provided in relation to some variations to a policy before the completion of the transaction have been carried forward to apply to key facts documents.

Non-life products

- 6.26 In the case of private customers, firms are required to provide a key facts document, rather than simply offering information that would meet the simplified prospectus requirements. In this way, we ensure that simplified prospectus information given to private customers is consistent and comparable with the product information provided for other packaged products.
- 6.27 There are several exceptions to the requirement to provide a key facts document, which reflect current arrangements for, for example, discretionary portfolio managers. But, as guidance notes, the overarching requirement to offer a simplified prospectus (which may be in the form of a key facts document) remains.

Special situations

- 6.28 We intend to carry forward the same ‘special situations’ for provision of product information as are currently allowed under COB 6.4 for occupational pension schemes, self-invested personal pensions, income withdrawals, stakeholder pensions, cash deposit component ISAs, and traded life policies.

Telephone sales

- 6.29 The permission to delay providing Key Features when a packaged product or cash deposit ISA is sold over the telephone (currently COB 6.2.9R(2) and 6.2.22R) is carried forward, but the oral explanation required has been adjusted to take account of the requirements of the Distance Marketing Directive.
- 6.30 When making the required oral explanation, the firm must now seek the client’s explicit consent to proceed on the basis of oral information only. The firm must also explain that the key facts document is available on request. If the customer wishes to proceed without the document, the key facts document must be sent without delay following the transaction. The content of the ‘oral explanation’ has also been adjusted to take account of the Distance Marketing Directive.

Q.32: Do you agree with our proposals concerning the circumstances in which a key facts document must be provided?

Q.33: Do you agree with our proposals concerning product information to be provided in the course of telephone-based transactions?

COB 6.5 Quality and presentation of key facts documents

6.31 This section deals with

- the medium in which key facts documents must be provided;
- the appearance of the front page or screen of the key facts document;
- general standards of quality and presentation, with further detailed sections on hard copy and electronic versions; and
- the use of plain language.

6.32 Introductory guidance makes clear the consumer-orientated purpose of the key facts document, and encourages firms to apply high standards of quality and presentation, including the use of plain language.

Medium for provision of the key facts document

6.33 The requirement to provide key facts documents in hard copy or other ‘durable medium’ reflects the requirements of the Distance Marketing Directive. The requirement is relaxed for firms operating as e-commerce service providers.

The front sheet or screen

6.34 A key facts document must be produced to the same quality and standard as the associated sales or marketing material used by the firm (as per the current COB requirement), but the appearance of the front cover is prescribed so that it cannot be confused with general marketing material.

6.35 The front page of a key facts document must conform to the template specified in the rules. We intend to provide a downloadable template for firms to use, which will be editable to the extent provided by the rules, and which will be available in a web-based format as well.

‘Co-branding’

6.36 We have considered the practice of ‘co-branding’ – where a firm selling another firm’s product adds its own brand to that of the product provider. This does not have the potentially misleading quality of ‘white labelling’ (where the selling firm’s brand replaces that of the provider). Co-branding is

permitted under the existing rules, subject to the overarching requirements of our ‘clear, fair and not misleading’ standard for financial promotions.

- 6.37 However, the importance of maintaining the integrity and clarity of the ‘key facts’ front page has caused us to conclude that we should restrict the extent to which co-branding should be allowed on the cover of the key facts document.
- 6.38 We are concerned that the information contained in the key facts document should focus on the product itself, rather than the process by which it is sold. This is reflected in our approach to the hard disclosure of commission, for example, which will now be provided elsewhere. We considered whether it would be feasible to allow multiple branding across the top of the key facts cover. The cover already contains three logos: key facts, the provider’s brand, and the FSA logo. We believe that this is the maximum the cover can sustain without confusing the consumer.
- 6.39 However, we propose to allow providers to ‘share’ the editable space provided for their brand with material relevant to the distributor’s brand – for example, the distributor’s name, logo or text about the distributor. The space allowed for the provider’s brand is, however, restricted and will not be increased to allow for co-branding, and the product provider’s brand must always be at least as prominent as any information about a co-branding firm.
- 6.40 Distributors or other co-branding firms will still be free to emphasise their role in other marketing material.

Q.34: Do you agree with our proposals concerning the front sheet or screen of the key facts document?

Q.35: Do you agree with our proposal to limit the extent to which the key facts document may show co-branding?

Quality and presentation – general

- 6.41 The rules will allow firms to apply their own design principles to the interior of the key facts document, including (subject to some guidance) such things as the choice of font, use of columns and colour, and subject to the structural constraints prescribed for the Quick Guide.
- 6.42 As is currently the case for illustrations, the new example may be issued as a stand-alone document. If it, or any other part of the key facts document is produced separately to the main text, it must have the key facts logo at the top of the separate document. In effect, this rule applies to the production of a personalised example for life policies and the production of past performance information for schemes (where it is detached from the main text of the key facts document). Guidance makes clear that we still expect firms to make an effort to apply a high standard of presentation to such documents.

6.43 Key facts must be written and presented clearly. This will involve using plain language and a customer friendly layout.

Quality and presentation – electronic media

6.44 A key facts document produced on the internet should be prepared in the same format as that used for other parts of the site that relate to financial services. For example, using HTML or XML or other format, where relevant, rather than a simple .pdf ‘picture’ of the hard copy version. Where the internet key facts document is concerned:

- we ask firms to prepare the screens so that the reader does not have to scroll horizontally;
- we also expect the downloaded versions of the key facts text to be of a similar standard to any other screens on the site;
- we will not allow the appearance of any banners or other material, or hyperlinks unrelated to the key facts text; and
- we offer guidance on further ways in which web-based key facts should be designed to make them reader-friendly.

Plain language

6.45 Our expectation that key facts documents will be prepared using plain language is now expressed as a binding rule. This reflects the emphasis we seek to place on this issue. Some detailed guidance is given on what we mean by plain language.

Q.36: Do you agree with our proposals concerning the quality of presentation and language of key facts documents?

COB 6.6 Contents of the key facts document: general

6.46 The basic structure of key facts documents is prescribed in this section, and where there are content requirements common to all, these are explained. Firms may adapt the prescribed content of a key facts document only when it can show that it is necessary to reflect the terms and nature of a particular product. But this is only when they do not unnecessarily add to the length of the document or make it less customer friendly. This requirement is a modified version of the current COB requirement.

6.47 A key facts document will contain five elements, in the sequence prescribed:

- the front page or screen;
- a Quick Guide (which may be omitted for non-life products);

- a Frequently Asked Questions section;
- an example; and
- a section for ‘other information’.

The Quick Guide

- 6.48 A table setting out the structure and content of the Quick Guide section explains that a Quick Guide will consist of five numbered questions:
- Is a [generic product type – eg personal pension] the right choice for me?
 - Will the [product name – eg ABC Pension Plan] give me what I want?
 - Do I understand the commitment I’ll be making?
 - Am I comfortable with the risks?
 - What choices do I have to make?
- 6.49 For each question, the table sets out the type of issue that should be addressed, in brief bullet point form, after each question. If a question is not relevant to a particular product (the most likely example of this would be a product that did not require the consumer to make any choices) it may be omitted or an alternative substituted.
- 6.50 Each of the five questions must be accompanied by a ‘signposting’ box, headed ‘Where to find out more’. The content of this box should give specific directions to the consumer about where to find out more about the topics addressed by each question.
- 6.51 A sixth question, ‘How can I compare the cost of this [eg plan] with others?’ must also be included in the Quick Guide, although firms are asked to present it in a way that highlights it separately from the others. We have prescribed the text that must follow this question, which explains the use of the example as a basis for comparing costs, and directs consumers to the FSA Comparative Tables web page. The text warns consumers that they should compare like with like, and that charges are not the only factor on which to base a comparison.
- 6.52 Non-life products are allowed to omit this section. This is because we believe that for us to require its inclusion would be incompatible with the UCITS Directive requirements for the simplified prospectus. However, the directive would not prevent firms including the information, should they wish, and so we have treated it as an optional element in the design.

Frequently asked questions

6.53 Firms will find the requirements set out in this section familiar, as they carry forward the current COB requirements virtually unchanged. The new rule is based on the current COB 6.5.20R, which requires a firm to set out, in the form of questions and answers:

- a description of the principal terms of the product; and
- any other information necessary to enable the private customer to make an informed decision (we have added ‘about the suitability of the product for their needs’).

And we have added a further requirement (based on COB 65.13R(2)) to include a description of the factors which may have an adverse effect on performance or are otherwise material to the decision to invest in the product.

6.54 The questions and answers in the new format must now be numbered: we have found from a number of pieces of research that this is effective in engaging consumers’ attention. We have also given guidance to firms to suggest that they include highlighted or boxed text at appropriate points in the section, to explain technical, complex or otherwise difficult terms and concepts to consumers.

6.55 We are confident that this overarching requirement is compatible with the terms of the UCITS Directive. Article 28.1 of that directive specifies that the simplified prospectus must include the information necessary for investors to be able to make an informed judgment of the investment proposed to them, and in particular, of the risks attached to the investment.

The example

6.56 The example replaces in every case the illustration or charges table provided in current Key Features. As is the case with illustrations in the current regime, the example may be either personal – based on the customer’s own information and preferences – or generic, based on assumptions about factors such as the size, frequency and term of the investment.

6.57 The section begins with guidance that the purpose of the example is mainly to give the customer information about the effect of charges on the product he is considering, so that he can use the information to compare the cost of different products.

6.58 The rules prescribe that example must be either a personal example or a generic example, and set out the circumstances in which a personal example must be provided. These reflect, broadly, the cases in which a personalised illustration was required under the current COB rules.

- 6.59 The section also includes rules and guidance on how the example is to be incorporated into the key facts document or, if it is to be a stand-alone document, standards for its presentation.
- 6.60 The rules and guidance specifying the content of each type of example are set out in a separate section, COB 6.10.

Other information section

- 6.61 There is no prescribed content for this section; but we suggest in guidance that topics not specifically related to the product itself, such as complaints or compensation arrangements, or contact information, belong here.

Q.37: Do you agree that the proposed 'Quick Guide' will be a useful tool for consumers?

Q.38: Do you agree with other aspects of our proposed new structure of the key facts?

Q.39: Have we indicated the required content of the key facts document with sufficient clarity and detail?

COB 6.7 Contents of the key facts document: life products and personal pensions including stakeholder pension schemes

- 6.62 This section gives guidance, drawn principally from the current COB 6.5.21, on topics that firms should cover in their key facts document. It also notes that the information required to meet Third Life Directive requirements (now set out in COB 6.2) should also be included in the key facts document.

COB 6.8 Contents of the key facts document: schemes

- 6.63 This section falls into two main parts. In the first, we will give guidance – or in certain cases specify – how the content requirements for a simplified prospectus should be fulfilled in a key facts document for a collective investment scheme. We do not distinguish, in the interests of consistency and comparability for consumers, between those that are UCITS and those that are not.
- 6.64 In the second part, we set out the content requirements for the key facts document for investment trust savings schemes.

Key facts for collective investment schemes

- 6.65 The content requirements reflect the UCITS Directive indication (Article 28.3) that the simplified prospectus should contain the relevant information in

summary form. So we have asked firms to provide brief descriptions of the topics specified, and to signpost consumers to the Full Prospectus, or any other document, which contains more detailed explanations.

- 6.66 As noted elsewhere in this CP, discussions are under way between Member States to reach a common reading on certain elements of the simplified prospectus requirements. We have set out here what we believe to be the likely outcome of these discussions. But firms should note that this element of the regime is subject to adjustment. We will set out detailed guidance on the presentation of certain items in the table in COB 6.2 in a supplementary CP to be issued when the discussions are concluded (the current expected timing for this is end-February 2003).
- 6.67 UCITS III does, however, require some specific prominent risk warnings to be given in certain cases, such as where a fund invests in financial derivatives. These are included in the table of contents of the simplified prospectus in COB 6.2

Presentation of past performance information

- 6.68 Key facts for collective investment schemes will include a presentation of the fund's past performance in the key facts document.
- 6.69 In CP132,⁵³ we explained that we do not consider past performance to be a useful indicator of future performance for consumers. But the UCITS III Directive requires this information to be included. It does not, however, specify in detail how the past performance is presented. The final specification for this depends on the final outcome of the discussions on consistency taking place between Member States. But in this case, we expect the outcome of those discussions to be consistent with what is set out below. So, to allow maximum time for consultees to consider this issue we have explained our current position in this CP, and will confirm the final approach, with the relevant draft rules, in the supplementary CP to be published at the end of February.
- 6.70 There are many different ways to present past performance information about investment products. Our assessment of the options we considered is set out in Annex 3, together with a summary of the consumer research we used to inform our decision. Our aim has been to develop proposals that minimise the potential consumer detriment associated with the use of past performance information generally.
- 6.71 We propose that the firms be required to give the following information about the past performance of their funds:

53 CP132: The presentation of past performance and bond fund yields in financial promotions (April 2002)

- a bar chart showing 10 years' discrete annual returns, including annual charges but not entry or exit charges, shown as a percentage;
- a line graph showing the cumulative returns on £1000, invested 10 years ago, taking account of all charges; and
- a prominent risk warning in the main text and prefixed with the word 'warning', to the effect that the information shown is not a guide to how the fund will perform in the future and the consumer may get back less money than he or she put in.

6.72 Firms with less than 10 years' performance will show the performance for the whole period of the fund's existence. Firms with less than 1 year's performance will not be permitted to make statements about their past performance in the key facts document.

Bar chart of annual returns and line graph showing past returns on £1000 over 10 years

6.73 We have chosen a bar chart showing annual returns and the line graph showing returns on a hypothetical investment because each is better at conveying particular information – the bar chart at showing volatility and the line chart at showing long term returns. We have excluded tables of information because, although research suggested that consumers preferred them, they were frequently misinterpreted.⁵⁴ This was particularly worrying given that the respondents felt they understood the information and were therefore likely to attach more significance to it.

6.74 We rejected the option of presenting the information as text (along the lines of '£1000 invested in this fund 10 years ago, would now be worth £x') because the research indicated that respondents, particularly the less financially sophisticated, were likely to make assumptions based on this information. Such messages were likely to encourage people to want to buy a product based on its past performance because they formed an expectation that they would get back the same return.

Benchmarks for past performance

6.75 Our research suggests that including a benchmark will make past performance information more persuasive and more likely to be used as a tool in the buying process.⁵⁵ For that reason, and because we have some concerns about the feasibility of selecting a fair and appropriate benchmark or benchmarks, we prefer not to include a benchmark in the past performance information presented. As part of our European discussions, we are considering an

54 The Research Business International *Standardisation of past performance* January 2003

55 The Research Business International *Standardisation of past performance* January 2003

exception where a fund's stated objectives are related to a particular index, in which case they may be asked to show the relevant index.

- 6.76 We did not test a benchmark based on a risk free rate or building society deposit account benchmark in the research, although it was suggested by some of those interviewed that such a benchmark might be more meaningful to consumers. We are not convinced that such a benchmark would be useful, as consumers would need to be conscious that they were not comparing like-with-like.

Q.40: Do you agree with our proposals in respect of the presentation of past performance in key facts documents?

Key facts for investment trust savings schemes

- 6.77 The content requirements set out in this rule are drawn from COB 6.5.40R(4), and have not been modified.

COB 6.9 Contents of the key facts document: cash deposit ISAs; individual pension accounts; Friendly Society tax-exempt policies, ISAs (excluding cash deposit ISAs, and PEPs)

- 6.78 This section carries forward without substantive modification the content requirements currently set out in the relevant sub-paragraphs of COB 6.5.40R.

Stakeholder pensions

- 6.79 A firm must set out the key facts document for a stakeholder pension in line with the general requirement - that is, incorporate a 'Quick Guide' and 'Frequently Asked Questions'. But we have broadly carried forward the provisions of COB 6.5.17G in that firms will not be required to follow the rules requiring the preparation of the example except where the customer requests a personal example. This is because a specimen projection will have been included in the decision tree. But firms will still be required to include a charges statement in their key facts document (as per existing COB 6.5.37R).
- 6.80 The current Annex 1 to COB 6 is being carried forward unchanged into the new rules as Annex 4.

Q.41: Do you agree with the proposals relating to the content of key facts documents for specific types of product?

COB 6.10 Contents of the key facts document: the example

6.81 The example will consist of some or all of the following elements:

- personal information;
- general questions and answers, which will often include a table showing the effect of charges on the product over time;
- prescribed statements for targeted investments;
- projections for personal pensions and income withdrawals; and
- other statements for special situations.

Personal information

6.82 The personal information box will appear only in personal examples. It contains the investor's personal details, such as age, sex and smoker status. It also shows any target sought by the consumer.

General questions and answers

6.83 This section contains the core content of the example, which most often will take the form of a table showing the effect of charges, preceded and followed by prescribed questions and statements about the assumptions used in the table.

6.84 A charges table must be shown for any product capable of acquiring a cash-in or transfer value or where the main benefits of the contract depend on future investment performance; otherwise, the firm must instead use the statement 'please remember: this plan has no cash-in value at any time'.

6.85 Important messages that this section aims to get across to the consumer are:

- that (in most cases) it is not possible to predict what the consumer will get back;
- that the example given is intended only to explain how charges can reduce the investor's return;
- that the withdrawal of income reduces the amount left in the investment to grow; and
- that the information given can be used to compare the cost of different products (and how this can be done).

6.86 The section will also include a statement, where relevant, that further information about similar products can be found on the FSA's Comparative Tables website.

6.87 We have changed some of the headings of the charges table in comparison with the version prescribed for current illustrations. But firms will be familiar with much of the policy that dictates when such a table must be used, and the information to be included in it (such as the number of years to be shown). And the underlying projection rules, which govern the calculation of the figures in the table, and the RIY, have not been substantially changed.

Prescribed statements for targeted investments

6.88 Because our aim is to avoid giving consumers the impression that it is possible to predict how much they will get back, and to facilitate comparisons, the charges table will (almost always) use the intermediate growth rate specified in COB 6.11. This means that, even in a personal example, the outcome shown may not match the consumer's target, because the firm may use a different rate to calculate the level of premium needed. So we have prescribed a series of questions and answers to explain this, and to disclose the rate used by the firm. The consumer is then alerted to the need to monitor the progress of the product, and to take action if growth falls below the rate shown.

Projections for personal pensions and income withdrawals

6.89 We have included projections of how the pension fund achieved under the conditions for preparing the charges table (that is, having applied a growth rate of 7% and after the deduction of charges) might be used to buy an annuity. Our decision to do this is driven mainly by the need to include a form of projected annuity value to align with the information now prescribed by the government for post-sale SMPIs. We believe that if the SMPI information is to be included, some further information about future pension options is needed for clarification.

6.90 Similarly, projected annuity incomes are given in relation to income withdrawals to allow the consumer to compare the cost of buying an immediate annuity income. And, as indicated earlier, we have incorporated a disclosure of the critical yield required to achieve the same annuity at retirement as would be achieved by buying an immediate annuity.

Q.42: Do you agree with the proposed structure and content of the example?

Q.43: Do you agree with our proposal to include a reference to the FSA comparative tables in an example?

Q.44: Do you agree with our approach to illustrating the effects of charges on the growth of a product?

Q.45: Do you agree with our proposed approach to targeted investments?

Q.46: Do you agree with the circumstances in which we propose to require the inclusion of a projection of the future value of a product (pensions and income withdrawals only)?

Q.47: Do you agree that the disclosure of the cost of an immediate annuity is a useful comparator for information about critical yields?

COB 6.11 Projections

6.91 Our proposed changes to information provided to consumers at the point of sale affect some of our rules on the calculation of projections. These rules are currently form a substantial element of COB 6.6, and will for the most part be carried forward and renumbered as COB 6.11. Apart from the renumbering, the structure and layout of this chapter should remain broadly unchanged because firms are familiar with it.

6.92 There are, however, some changes of substance to the current rules. Most result from the need to update references to terms and layouts used under the Key Features regime. But we have added new rules on:

- calculating and disclosing critical yield on income withdrawals;
- contracts where the returns are linked to a stock market index; and
- offsetting charges and expenses.

The rationales for these policies are set out in the previous chapter.

6.93 The draft rules show the detail of changes we propose to make to the projection rules, including the changes to the number of projections, which may be given in various circumstances. They also show our proposed draft rules for stochastic projections, on which we are currently consulting⁵⁶ for completeness, although readers should note that these are subject to change depending on the outcome of CP156.

Q.48: Do you agree with our proposed changes to the projections regime?

COB 6.12 Stakeholder pension schemes decision trees

6.94 Most of the content for this section has been lifted without change (except for substituting ‘key facts’ for ‘key features’) from the current rules and guidance that appear in various places in COB 6. This new section also incorporates the rule requiring the provision of decision trees. There is only one substantive change here: that is, that the decision trees may not be incorporated into the key facts document. This is purely to underpin our ‘less is more’ approach, and avoid overloading the document.

56 CP 156 Miscellaneous amendments to the handbook (No 5), November 2002

COB 6.13 Cancellation and withdrawal

- 6.95 There has been almost no change to the policies carried forward in this section, except that references to key features have been replaced by key facts.

COB 6.14 Variations to existing life policies

- 6.96 The exception from the requirement to provide Key Features in relation to variations to pre-1995 policies will stand (existing COB 6.2.18). Also, where a policyholder applies to vary a life policy issued on or after 1st January 1995 but before the commencement of the new rules, the firm will be permitted to issue either the new key facts document or, as a minimum, the information they would have been required to provide under COB 6.2.16.

COB 6.15 Information on existing contracts

- 6.97 There has been no change to the policies carried forward in this section, which relates to provision of information to consumers about surrender values, alternatives to surrendering a life policy, and the open market option for pension annuities.

Current COBS material on pure protection products and the with-profits guide.

- 6.98 Where the current rules relate to pure protection products, we have not sought to carry them forward into the new regime. These will be dealt with under future consultations in relation to the new general insurance regime (following on from CP 160). Therefore, the relevant provisions of COB 6.9 will remain in place as COB 6A.9 until modified as part of that process. Similarly, we are not yet ready to conclude that all of the content of the with-profits guide has been translated across to new disclosure requirements. Some of this, for example, will be dealt with in our current work on post-sale disclosure and the introduction of PPFMs,⁵⁷ and will be consulted upon in due course. So we have left in place for the moment the requirements in COB 6A.9 in relation to the production and delivery of with-profits guides.

⁵⁷ See CP167 *With-profits governance, the role of actuaries in life insurers and certification of insurance returns* January 2003 for more on the proposed content of the PPFM.

COB 5.3

Broker funds

- 6.99 The information currently required to be provided at the same time as a suitability letter by an adviser selling a broker fund is being re-located unchanged to the section on suitability letters in COB 5.3.
- 6.100 This section has also been amended to show our additional requirements for the suitability letter (disclosure of cash amount of commission and relevant significant links) and the requirement to deliver the suitability letter as soon as possible after the recommendation has been made.

Additions to the glossary

- 6.101 For ease of reference and clarity, we have chosen to treat ‘key facts document’, ‘example’, and ‘personal’ and ‘generic’ examples as defined terms.

Consequential amendments

- 6.102 A large number of consequential amendments to other parts of the FSA Handbook are proposed, to align the relevant provisions with the proposals in this CP. These have been made to existing Handbook text. Any changes that prove necessary to align text that is currently the subject of consultation with these proposals will be addressed in the policy statement to accompany the final rules.

7 Cost Benefit Analysis

Introduction

- 7.1 Sections 155 and 157 of the FSMA require us to undertake and publish a cost-benefit analysis (CBA) – an estimate of the costs, together with an analysis of the benefits arising from our proposed rules or proposed general guidance. Such an analysis is not required (s155(8)) if the costs arising from the proposed rule would be no more than the costs arising from the existing requirement or if any increase would be of minimal significance.
- 7.2 In this chapter, we estimate the economic costs of the proposals for changing the disclosure regime, analyse the economic benefits and comment on the relative size of costs and benefits. We have assessed the costs and benefits relative to what will happen if the proposed changes are not implemented.
- 7.3 The proposals that are the subject of this CBA will result in:
- one-off costs for firms and the FSA, mainly because of the need to redesign disclosure material;
 - continuing costs for firms and the FSA which should be of minimal significance because the cost of operating the new regime will be almost the same as that of operating the existing regime; and
 - continuing benefits to consumers, because some will buy products that are more suitable or better value than if the existing disclosure regime had continued.
- 7.4 As in many CBAs, the benefits are more difficult to estimate than the costs. It is relatively straightforward to estimate our direct costs. Estimates of firms' compliance costs can be obtained by asking a sample of firms. However, the size of the benefits depends largely on how much consumers change their behaviour because of the changes to the disclosure regime. Our consumer

research shows clearly that the proposed changes will produce benefits for consumers. What is uncertain is the size of the changes in behaviour and therefore the size of the benefit.

- 7.5 Consumer research cannot provide a reliable answer. To overcome this problem, we have not attempted to produce a direct estimate of the size of the benefit. Instead, we have:
- estimated the one-off costs of the proposed changes;
 - noted that there are continuing costs of only minimal significance;
 - examined the typical cost of buying an ‘unsuitable’ product;
 - calculated how many unsuitable purchases the proposed changes would need to prevent to match the costs. We find that this number is relatively small;
 - concluded, based on consumer research, that consumers’ reactions to the proposed new-style disclosure regime are sufficiently positive to give us confidence that the actual change in behaviour will prevent enough unsuitable purchases to reach the break-even point; and
 - examined the potential positive economic benefit from greater shopping around by consumers and its effect on the charges they pay.
- 7.6 Our analysis is deliberately conservative, by using overestimates of the compliance costs or underestimates of the potential benefits.

The basis for comparison

- 7.7 As already noted, we measure the costs and benefits of the proposals relative to what would happen if they were not implemented. (The comparator is known as the “counterfactual”.) For non-life disclosure, we expect no significant changes in the absence of the FSA’s proposals, so the counterfactual is the current situation.
- 7.8 Many life offices have, however, already improved their disclosure material as part of the ABI’s Raising Standards scheme and others would do so if we did not go ahead with our proposed changes. Our counterfactual therefore has to take account of the effect of Raising Standards. So for life disclosure, we have had to form a view about how the ABI’s Raising Standards scheme would affect the market if our proposals were not implemented.
- 7.9 According to the PPIAB, ten brands (representing about 36% of the life and pensions market) were operating in line with Raising Standards by the end of 2002. A further four brands representing another 16% of the market are on course to be operating in line with Raising Standards during the first half of

2003. We understand from the ABI that some life offices have delayed adopting Raising Standards pending announcement of our proposals on disclosure.

- 7.10 Given that the core of the life and pensions market is already adopting Raising Standards, we believe that many consumers will increasingly look towards products with clearer disclosure material – even if our proposals are not implemented. As a result, even without our disclosure proposals, market forces will ensure – over time – that most life offices will either implement Raising Standards or will improve their disclosure material independently. In either event consumers should be more aware of what they are buying.
- 7.11 So our counterfactual for life disclosure is that all life offices have disclosure in line with Raising Standards. This is conservative in two respects. First, the counterfactual assumes that all life offices will bring their disclosure practice into line with Raising Standards. Second, it assumes that they will all do so without delay.

FSA's direct costs

Our one-off costs

- 7.12 As part of the proposed changes to the disclosure regime, we will produce extra consumer education material to make consumers aware of the key facts document and of how it can help them find a suitable good value product. We have also identified the possibility of joint initiatives with other organisations, although no formal approaches have been made. The precise nature of the consumer education work has not yet been decided, but we expect that the one-off cost should be in the tens of thousands of pounds, say £50,000, as a conservative estimate.

Our continuing costs

- 7.13 To maintain consumer awareness, from time to time we would conduct further education and information campaigns, but we have not identified any need to increase resource to accommodate this work. The on-going consumer education cost should be of minimal significance, in that it would be no greater than a few thousand pounds a year.
- 7.14 We envisage that the proposed changes will give rise to no other direct costs for us. In particular, the new disclosure regime will not require any extra expenditure on supervision.
- 7.15 Our guidance will include examples of model key facts documents and templates for its front page, thereby helping firms produce their key facts documents and reduce their compliance costs. For our cost estimates we have ignored the cost to us of producing these examples and templates, and we

expect the cost of delivery will be of minimal significance. We have, in effect, assumed that each product provider produces its own material from scratch. The extra cost for us will save a much greater cost for firms. So our approach slightly underestimates our costs, but overestimates the cost both to firms and the overall cost.

Costs estimates common to both life and non-life products

- 7.16 The following paragraphs explain estimates of costs we have made that apply equally to life and non-life providers.

One-off costs applying to all

- 7.17 **Transitional pressures:** if we gave product providers too little notice of the changes to the disclosure regime, their one-off costs would increase. This is because, for example, they would have to pay overtime or premium wages to get the necessary staff to make the changes in time and might have to delay other important work. However, firms are being given long notice of the changes and so there is no extra cost from this source. Also, given the frequency with which firms currently reprint their disclosure material, we consider that the amount of material printed will be no greater than if the existing disclosure regime continued. In other words, firms will incur no extra one-off printing costs.
- 7.18 **Initial training in the new regime:** any training costs will depend on the number of advisers and other staff who have to be trained. However, any training cost should be relatively small, as the principles behind the disclosure material will be unchanged: all that will be needed will be for staff to familiarise themselves with the new format. Although IFAs will need to familiarise themselves with the new disclosure material, we do not believe the cost to them will be significant.
- 7.19 **Drafting in plain language:** although we are aware that some firms use plain language consultants, we believe that firms should be able to produce easily understandable disclosure material without needing outside help. So we have taken no account of such costs.

Continuing costs applying to all

- 7.20 Relative to the existing disclosure regime, the proposed changes should not give rise to significant extra continuing costs for life or non-life firms. In particular, the new disclosure material should be no more extensive than the existing material and so there should be no extra on-going printing costs.
- 7.21 One element of our proposals is to remove the current requirement for disclosure material to be sent to the customer after the sale. We consider that

this element has no significant cost. When disclosure was first introduced, this requirement for post-sale disclosure was put in place as a safeguard in case Key Features documents were not provided to the customer at point of sale. However, all the evidence is that Key Features documents are invariably provided at point of sale. For example, the 250 mystery shops conducted for our polarisation review threw up no instances where Key Features documents were not handed over before the sale. Also, the cancellation notice includes a reminder that the purchaser should have been given a Key Features document, so any customers who have lost the pre-sale Key Features document can ask for another one. As the removal of compulsory post-sale disclosure produces a benefit – namely a cost saving – without any cost it was not useful to attempt to quantify the benefit.

- 7.22 Another proposed change is that all execution-only retail customers will have to be offered key facts documents. We consider that this extension will create no significant extra costs. This is because execution-only customers tend to be more knowledgeable about what they are buying, so we would expect that few of them would take up the offer of key facts.
- 7.23 For both life and non-life products, there are general information requirements that apply to transactions with non-life customers. These requirements, in the case of life products, derive from the Third Life Directive, and have not changed with the introduction of the new regime. For non-life products, there is a new requirement for customers to be offered information that meets the requirements of the Schedule C of the UCITS Directive – a ‘simplified prospectus’. We do not expect this requirement to generate significant new costs. It is unlikely that non-private customers will wish to receive what is essentially a consumer-focused document, and will instead prefer to take the Full Prospectus, which firms are already currently required to provide on request. And firms will not be required to prepare a simplified prospectus specifically for non-private customers, because the key facts document would be sufficient to meet the requirement.
- 7.24 We are also proposing that the suitability letter must confirm the cash amount of any commission paid to the adviser. This will affect not only product providers (and their representatives and tied agents) but also IFAs. However, the extra information can be provided by just adding, to a document that already has to be tailored to each case, a single sentence containing a figure that is readily available to the adviser. So we consider that the proposed change will create no significant costs.

Costs estimates for the life industry

- 7.25 For most of our cost estimates, we have differentiated between the costs arising from life products and from non-life products. We will deal with the life industry costs first.

The impact of Raising Standards

- 7.26 Our estimates of life offices' compliance costs are conservative in that we take the full cost of changing from the present disclosure requirements, without allowing for the effect of Raising Standards. But consider a life office which has not yet changed to Raising Standards disclosure, which would adopt Raising Standards disclosure if we left the disclosure regime unchanged but which will now move straight to our new disclosure regime. The firm's compliance cost is the cost of implementing our proposals minus the cost the firm would have incurred in implementing Raising Standards disclosure. However, in our calculations we do not deduct the latter cost.
- 7.27 Our approach is also conservative for firms that have already changed their disclosure material in line with Raising Standards. Such firms have already rewritten their disclosure material in plain language and so should need to do less work in response to our changes than if they had not already rewritten their material. However, we base our cost estimates on the full cost.

Sources of life cost figures

- 7.28 Our estimates of life costs are based on figures provided by the ABI, which carried out its own survey of a small number of firms, and arrived at its own set of cost estimates. However, in the early stages of our policy formulation, we carried out our own cost survey of a small sample of product providers and the results were broadly consistent with the ABI's later cost estimates. We have relied on the ABI's figures particularly because we expect them to have been informed by their members' experience of similar changes when seeking Raising Standards accreditation.
- 7.29 We do not believe there are any significant sources of cost that are peculiar to small firms, although we acknowledge that some very small firms may not have the in-house resource to carry out all the changes. We are also conscious that the fixed costs of change are likely to impact more significantly on small firms, relative to their capacity to absorb those costs. We would particularly welcome responses from small product providers about the cost implications of our proposals.

Life industry one-off costs

- 7.30 The one-off costs for life firms are likely to vary significantly dependent on the size of firm. While there is a basic cost of writing the key facts documents

and programming the systems to deliver the new personalised examples, this grows as a firm's product range increases, as each product may need slightly different changes. The largest firms can have in the region of 100 products in their range.

- 7.31 We consider that the one-off costs of including critical yields in the new personalised examples will be of minimal significance. The calculation is already very familiar to the industry. The industry is already used to providing critical yields on this basis and therefore, the cost of incorporating it into a new document will be of minimal significance.
- 7.32 We estimate that the extra one-off costs for a typical life office will arise from two sources: first, the revision of personal illustrations to implement the new style of personal example, and second, writing and producing the 'generic' product information document to conform to the key facts standards.
- 7.33 Broadly, about 100 product providers are active in the life and pensions market, although some of them are very small. The ABI's figures suggest a cost ranging from £75 million to £100 million, roughly two-thirds of which they attribute to the revision of personal illustrations. For this analysis we have taken the maximum figure as a conservative estimate.
- 7.34 In the light of the transitional arrangements proposed, we have discounted the one-off costs for the purposes of this analysis. It is not unreasonable, given a phased transition of up to 3 years, to assume that the costs will be incurred on average half-way through the period. If we discount £100m for 1½ years at 10% (the discounting rate we also apply to benefits), this gives a present value of the costs of £87 million.

Life ongoing costs

- 7.35 We believe that any increase to the ongoing costs of the regime will be of minimal significance.
- 7.36 In relation to the cost of including critical yields in the example for income withdrawals, most product providers currently produce critical yields at the point of sale and review for tied and direct sales. So we believe that the ongoing cost of the proposal will be of minimal significance.

Non-life costs

- 7.37 The IMA obtained cost information for us based on data from four fund management firms, all of which operate many different funds. This indicates that, even for these large firms, the one-off cost of our proposals would be no more than £100,000 per firm. (The cost per firm is far less than for life disclosure. This is largely because the examples they must give to show the

effect of charges are based on generic information rather than information specific to an individual. And a non-life firm's disclosure information usually varies less across its range of funds than a life firm's disclosure information varies across its range of products.) As with life disclosure, we consider that our proposals would give rise to no more significant continuing costs than the current disclosure regime.

- 7.38 Part of the cost for a firm depends on the number of funds it operates; part is independent of the firm's size. About 140 fund management firms currently operate unit trusts or OEICs, although some of these firms take no active steps to make their funds available to retail customers. Of the rest, some have a wide range of funds; some have only one or two. There are about 40 fund management firms currently operating investment trust savings schemes. Allowing for the range of different costs per firm, we believe that a conservative estimate of the total cost of our proposals can be obtained by multiplying the £0.1m cost for a large firm by 100, giving a total one-off cost of £10m. Since the regime for non-life products will be brought into force within a year of making the rules, we have not discounted this cost.
- 7.39 There are two distinct drivers behind the changes to non-life disclosure. One is our desire to improve the effectiveness of the regime; the other is the UCITS Directive. Even if we were not proposing changes to improve the regime's effectiveness, the changes required by the directive would give rise to costs. However, given the proposals to improve the regime's effectiveness, the extra changes to comply with the Directive create no significant extra costs.
- 7.40 If firms had to update the past performance information in non-life key facts documents with defined regularity, there would be extra printing costs. However, because firms will be permitted to issue the past performance information in loose-leaf form, it can be updated more readily and cheaply without the need for the entire key facts documents to be reprinted.

Costs to consumers

The cost of buying an unsuitable product

- 7.41 One of the main objectives of our proposals is to make consumers more aware of what they are buying and so to reduce the number of occasions on which they buy products that are unsuitable for them. There are two types of unsuitable purchase that might be prevented if the consumer is more aware.
- 7.42 One type of unsuitable purchase is a product with the wrong level of risk for that consumer. This might be a product with more risk than the consumer would wish, with the result that when he wants his money back he gets less than he ought – perhaps because the equity market has fallen. On the other

hand, an unsuitable product can be a product that, in conventional terms, has too little risk. For example, it might give the consumer too little exposure to equities (thereby forgoing the greater long-term returns) or too little overseas exposure (thereby not diversifying adequately). The problem in quantifying the cost of this type of unsuitable sale is that it depends on the future performance of the product. A consumer may buy a product with too much risk but, because the equity market does well, gets back more than he would have done if he had bought a product with the preferred level of risk. In other words, a consumer does not necessarily lose if he buys a product with the wrong level of risk.

- 7.43 The other main type of unsuitable product whose purchase might be prevented by greater consumer understanding is a product with the wrong term (for example, when a consumer with a foreseeable short-term need for money buys a long-term product which imposes a penalty on early repayment).
- 7.44 For these reasons and because there are so many variations of unsuitability, the average cost of buying an unsuitable product cannot realistically be estimated. Moreover, there is no useful data on the numbers of unsuitable products sold. We can, however, examine the cost in certain instances of unsuitability.
- 7.45 The two types of mis-selling that have attracted most attention in recent years have been pensions mis-selling and mortgage endowments. (Note that, in most mortgage endowment cases where compensation has been paid and in many pension cases where compensation has been paid, the consumer suffered only because the equity market performed badly. If the market had performed well the consumer would have finished better off than if he had bought a product with a more suitable level of risk.)
- 7.46 In cases where compensation has been paid, the average redress has been:⁵⁸
- over £15,000 in the pensions review;
 - £3,400 in the FSAVC review;
 - £3,000 in mortgage endowment cases where the consumer had complained to the firm; and
 - around £1,500 in certain peculiar pockets of mortgage endowment mis-selling and mis-pricing where firms have agreed proactively to seek out and compensate policyholders.
- 7.47 Some of these unsuitable purchases are more likely than others to have been prevented if the pre-sale disclosure had been better than under the present regime. The cases compensated in the pensions review date from the early part

58 Source: FSA press releases of 5 June 2002 and 27 June 2002

of the regulatory regime and before the introduction of Key Features documents. The nature of the mis-selling and mis-pricing in the mortgage endowment pockets was such that consumers would probably have been no wiser even if they had had understandable Key Features documents. However, the mortgage endowment cases where the customer was compensated after complaining are directly relevant, as the redress in most of those cases was paid because the customer was not made adequately aware of the risk. Effective disclosure of the risks would have prevented such cases.

7.48 As one example of where a consumer with a foreseeable short-term need for money buys an unsuitable long-term product, consider someone who, for example, buys an endowment policy and then finds it is unsuitable for his needs because he needs immediate access to their cash and so has to surrender it. Compared with putting the money into a deposit account, the average outcome from surrendering a 10 year with-profit endowment policy is a loss of around:

- £300-400 if the surrender takes place 3-7 years into the term; and
- £200-300 if the surrender is after one or two years.

For an equivalent 25-year policy the average loss is around:

- £400-500 after 2-3 years; and
- reaches a maximum of around £800 in years 7-10.⁵⁹

(These losses do not, however, take account of the life cover.)

7.49 A consumer with a personal pension and an urgent need for money cannot surrender the pension: the pension can only be made paid-up. If someone starts a typical 25-year regular premium personal pension and then makes it paid-up after only two years the average RIY (measured over the 25 years) is actually less than the difference one might expect between equity returns and cash returns.⁶⁰ So, taking out a personal pension and then making it paid-up actually provides, on average, a better return in the long term than taking out a cash ISA – which is the obvious alternative to a personal pension. The position is even better if a stakeholder pension is taken out. However, getting a better long-term return is no consolation if the consumer has an urgent short-term need for money. In such circumstances the consumer might have to incur a borrowing cost.

7.50 Our annual survey of persistency shows that, on regular premium policies, around a fifth of endowment policies and two-fifths of personal pensions are

59 From FSA calculation based on average savings endowment premium of £36 per month (source: ABI new business figures for first half of 2002), unweighted average projected with-profit surrender values (source: Money Management, April 2002) and a deposit rate consistent with the 6% per annum underlying growth rate used in the projected surrender value.

60 Based on unpublished results of FSA Disclosure Survey 2001

no longer paying premiums after four years.⁶¹ We acknowledge that there are many reasons why a consumer surrenders or allows a policy to lapse, and that suitability is not necessarily the primary cause. However, it is fair to attribute some of the losses incurred through early termination to this factor.

- 7.51 None of the preceding illustrations of the loss from buying an unsuitable product relates to products that come within non-life disclosure. The main type of unsuitability that might be reduced by more effective non-life disclosure is buying a product with the wrong level of risk. More often than not, this would tend to be a product with more risk than the purchaser wanted.
- 7.52 As an illustration of the possible loss from buying an unsuitable non-life product, consider a risk-averse consumer who invested the maximum £7,000 in an equity ISA. He then suffered the full extent of the UK market's fall from its peak at the end of 1999 to its low point in September 2002. So he would have been about £4,000 (plus charges) worse off than if he had put the maximum £3,000 into a cash ISA and the rest into a taxed deposit account.⁶² Of course, the past three years has been an exceptional period for the equity market and so is not representative of the typical cost in taking on too much risk in more normal times. And, as pointed out earlier, in better times for the equity market a consumer might actually have benefited by taking on too much risk.

Benefit from reducing number of unsuitable purchases

- 7.53 In the light of these illustrations, we consider that £500 is a conservative estimate of the typical cost of an unsuitable purchase. To assess this value fairly against the costs of our proposals, we have made the conservative assumption that the benefits will not be delivered until the end of the transitional period. Discounting at 10% a year starting in three years time and continuing over ten years (the approximate life of the current disclosure regime), the present value of the benefit from saving one unsuitable purchase each year is £2,400. (The benefit for non-life products has been calculated from the start of the regime, as non-life firms will not enjoy such a long transitional period. The figure in this case is £3,200.)
- 7.54 So even on our deliberately conservative assumptions and even ignoring any other benefits, the benefit from reducing the numbers of unsuitable purchases will outweigh the costs as long as

61 Persistence of life and pensions policies – eighth survey. FSA December 2002

62 From FSA calculation based on the fall in the FTSE All Share Index including reinvested dividends

- at least 36,000 unsuitable purchases each year are prevented by the life proposals⁶³;
- and at least 3,100 unsuitable purchases each year are prevented by the non-life proposals.⁶⁴

Putting this in context, almost six million purchases a year are subject to life disclosure and probably well in excess of two million purchases a year are subject to non-life disclosure.⁶⁵

- 7.55 Is such a reduction in unsuitable purchases likely, especially given that we are measuring the reduction in unsuitable life purchases relative to the position after life offices have improved the effectiveness of their disclosure by implementing Raising Standards? The evidence comes from the consumer research that was carried out for us earlier this year by H2B and that is covered in detail in Chapter 3.
- 7.56 The research indicates that consumers are more likely to read the proposed new-style disclosure material and to find it more understandable when they read it. As a result, consumers should have a better understanding of the product they are thinking of buying and should therefore be less likely to buy something that unsuitable for them. Ultimately, it is a matter of judgement whether the improvement in consumer understanding will be bring about a reduction in the number of unsuitable purchases sufficient to bring benefits that exceed the costs. Pilot studies would be effectively impossible to interpret as long as the generality of products continued to be sold with the current style of KFDs. But our research certainly seems to show a marked improvement in consumer understanding and their propensity to read the document, and we consider that the consequent reduction in unsuitable purchases will be more than enough to outweigh the costs.
- 7.57 The question has been raised why we should contemplate improving disclosure material beyond what is delivered by Raising Standards. We believe that this is necessary in order to deliver the step-change in consumer use and understanding that we are seeking. We are confident that the radical changes we are proposing to the information about charges will generate significantly greater understanding of the cost of products. But that in itself would not be enough to justify the cost of the changes, since use of the documents is currently so weak. It is the combination of our prescription of the front cover and supporting consumer awareness measures, which will increase stand-out and use of the

63 3,600 calculated as £87m present value of costs divided by £2,400 benefit of saving one unsuitable purchase each year.

64 3,100 calculated as £10m costs divided by £3,200 benefit of saving one unsuitable purchase per annum.

65 The life figure is from ABI data for individual life and pensions new business in 2001. Figures for numbers of purchases of unit trust and OEICs are not available but IMA data shows that in 2001 the net increase in the number of retail accounts was about 1½ m. The gross number of new retail accounts would have been far higher. (We have not explicitly taken account of purchases of investment trust savings schemes, since the amount invested in these is very small compared with unit trusts and OEICs.)

documents, and all of the improvements in the quality of the information, that together will deliver the benefits needed to outweigh the costs.

Effect of greater shopping around

- 7.58 The other main economic benefit of the proposed changes should be that shopping around will increase and that, as a result, many consumers will get a better product. H2B's consumer research showed that the new-style disclosure made consumers more aware of the effect of charges and of the potential advantages of shopping around. Greater shopping around benefits not only those consumers who shop around and who thereby get a better value product. If substantial numbers of consumers shop around, competitive pressures are likely to cause firms to reduce their charges or otherwise improve the quality of their products, thereby benefiting even the consumers who do not shop around.
- 7.59 Despite the consumer research's strong evidence that the proposed changes will lead to more shopping around, the resultant benefit cannot be estimated with any confidence. Indeed, the experience of consumer research that was carried out in 1994 before the introduction of the present life disclosure regime makes us wary even of predicting a large rise in shopping around. The 1994 research was based on interviews with consumers who had recently bought a financial product. It found that if the consumers had received the proposed Key Features document and personal illustration before their purchase, 71% of them would have looked at other products, instead of the 32% who had actually done so.⁶⁶ Yet, in practice, there is no sign that shopping around has increased since the introduction of Key Features documents and personal illustrations.
- 7.60 However, life and pensions charges have fallen markedly since 1994, despite there being no noticeable increase in shopping around. The lesson of the present disclosure regime may be that better disclosure may lead product providers to reduce their charges even if the improvements do not actually produce an increase in shopping around. (Admittedly, most respondents to *'Informing Consumers'* disagreed with our view that disclosure had contributed to the reduction in charges.)
- 7.61 Although it is safer not to expect a large rise in shopping around, it is important to appreciate the potential size of the benefit flowing from even an apparently small reduction in charges. On life disclosure, for example, even if only 1% of consumers achieve a 10% reduction in charges through buying from more efficient life offices the benefit would be around £11m-£12m a year. This alone, without any benefit from a reduction in the number of

66 National Economic Research Associates, "Costs and benefits of SIB proposals to improve product and commission disclosure in life assurance", 1994

unsuitable purchases, would be almost enough to offset the (conservatively estimated) £100m one-off cost of the proposed changes to life disclosure.⁶⁷

- 7.62 Similarly, for non-life disclosure, if 1% of consumers achieve a 10% reduction in charges they would save about £2¹/₂m a year. The value of this would be about twice the £10m one-off cost of the proposed changes.⁶⁸

Summary of costs and benefits

- 7.63 The one-off costs of the proposals are, at most, £100m for life disclosure (discounted to £87m) and £10m for non-life disclosure. There are no significant continuing costs.
- 7.64 The typical cost of an unsuitable purchase can conservatively be taken as £500. The present value of the benefit from preventing one unsuitable purchase a year, calculated from the introduction of the new regime, is £2,400 for life products, or £3,200 for non-life products. (The life product figure is higher because the value will not be delivered as early for life products as it will for non-life.)
- 7.65 If the proposed changes prevent 36,000 unsuitable life purchases a year and 3,100 unsuitable non-life purchases a year, this benefit alone outweighs the costs. In the light of the consumer research we expect the reduction in the number of unsuitable purchases to be at least as large as this.
- 7.66 Moreover, this takes no account of any benefit from reductions in charges. For the purposes of this CBA, we believe it is safer not to rely on there being a reduction in charges. However, even a relatively small reduction can produce a large total benefit, and the consumer research indicates that consumers will act in a way that should create downward pressure on charges.

Q.49: Do you agree with our estimate of the costs of these proposals? If not, do you have further information that we should take into account in this analysis?

Q.50: Do you agree that we have fairly assessed the benefits of our proposals? If not, what considerations should we take into account?

67 In 2001, life offices' total UK expenses (including commission) were £12.7bn. (Source: ABI) A small but unknown proportion of this relates to group schemes and to individual policies (like term assurance) that are not affected by the disclosure regime. Discounting £11m per annum at 10% per annum over 15 years gives a present value of £84m.

68 As at the end of 2001, total retail funds in unit trusts and OEICs were £127bn. (Source: IMA) The average RIY (over a typical holding period of 7 years) is in excess of 2% per annum.

8 Compatibility with the FSA's general duties under the Financial Services and Markets Act 2000

Introduction

- 8.1 In this Chapter, we explain our reasons for concluding that the proposals for changes to the Disclosure regime are compatible with:
- our general duties under section 2 of the FSMA 2000; and
 - the regulatory objectives set out in sections 3 to 6.

We are required to do this by sections 155(2)(c) and 157(3) of the FSMA 2000.

- 8.2 Our assessment measures our proposals against the current regulatory regime, rather than assuming that no protections exist and measuring the proposals against that scenario.

The FSA's statutory objectives

- 8.3 The proposals set out in this consultation paper are designed to help us to meet two of our statutory objectives: securing appropriate consumer protection and promoting public awareness. We also suggest that they contribute to achieving our objective to maintain confidence in the UK financial system.

Securing an appropriate degree of consumer protection

- 8.4 We believe that our proposals improve the quality and delivery of product information to consumers at the point of sale. This helps them take an informed decision about whether to buy a packaged investment product.
- 8.5 Our research has shown that consumer understanding of investment products is very weak, even after receiving the information prescribed by the current regime. It is reasonable to expect that a market in which most consumers are poorly informed about the products available is unlikely to operate efficiently,

and that some of those consumers will make choices that do not reflect their needs and preferences. This results, in economic terms, in inefficient allocation of resources: in layman's terms, it can mean financial loss.

- 8.6 By equipping consumers with the information they need to judge the suitability of a product and compare the features and costs of like for like products, we expect the number of cases in which consumers buy unsuitable products to decrease. This should mitigate the risk of financial loss to consumers and contribute to their protection.
- 8.7 In considering what degree of protection is appropriate we have given regard to:
 - (a) The differing degrees of risk involved in different kinds of investment or other transaction
- 8.8 Investment products are generally recognised to carry a material degree of risk that consumers must understand and accept if they are to make informed buying decisions. We have based our proposals about the scope and application of our regime on our assessment of the risks consumers face if they do not understand properly the product they are buying. However, please note that much of the design of the existing regime already addressed these issues. So, for example, a less detailed disclosure regime applies to some less complex or risky products such as friendly society policies or stakeholder pensions.
- 8.9 Where we have extended the regime or made more it more demanding (other than to meet EU requirements), it is in response to identifiable risks. So, for example, we have addressed the risk that consumers will not recognise the key facts documents by prescribing a specific appearance for the document that we will then promote through consumer education measures. These decisions are explained in more detail in the text of the CP.
- 8.10 By requiring that firms present product information in a standard format, which uses plain language and clear presentation, we expect the risks associated with different forms of investment to be better communicated to consumers. This will allow them to compare investment risks across products and make informed purchasing decisions.
 - (b) The differing degrees of experience and expertise that different consumers may have in relation to different kinds of regulated activity.
- 8.11 We acknowledge that some consumers are already familiar with the range of packaged products available, and need little help in understanding the commitment they involve. Equally, though, many consumers may make very few and infrequent purchases of investments; but these purchases may still represent significant and long-term commitments. When considering an investment for the first time, consumers have to assimilate a range of complex and technical concepts, and understand how these could relate to their own circumstances.

- 8.12 Our research has shown that the new document increases understanding across the range of consumer sophistication and will provide benefits to all who use it. The proposals are designed to give consumers a clear, concise and easy-to-use document which is relevant to a wide range of consumers regardless of their previous experience of financial services or their financial expertise.
- 8.13 In our emphasis of plain language, we have been careful not to suggest that a document should be ‘dumbed down’, because we do not wish to exclude any class of consumer. But we have been conscious that many consumers find detailed information difficult and off-putting. By prioritising information and offering signposts to further detail, we hope to will allow those consumers who wish to access more information the opportunity to do so without overwhelming the rest.
- 8.14 Our proposals for the branding, and look and feel of the new disclosure document are also intended to build progressively an awareness amongst consumers of the existence of the key facts document. As this awareness increases we expect consumers actively to seek out and use the document when making a decision to buy.
- (c) The needs that consumers may have for advice and accurate information.
- 8.15 Our regime is not designed to undermine the importance of financial advice during the buying process. In many cases, we will propose that the document suggests to the consumer that he or she may wish to seek professional advice. We hope, too, that the document is simple and straightforward enough to be used actively by advisers to explain product features and costs to consumers
- 8.16 Our proposals have not changed significantly the content to be delivered consumers (except in fulfilling EU requirements). They have concentrated on prioritising the information and enhancing the delivery of those elements most relevant to understanding suitability and cost. But fundamentally, we expect that compliance with the regime will mean delivery of all the information about a product that a consumer might legitimately expect to receive before entering into a contract for that financial product.
- 8.17 Our requirement that information should be presented in a standard format will aid comparison across investment products, allowing consumers to make decisions based on accurate and comparable information.
- (d) The general principle that consumers should take responsibility for their decisions.
- 8.18 Consumers are increasingly expected to take responsibility for their own financial provision including how much to save for retirement, when to save and in what way. But such decisions require the consumer to have a sound understanding of financial issues. The measures we propose would improve

the ability of consumers to take informed decisions about the suitability of investment products and ultimately which products to buy.

Promoting public understanding of the system

- 8.19 The proposals work to promote public understanding of the financial system concerning the sale of packaged investment products. By making the disclosure document more attractive to consumers and easier to read and use, we are increasing the likelihood that they will get to grips with difficult financial concepts and become more aware of the various features of packaged investment products. This will also encourage them to take more interest in the general financial climate. For example, our material encourages consumers to regularly review the performance of their investment to ensure that it continues to meet their needs. This is particularly important where they are seeking to achieve a specific target return.
- 8.20 Also, we expect our proposals to improve the way information about costs is provided will improve consumer understanding of the true cost of financial products and the choices they need to make to get good value for money.
- 8.21 In assessing our contribution to achieving this objective we have considered in particular:
- (a) Promoting awareness of the benefits and risks associated with different kinds of investment or other financial dealing.
- 8.22 Our improvements to the product information regime are designed to raise consumer awareness of the benefits and risks associated with investment products. For example, the document specifically encourages consumers to consider whether the product will give them what they want, and whether they are comfortable with the risks. The documents also place greater emphasis on the unpredictable nature of investment outcomes, to discourage complacency among consumers who may have unreasonable expectations about performance.
- (b) The provision of appropriate information and advice.
- 8.23 We will support the effective functioning of the new document through extensive consumer information and advice measures. We also consider it important to include a regulatory message prominently on the document itself to explain to the consumer what its role is in the buying process. And we have taken the opportunity to point out to consumers the availability of comparative information in our CITs, and the relevance of that information to the consumer's decision.

Maintaining confidence in the financial system

- 8.24 We know from our research that many consumers feel vulnerable and unwilling to engage with investment products. By improving their ability to make informed choices we expect to help decrease in the number of unsuitable products bought. Our research has suggested that consumers find the new-style documents ‘honest’ and ‘trustworthy’, both of which suggest an increase in general confidence.
- 8.25 By making the information clear and accessible, consumers will be encouraged to consider investments as suitable vehicles for medium to longer-term savings. And as our approach offers consistency and a gradual increase in familiarity with important product information, we expect that consumers will be more willing to return to the market for further purchases.

Financial crime

- 8.26 There is no material impact on meeting the objective of reducing financial crime.

Matters to which we must have regard when we carry out our general functions

- 8.27 Under the requirement set out in section 2(3) of the Act, in carrying out our general functions, we have had regard to the specific matters set out below.
- (a) The need to use our resources in the most efficient and economic way
- 8.28 Our proposals would not affect materially our systems and processes for the supervision of firms. We believe that the new regime will contribute to an increase in consumers buying suitable investment products. So this should reduce the extent to which we are required to act to address mis-selling and mis-buying of these products.
- 8.29 The new regime is capable of delivering significant improvements to consumer understanding and confidence in a way that we do not expect we could achieve through other means such as consumer education.
- (b) The responsibilities of those who manage the affairs of authorised persons.
- 8.30 These proposals have no bearing on the current, or future, responsibilities of those who manage the affairs of authorised persons.
- (c) The principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction.

- 8.31 We have considered with care the costs and benefits of these proposals and have concluded that the measures imposed are proportionate to the benefits. We believe that the burden placed on firms to produce and distribute key facts documents rather than Key Features material is outweighed by the benefits delivered by the new regime, both to consumers and firms. Also, we believe those benefits will make a significant contribution to helping us meet two of our statutory objectives.
- 8.32 We will take appropriate steps, particularly through the provision of generous transitional relief and through our efforts to support firms by providing templates, to mitigate the most substantial costs likely to be faced because of these changes.
- (d) The desirability of facilitating innovation in connection with regulated activities.
- 8.33 These proposals should not increase nor diminish the ability of providers to innovate in connection with regulated activities, relative to the current regime.
- (e) The international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom
- 8.34 We have not changed the territorial application of the current regime except to the extent necessary to implement the simplified prospectus requirements of the UCITS Directive. So in these paragraphs, we consider only the effect of those particular changes on the UK's competitive position.
- 8.35 The UCITS Directive has prescribed the content that must be contained in a simplified prospectus offered to consumers. As explained elsewhere, we have concluded that, for consumers within the UK, this information should be delivered according to the principles that we have developed for consumer information at point of sale. This decision does not necessarily place UK firms in a weaker competitive position relative to EU competitors, either within the UK or marketing to consumers in other EU member states. Providing clear and informative product information to consumers must be instrumental in promoting healthy and effective competition.
- 8.36 It could be argued that the regulatory burden imposed by the complexity and detail of our regime places UK firms at a competitive disadvantage relative to firms in other member states. (Although in many cases, other states have not yet clarified how they expect to implement the Directive.)
- 8.37 In recognition of such concerns, we have stripped out many of our UK-specific presentational requirements for business transacted from the UK into Europe. For such business we propose to require only that the firm delivers the information necessary to meet directive requirements. This flexibility will allow firms to adapt their style of information delivery according to the market in which they are participating, while ensuring that the harmonisation

envisaged by the directive is respected. The presentational elements such as the 'key facts' design and charges table would be, in any case, largely irrelevant to non-UK consumers. This is because they are designed to operate within a wider context of a consistent cross-sectoral regime and supporting consumer awareness measures.

- 8.38 Within the UK, we recognise that some EU member states may not apply such rigorous standards of consumer-friendliness as we do to their implementation of the SP requirements, and they will certainly not be bound by our key facts document regime. But this apparent super-equivalence in relation to our implementation of the SP requirements does not actually create a significant new discrepancy. Since the introduction of the Key Features regime for non-life products, the UK has set high standards for disclosure of product information. The difference now is that whereas some member states may have had little or nothing in the way of detailed disclosure requirements, their firms will now face a requirement to provide at least the Simplified Prospectus information. So to that extent, the Directive equalises the competitive position.
- 8.39 We believe that our improved product information requirements will give UK firms a competitive advantage within the UK because of the transparency and consumer confidence that should result from the delivery of clear, concise and comparable product information. And, subject to the discussions under way with other Member States already mentioned elsewhere in this CP, we expect that key information on which consumers may wish to base comparisons will be presented in a consistent and harmonised way.
- 8.40 We also believe that any competitive disadvantage that may remain will be outweighed by the benefits that the proposals will have for consumers and firms alike within the UK.
- (f) The need to minimise the adverse effects on competition that may arise from anything done in the discharge of those functions.
- 8.41 Our analysis suggests that the main impacts on competition will arise from the costs associated with the changes to the existing regime. We do not believe our restrictions on branding of the material will have a significant effect on competition as the documents will almost always be accompanied by branded marketing material. Our amendment to the rules on calculating the RIY corrects a competitive imbalance by clarifying and making consistent the way RIYs are to be calculated.
- 8.42 The initial costs to firms arising from these proposals will be substantial. We will require firms to revise all of their existing disclosure documentation, and the system changes required to produce a new example will be particularly significant. These will, potentially, impact more on smaller firms, who may find themselves expending similar amounts on revising their documentation as larger firms, while the revenues against which they can offset those costs differ

greatly. (Although smaller firms are unlikely to have the proliferation of legacy systems that larger firms accumulate, each of which adds incrementally to the cost.)

8.43 We believe that this is outweighed by the positive benefits our proposals bring for:

- consumer confidence in the industry,
- the new business that this could generate; and
- the greater propensity for consumers to shop around for their purchases and so be attracted to firms in the market that they may not have considered previously.

(g) The desirability of facilitating competition between those who are subject to any form of regulation by the FSA.

8.44 Greater transparency of product features and terms across the packaged investment product market should encourage firms to be more competitive. This is because consumers will be better equipped to compare product features and more inclined to shop around for a suitable and competitively priced product.

(h) Acting in a way which we consider most appropriate for the purpose of meeting our statutory objectives.

8.45 We have shown both in policy terms and through consumer research that measures to improve consumer understanding of products will contribute to our consumer protection and public awareness statutory objectives. But such measures need to be delivered in a consistent way across a large number of transactions covering a wide range of products and consumers. We do not believe that any alternative regulatory tools available to us are more likely to deliver our objectives than the proposed detailed and prescriptive rules on firms, accompanied by a programme of consumer awareness measures.

Consolidated list of questions

- Q.1: Do you agree with our proposal to emphasise the importance of early delivery of product information?
- Q.2: Do you agree with our proposal not to change the scope of the current key features regime, in terms of the products caught?
- Q.3: Do you agree with our proposal to require information to be offered in relation to all execution-only transactions?
- Q.4: Do you agree with the proposed extent to which the regime will be different for life and non-life products?
- Q.5: Do you understand and accept the distinction we draw between product disclosure and consumer information at point of sale?
- Q.6: Do you think that this distinction will lead to consumer detriment?
- Q.7: Do you think that this approach will cause problems for firms and the way they design their marketing literature?
- Q.8: Do you agree that the new product information document should focus on suitability issues?
- Q.9: Do you agree with our proposed approach to the disclosure of risk?
- Q.10: Do you think that it will deliver an appropriate level of consumer protection?
- Q.11: Do you think that our new approach will encourage consumers to read the information?
- Q.12: Do you agree that the proposed brand-style use of the key facts logo will be of value to consumers?
- Q.13: Do you agree that the incorporation of the FSA logo and regulatory message will be useful for consumers?
- Q.14: Do you agree with our proposals in relation to the use and number of projections?

- Q.15: Do you agree with our proposed inclusion of real terms figures in examples relating to personal pensions?
- Q.16: Do respondents agree that further work is needed in relation to the presentation of comparison projections for contracting out of SERPS?
- Q.17: Do you agree that our revisions to the calculation method for the Reduction in Yield better reflect accepted actuarial practice?
- Q.18: Do you agree that our revisions will result in a more transparent, consistent and consumer-friendly outcome?
- Q.19: Do you agree that our proposed charge disclosure rules for 'guaranteed' or derivative-backed products offers consumers a useful indication of the cost of such products?
- Q.20: Do you agree that life policies with a term of five years or less should not be exempt from disclosing the effect of charges and expenses?
- Q.21: Do you agree that a critical yield figure will be useful for consumers considering an income withdrawal plan?
- Q.22: Is one critical yield figure sufficient, or should the critical yields for annuity purchase at ages 65, 70 and 75 be shown?
- Q.23: Do you agree with the basis for calculation proposed?
- Q.24: Do you agree with the revised timing and content requirements for the suitability letter?
- Q.25: Do you agree with our proposal to abolish post-sale confirmatory information?
- Q.26: Are our proposals in respect of the phased implementation of the new regime proportionate and practicable?
- Q.27: Do you agree with the proposed application provisions for the new regime?
- Q.28: Do you agree with our proposals concerning the overarching disclosure requirements for packaged products?
- Q.29: Do you agree with our approach to the implementation of the consumer information requirements of the Third Life Directive and the UCITS Directive?
- Q.30: Do you agree that key facts should not be combined with other material except in the exceptional circumstances described?
- Q.31: Do our rules on compendium documents offer sufficient flexibility without risk to consumer understanding?
- Q.32: Do you agree with our proposals concerning the circumstances in which a key facts document must be provided?

- Q.33: Do you agree with our proposals concerning product information to be provided in the course of telephone-based transactions?
- Q.34: Do you agree with our proposals concerning the front sheet or screen of the key facts document?
- Q.35: Do you agree with our proposal to limit the extent to which the key facts document may show co-branding?
- Q.36: Do you agree with our proposals concerning the quality of presentation and language of key facts documents?
- Q.37: Do you agree that the proposed 'Quick Guide' will be a useful tool for consumers?
- Q.38: Do you agree with other aspects of our proposed new structure of the key facts?
- Q.39: Have we indicated the required content of the key facts document with sufficient clarity and detail?
- Q.40: Do you agree with our proposals in respect of the presentation of past performance in key facts documents?
- Q.41: Do you agree with the proposals relating to the content of key facts documents for specific types of product?
- Q.42: Do you agree with the proposed structure and content of the example?
- Q.43: Do you agree with our proposal to include a reference to the FSA comparative tables in an example?
- Q.44: Do you agree with our approach to illustrating the effects of charges on the growth of a product?
- Q.45: Do you agree with our proposed approach to targeted investments?
- Q.46: Do you agree with the circumstances in which we propose to require the inclusion of a projection of the future value of a product (pensions and income withdrawals only)?
- Q.47: Do you agree that the disclosure of the cost of an immediate annuity is a useful comparator for information about critical yields?
- Q.48: Do you agree with our proposed changes to the projections regime?
- Q.49: Do you agree with our estimate of the costs of these proposals? If not, do you have further information that we should take into account in this analysis?
- Q.50: Do you agree that we have fairly assessed the benefits of our proposals? If not, what considerations should we take into account?

Summary of research

Background

1. Following the November 2000 DP we commissioned three research projects to inform our policy thinking for the presentation of a revised point of sale disclosure regime. A further, fourth, project was commissioned to examine consumer attitudes to the suitability letter. This annex summarises the objectives, methodologies and findings of these studies.

Disclosure research project 1 - Pricing research

Objectives

2. DVL Smith Ltd were asked to carry out research on documentation which used innovative ways of presenting the point of sale disclosure information. In particular, DVL Smith Ltd were asked to concentrate on the product charges information which had been designed to be more impactful and easy to understand than the current presentation.
3. The overall aim of the research was to find the best way of presenting price and charges information in a form that is likely to be read and understood by consumers, and used in financial decisions. We also wanted to know how well the price information communicated key information.
4. The main changes tested were: a redesigned charges table contrasted with a different 'bubble' presentation of charges table information, and various different page layouts with explanatory text.

Methodology

5. Our researchers chose a qualitative approach. It consisted of eight group discussions and 24 face-to-face depth interviews. The interviewees who had purchased either an Investment Bond or Whole of Life product in the last 10

years (but not in the last 12 months) or had considered purchasing one or both of these products in the last 12 months. The research was structured to take into account the views of different ages, social grades, locations and levels of financial sophistication.

Summary of the findings

6. The best page structure started with a general introduction and then became more specific by providing detailed explanations and information. It was felt to make intuitive sense and made for a logical, more user friendly, read.
7. Explaining the charges in the form of a table was preferred to the alternative 'bubble' and word presentation. The use of the table engaged the reader and heightened involvement in the information as it conveyed visually the key messages. Respondents immediately understood the fact that the charges would vary at different stages of the product term, and that, in the short term, charges would increase the likelihood that they would get back less than they put in if they stopped making payments. The research showed that the table acted as an immediate focal point that led to the customer reading out from the table to look at other, more detailed, information on the page that they may otherwise have not looked at.
8. The 'bubble' presentation did not work as well because it was a more textual approach that was less involving and engaging to the reader. For example, the implications of early surrender were less obvious to most.
9. Consumers favoured an introduction to the table, followed by explanatory text to describe what the table was showing. The questions and answers were considered helpful.
10. A four-column table was the most effective way of communicating how charges affect what the consumer might get back, particularly in the early years. A five column table contained too many figures and customers found it more difficult to read. Emboldening or enlarging figures worked well as it drew attention to them. There was widespread understanding that the 'What you might get back' figures were not guaranteed, but were simply guidance.
11. The versions that explained the investment would 'grow at only 4.5% a year instead of 6% because of the charges' were better understood and less likely to cause confusion and misunderstanding than 'the investment could have grown by another 1.5% a year if there were no charges'. The second statements were taken by many as meaning only a small 1.5% cost or loss. In contrast, '4.5% rather than 6% growth' was better understood as showing a greater impact (a loss or cost of 25%). Also, where the impact of charges was converted to monetary values ('over 10 years, the difference between an average charge rate of 1.5% and 1.4% could be £70'), respondents felt that the figures were not very significant.

12. Respondents were not immediately clear that the information was being given to them to help them compare charges of different firms. It was widely felt that this message could be more explicit and the text would be better if it provided some practical tips and examples of things to look out for when making comparisons. It was also felt that the comparative purpose of the document should be highlighted elsewhere such as the front page of the document.
13. The inclusion of the FSA comparative table website address was appreciated although those without internet access would have preferred alternative FSA contact details.
14. Most respondents were clear that commission was paid out of the total price that was quoted. However, positioning the disclosure of commission separately from the ‘Tell me about charges’ information led to some confusion on this.

Disclosure research project 2 - Key Features Document research

Objectives

15. We asked H2B to carry out research on the virtually the same documentation looked at by DVL Smith Ltd¹, except that they did not look in any detail at the price information. Instead H2B were asked to test the revised documentation as a whole to gauge whether it represented an improvement over existing KFDs (including a ‘Raising Standards’ version). The key areas H2B considered were:
 - stand-out against marketing and other literature;
 - propensity to read;
 - accessibility to consumers in terms of style, format and content; and
 - the communication of key messages.

Methodology

16. The research was qualitative and involved in-depth interviews with two types of person: consumers and financial services professionals.
17. The consumer research involved two main stages:
 - The first stage (Stage 1) was a small-scale round of testing to look at high-level design options before finalising the designs. Information from this stage was used to finalise designs to be used in stage 2.

1 The versions used by DVL Smith were adjusted following some preliminary high-level research by H2B – see paragraph 17.

- The second stage (Stage 2) formed the main part of this project and involved detailed testing to establish whether the new designs were more effective than the existing regime or a Raising Standards-compliant version of that regime.
18. Stage 1 involved four consumer workshops where groups of consumers were first shown examples of the new designs and then took part in a group discussion.
 19. In Stage 2, the most successful new design was tested in three variants (with different names). For simplicity, the testing was restricted to two product types, personal pensions and maxi ISAs, and to one brand, Norwich Union, who assisted us in preparing the material.
 20. Stage 2 involved a total of 90 depth interviews with consumers, split between pensions and ISAs. The interview was in a structured format with respondents being taken through a number of stages, involving both free flowing discussion and more structured questioning and rating.
 21. H2B also conducted ‘depth’ interviews with 15 professionals who were either in contact with consumers in financial product sales (tied or independent sector), or who worked in marketing in financial services companies which sold directly to consumers through direct mail, internet or telephone.

Summary of findings

22. The research indicated that the new KFD design was an improvement over both the old style KFD and the Raising Standards variant in a number of key areas. The new KFD design was easier to understand than the ‘old KFD’ and Raising Standards versions and was better able to communicate key points.
23. Specifically, the new KFD design was more successful in clearly conveying basic information about the financial products, their purpose, possible suitability, tax advantages and risks. It was also clearer on commission and the definition of charges than the other KFDs.
24. In terms of accessibility, the new KFD offered improvement in some areas over the old KFD and Raising Standards versions. The layout and use of understandable, active, questioning language was particularly successful in drawing in less sophisticated consumers. However, the ‘busy’ layout of the design tested reduced the accessibility for some consumers; particularly older people who were more comfortable with the more conventional text style of the Raising Standards version and the old KFD.
25. Stand-out was less differentiated. There appeared little difference in the likelihood to pick up the KFD across the three versions. Consumers tend to either go through the materials in a marketing pack in the order they come to

them, or pick out one document first. This is often the sales document, labelled appealingly ‘Your Guide’ in the Norwich Union materials tested.

26. Once picked out, there tended to be a greater propensity to read the new-design KFD. It was, on the whole, more accessible and easy to read but also appeared to play a different role in the pack to the old KFD and Raising Standards versions. It appeared more formal and informative than the old KFD and Raising Standards versions, which seemed more like ‘mini product brochures’ to consumers.
27. Colour and personalisation both have an effect on the document’s stand-out and propensity to be read. The colour version seemed more likely to be read than the black and white version tested, which appeared too boring, dull and government document-like. Personalising the document by putting the customer’s name on the front helped to attract the customer to read the document.
28. Alternative names had less effect on the key assessment criteria. But clear preferences emerged when the names were compared. ‘The Simple Facts’ emerged as the preferred name for both consumers and professionals but H2B thought there might be some benefit in looking for another name which would have the potential to engage the consumer more, perhaps along the lines of ‘Right for You?’.
29. The Raising Standards documentation was a clear improvement over the current KFD in terms of its readability and the ability to communicate key information (particularly for the ISA KFDs tested). But, there were still some complex areas within the Raising Standards documents where the meaning was less clear to the reader.
30. Most industry practitioners interviewed welcomed the new KFD as a clear improvement over both the existing KFD and over the Raising Standards documentation because of its use of simpler language and direct style. However, they raised practicability questions. Combining the client-specific information (as in the current personal illustration) with more generic information to form one document was likely to introduce some production problems for those operating a one-stage sales procedure, typically in the tied sector. A standardised format was likely to be resisted by some of those in the direct offer market where the distinctiveness of all materials was an important part of the brand delivery.
31. The research highlighted some specific issues that needed to be addressed in moving forward with a new KFD design. A key question was the extent of personalisation of the KFD. The more specific and personalised the information, the greater the sense of identification for the consumer. However, this could be difficult in practice given some current sales processes. The design problem to be solved was how to maximise the perception of personalisation while minimising the need for printing complex documents at point of sale.

32. The use of complex tables to communicate detailed fund information (as in the ISA KFDs tested) tended to confuse, and the appearance of complex tables of figures also detracted from the accessibility of the document as a whole. Clearer communication of funds and charges was needed. The inclusion of client specific information about the level of investment and specific funds and charges would be likely to improve comprehension.
33. Consumers felt they were unable to make a product decision based on the KFD as they would need to compare with other provider's offerings and/or seek advice. However, a lack of knowledge about how to make a decision suggested there was a greater need to direct people on how to do this.
34. The communication of information about benchmark standards (stakeholder/CAT) was poor and not clear enough. Consumer who needed more information on whether the standard was desirable or not and its relevance to individual investors.
35. Some consumers felt that the new KFD design that was tested was too 'crammed' and busy. Design development would help to improve the accessibility of the document particularly for older consumers.
36. Further development was also needed to improve the propensity to read the 'guide to financial terms' section. This section appeared to contribute positively to the document but lacked sufficient prominence because of its positioning. It might be worth reconsidering the use of the term 'jargonbuster', used in stage 1 of the research. It is more attention grabbing than the rather stuffy 'guide to financial terms'.
37. In the pensions KFD, more obvious personalisation (where practically possible) would improve the likelihood that consumers actually read the document. In particular, the sections covering funds, charges and transfer values required clearer explanation.
38. In the new ISA KFDs, the tables would benefit from clearer descriptors. The use of absolute values rather than percentages could help charge information more readily understood.

Disclosure research project 3 - Taking forward the KFD

Objectives

39. Following the consumer testing carried out by DVL Smith and H2B, we re-designed our model document to take on board the results of these projects. H2B were asked to carry out a second round of consumer testing to evaluate the extent to which the new versions compared with the current KFD.

40. We took a Raising Standards-compliant KFD as our baseline, as this had clearly tested better than a non-Raising Standards version in the last round of testing, and in our view represented the best quality the industry could deliver under the current regime.
41. H2B tested four variants of an information document about a pension contract against each other:
- Variant 1: The Raising Standards KFD with personal illustration (PI);
- Variant 2: The current Raising Standards KFD with a current PI plus a stand alone checklist of ‘suitability’ issues;
- Variant 3: A modified version of the Raising Standards KFD with a new ‘Key Facts’ front page and incorporating the ‘suitability’ checklist within the body of the document (KF), and introducing a new style personal illustration (PE);
- Variant 4: A completely new document called Simple Facts (SF) together with the new-style PE.
42. The specific objectives of the research were:
- a) To identify an approach which best achieves the FSA’s objectives for disclosure, examining:
- standout;
 - propensity to read;
 - understanding the key messages;
 - impact on decision making;*
 - increase in propensity to shop around;* and
 - presentational preference.
- b) to identify the significant differences between each variant to feed into cost benefit analysis, including:
- the extent to which one variant is preferred above another and why;
 - whether minor changes could improve one variant to the level of the best variant;
- c) to determine consumer willingness to use a checklist;
- d) to assess the effectiveness of the new style personal illustration*, examining:

* These objectives involved examination of changes in consumer buying behaviour. Given the time and cost restrictions on the project, it was not possible to conduct a large scale longitudinal study, which would cover actual buying behaviour as a result of exposure to the variants. The project could only address these issues through an examination of behavioural intentions expressed by respondents in the research.

- understanding;
- use of one projection;
- key messages taken; and
- consumer propensity to use the information and shop around*.

Methodology

43. H2B carried out qualitative research among 39 consumers currently ‘in the market’ for a personal pension. Both men and women took part. All were aged 25–45, with a spread of financial experience over the sample.
44. The purpose of the research was to provide information on the four variants ‘holistically’, and specifically on stand-out and propensity to read as well as some more detailed aspects of comprehension. So our researchers decided to test the material initially in as realistic a setting as possible, before undertaking a more detailed examination of it and an alternative in an interview.
45. Respondents therefore received a pack of materials prior to their attending an individual depth interview. Each pack contained one of the four variants being tested, plus Norwich Union’s typical marketing literature for a personal pension. During the interview, respondents discussed their responses to the information they had received, and were subsequently shown a second test variant for comparison.

Summary of findings

46. The research indicated that the Key Facts document together with the PE was the most successful variant of the four tested, both in terms of its consumer appeal and its ability to improve understanding in some key areas.
47. The standardised front page of the Key Facts document contributed to the stand-out of the document. It had greater differentiation from the marketing materials than the KFD because of its appearance and strong titles. People were more likely to see that this was an important summary document at first glance than the KFD. It looked rather functional, however, and could be missed because of being associated with application forms².
48. Respondents preferred the name ‘Key Facts’ to other alternatives and the name generated appropriate expectations of an important summary document.
49. The question-and-answer format contributed to the readability/usability of all the variants tested. The checklist that had been incorporated in the KF

2 This was a more basic design than that being proposed in this CP.

appeared to attract and draw some people into the document, although in the format tested, it also put some off, as they were confused about its purpose.

50. The PE was more readable/usable than the PI because of both its appearance and content. The shorter length and use of boxes and bullet points increased the accessibility of the information.
51. There was strong evidence that the PE communicated key information significantly more effectively, particularly if people has also seen the incorporated checklist (the KF version). Specifically, people were more likely to understand that they should compare charges across different companies (and how they should do this) if they had seen the KF version, where this information was conveyed both via the checklist and the PE.
52. The PE also communicated the effects of inflation better the PI, through the use of 'real money' figures.
53. The KF/PE combination appeared to contribute to decision making in two main ways, by:
 - improving awareness that different companies charges can be compared, and how this should be done; and
 - greater focus on the example pension income and its real money counterpart in the PE, which helped to concentrate the mind on the pension and appropriate levels of contribution.

This greater understanding could help to improve consumer confidence about the pension, which could then be helpful in discussions with sales people and advisors.

54. The SF variant also had good stand-out against the marketing materials and shared the advantages of the PE. Its language was particularly easy to read, but this did not seem to significantly improve levels of understanding over the other variants. Some of the language used in the headlines, for example 'What's the deal?' was considered too colloquial even by younger, less financially sophisticated respondents. The KF communicated some key points of information such as tax relief and how to compare charges more effectively.
55. The KFD variant tested least well. The KFD itself lacked initial stand-out but was a readable document. The accompanying PI was not seen as very readable, however, and often caused confusion because of its use of 'lots of numbers'. It was less effective at communicating the potential suitability of other products, lack of access to cash before retirement and the effect of charges than the other variants.
56. Incorporating a checklist into the document was more effective than including a separate document, mainly because single sheets of paper tend to be missed or ignored.

57. All four variants succeeded in conveying that the future values of the fund are not guaranteed. This was taken on board by consumers but appeared to be one of the main reasons for rejecting a pension. Many people would clearly like to have a more definite prediction of their future income.
58. The incorporated checklist drew people into the document because of its attractive and 'boxed' format. Respondents considered the questions, with their accompanying bullet points, to be clear and 'honest', although some found the 'tick boxes' (which asked the reader to answer 'yes' or 'no' to a question) a source of irritation. A more fundamental issue was the confusion caused by lack of clarity over the checklist's role. It had both elements of an index (and so would be expected at the front of the pack) and a summary of the information to help with decision making after the pack has been read (and so should be positioned at the back of the KF document).
59. The research looked specifically at the use of growth rates in the PI and PE. The PI used three growth rates in the example and the PE used only one. There appeared to be advantages and disadvantages of both approaches.
60. The use of three growth rates clearly communicated the potential variation in the resulting pension. But it did tend to confuse, and inhibit peoples' identification with the numbers – they were often just seen as a meaningless array of figures. The use of one growth rate on the other hand focused the individual on a smaller set of numbers. This meant it was more likely to be read, and seemed to result in people identifying and considering the numbers involved more. The addition of a 'real money' sum also helped this. It had the disadvantage of not portraying the variation so graphically, and focusing on one amount could be seen as more concrete than a range. However, it was also clear that the figures given were not guaranteed or predicted amounts.
61. Charges were clearer in the PE than in the PI. Clearer headings and fewer columns resulted in an easier to understand table than in the PI. But even with the PE, some consumers struggled to understand charges. Many had not come across the concept of overt charges before, other than through advisor commission, and found them difficult to understand and judge. Comparing charges across companies was a difficult message to take on board, and although there was evidence that those who saw the KF variant were more likely to grasp this concept, it remained less instinctive than comparing the 'bottom line' – the pension income – across companies.
62. The FSA logo on the KF and SF versions was noticeable, but the written detail was often to be missed. This was largely a result of the design, as the text appeared under a line, which gave the impression of a footnote. The bottom left hand corner was also scanned over.
63. FSA's involvement was regarded as signifying that the content of the documents had to follow regulations, had to be 'truthful' or that NU was regulated by the

FSA. It did not appear to be suggesting any endorsement of the pension product. Consumers liked the concept of having documents in the same format from alternative provider companies if they would facilitate easy comparison.

64. This research led to the following conclusions:
- the PE represents a real improvement over the PI in readability and the communication of information, particularly about inflation and charges;
 - the ‘question and answer’ format of the KFD/KF/SF documents is an acceptable and effective way of conveying information. There are no major differences in the levels of understanding between the slightly simpler English of the SF document and the Raising Standards version;
 - the checklist is worth including as it adds to overall understanding. It is most effective if incorporated into a document;
 - Key Facts is the most appealing and appropriate name; and
 - the KF version (variant 3) is the most successful and appropriate overall, because of its name, incorporated checklist and accompanying PE.
65. The research also highlighted some further areas for development:
- the appearance of the front page of the KF (and SF) should be made less functional/ application form like. Perhaps a more distinctive design, which would be recognised by consumers over time, should be developed;
 - there should be more signposting to connect the KF with the PE and, if possible, physical proximity within the marketing pack;
 - the checklist should be redesigned in some areas, to avoid the irritation of the tick boxes and provide better cues about its role. Its position in the KF document requires further examination. As tested, at the front, it works well to draw in the reader, but conceptually, its function as a summary suggests that a position at the back of the document would be better; and
 - the order of the document in the pack affects understanding. The KF and PE should not only be close together but near the top of pack to help people find this information, before being bogged down in technical detail. The use of indexing or instructions about which documents to read first could also be helpful.

Suitability letter research

66. We asked Reflexions Communication Research (Reflexions) to research ‘suitability letters’ and assess their value in terms of:
- the consumers understanding of the content of the letters; and

- what role the letters played in protecting consumers.
67. The particular research objectives were to determine:
- what consumers read;
 - what they understood from what they read;
 - whether they could relate the information back to verbal advice they had been given; and
 - what use they made of suitability letters in reviewing their decision to purchase a product.

Methodology

68. Reflexions carried out qualitative research for us. They completed twenty interviews with consumers who had bought either a packaged pension or investment product in the previous six months and were able to produce a suitability letter at the interview.

Summary of the findings

69. The sample of consumers claimed to have read the suitability letter they had received. They gave the impression that they looked at it, and read it through, at least once.
70. On the whole, they appeared to understand the content, more than might be the case with other financial documentation. There seemed to be two reasons for this:
- the writing style of a personal letter; and
 - at least part of the content had already been previously discussed at a meeting with an adviser.
71. However, there was a tendency to skip ‘difficult’ parts that had not previously been explained by an adviser. ‘Difficult’ parts were more prevalent, when the letter was described as a ‘financial report’, or when a ‘financial report’ was attached to a covering letter. Any of the following could be found to be difficult:
- unfamiliar technical terms;
 - more than one abstract concept in the same sentence;
 - complex paragraphs;
 - incomplete information; and
 - figures, percentages, tables and charts.

72. Consumers had usually received their suitability letter soon after a first meeting with an adviser. They were therefore in one of three positions:
- they had completed an application form at the first meeting; or
 - they had not completed an application form, but they had decided that they would; or
 - they had not completed an application, and had not yet decided whether to do so.
73. Those who had completed an application form at the first meeting had, to their way of thinking, already made a purchase decision, that they were not planning to change. Nevertheless, they used the letter to check that what they thought they had agreed was being verified by the adviser.
74. Those who had not already completed an application used the letter to absorb information about the specific recommendation (because there had been no specific recommendation at the first meeting, and that is what they had been waiting for). Consequently, they used the letter as the basis for a subsequent telephone call or second meeting with the adviser.
75. Suitability letters received by the sample varied greatly in their scope. Letters that were ‘broader’ in scope were particularly welcome as:
- consumers felt that the adviser was behaving responsibly; and
 - the detail gave consumers comfort (or, in isolated cases, reasons to question the advice they had been given).
76. While the ‘broader’ letters varied in what they covered, the following were often included, alongside other content:
- the consumer’s financial and investment objectives, priorities, planning and approach;
 - the consumer’s long term and short term needs;
 - the consumer’s attitude to risk;
 - the level of required or desired financial commitment – payments and term;
 - what the consumer can afford now, and in the future; and
 - the selection criteria used by the adviser.
77. This type of information is in keeping with the overall intent behind the FSA’s rules, although specific references to the ‘main’ consequences’ and particularly the ‘possible disadvantages’ of the transaction were not so evident.

78. Narrower letters performed a much less significant role than broader letters, and received a relatively indifferent response. They tended not to contain much information beyond confirmation of the provider, product and fund(s) recommended. There was some evidence that company representatives were more likely to produce narrower suitability letters.

Past Performance

Assessment of the options for presenting past performance information

1. Our assessment of the different options for the presentation of past performance information in longer documents was informed by technical advice given to us by our consultants, Europe Economics.
2. We considered four broad approaches. These were
 - **simple returns:** the returns on investment, presented in a form of annual returns, cumulative returns or profits from a hypothetical initial investment. They can be computed with or without taking account of fees, commissions, charges and taxes. They are expressed in nominal terms and are unadjusted for inflation, risk free rates, bank deposit rates or risk exposure;
 - **excess returns:** these are similar to simple returns, adjusted to account for some form of “risk free” rate of return. So, for example, you might calculate returns in excess of building society rates, or in excess of treasury bills. However, excess returns are not adjusted for any form of risk exposure;
 - **risk-adjusted returns:** these are simple returns adjusted for the risk exposure of a given portfolio. There are number of methods used by academics and commercial agencies to compute risk adjusted returns; and
 - **star rankings:** these apply a relatively simple indicator (such as a numerical or alphabetic rating) to funds, using a more complex underlying process for classification based on, for example, relative returns, relative risks or risk-adjusted ratings.
3. We applied four broad criteria to assessing the suitability of these four broad methods for use in UCITS simplified prospectus.
 - how easily and objectively they could be calculated and monitored;

- the likely ease of consumer understanding and interpretation (or misinterpretation);
- any significant affects they might have on competition and innovation; and
- whether particular measures favour some types of investment, periods of returns, or risk level.

Simple returns

4. Simple returns are frequently used in advertising and marketing material. US and Canadian regulators both prescribe the use of simple returns and they are also favoured by many independent rating agencies.
5. Simple returns are arguably the easiest way to present past performance information. They are generally easier to understand than other methods, and they have a relatively simple methodology that does not require controversial assumptions. They can also be objectively determined and easily monitored.

Excess returns

6. The disadvantage of excess returns against simple returns is the difficulty in choosing the risk free rate – the measure ‘in excess’ of which the returns are computed. Relevant benchmarks may well be different for different consumers, and any choice would potentially spark a prolonged debate about whether or not it was the most appropriate. Realistically, there may not be a benchmark that is universally suitable.

Risk-adjusted returns

7. Risk adjusted returns can provide a measure of value added by the manager of the fund and frequently facilitate comparisons both within a group of funds and across different sectors. However, there is no clear and commonly agreed way to compute risk adjusted returns. Some of the methods also have the potential to be resource-intensive and data sensitive.

Star rankings

8. Star rankings a basis for comparing funds within and across investment strategies. However, star rankings are most commonly based on some combination of risk and return, and therefore are subject to the same problems outlined for risk adjusted returns above. Although stars may appear simple to interpret, the process of deriving the stars may be open to question.

Using an approach based on simple returns

9. We decided that the best option was to base our standardised presentation on simple returns. But simple returns for past performance can be presented in a number of ways. Broadly, these include discrete annual returns, cumulative returns, annualised cumulative returns and profits on a hypothetical investment.
10. Discrete measures give the returns gained on a fund over a given period, often a year, and are most easily expressed as a percentage. The same approach to calculation can be applied to different time intervals to show, for example, six-monthly returns. This type of information would most commonly and clearly be presented in a bar chart.
11. Cumulative returns give the total compound returns gained on a fund over a period of more than a year. This would be presented as a series or table of single figures for returns over various periods taken from the same perspective (eg, looking back over the past year, three years, five years, etc).
12. An annualised cumulative return is a cumulative return converted to an average annual return figure, and shown as a percentage. This information can also be effectively shown in a table.
13. Profits on a hypothetical investment represent returns on a notional sum of money invested at a specified date, expressed as the value of the investment at any given time thereafter. This is a cumulative calculation. This information is most effectively shown in a line chart, where it can also easily accommodate the inclusion of an index or benchmark.

Choosing between the different types of presentation

14. We found that different ways of showing past performance information had different advantages and disadvantages, and showed some messages more effectively than others. So we identified a number of criteria against which we assessed the performance of each approach. No single approach could be said to be most successful in meeting all our criteria, and the result was that a combination of approaches proved necessary to meet our objectives.

Long term/short term returns and volatility

15. It is important for any standardised method of presenting past performance to include information about the past returns of any investment or fund, as this has always been one of the main functions of such information. Generally, we thought it preferable to have information about long-term returns rather than short-term returns, in order to reinforce the message that most equity based investments are long-term investments, which should normally be held for at least five years.

16. However, it is also important to get across some understanding of volatility. High or low returns on an investment or fund should not be seen in isolation, but in the context of the associated risk – so that consumers can understand that there is often a trade-off between risk and reward. Past performance methods that show volatility well can help consumer understanding of some aspects of risk.
17. A bar chart showing annual returns in individual years, over a long period such as ten years, is the most effective of these measures at showing volatility, as it will illustrate the variety in returns over a particular period. A longer period is more likely to show volatility effectively than a shorter period.
18. Annualised cumulative returns (which show the average return for the number of years you are looking at) average out variations between years and are therefore not a good indicator of volatility. Nor are profits on a hypothetical investment, which also have the affect of averaging out any peaks and troughs and therefore not getting across the volatility/risk message.
19. But showing annualised cumulative returns, possibly as profits on a hypothetical investment, gives a better idea of long-term past returns than the bar chart of annual returns. While it may be possible to calculate the overall return over a set period from the annual returns, it requires some arithmetic sophistication.
20. So, a single graph, or measure of past performance is unlikely to be able to present information about long term returns and volatility with equal effectiveness. As showing long term returns and volatility are both major objectives in finding a standardised measure for past performance, and space is not a particular limitation, it seems appropriate to include a combination of different methods of showing past performance in one document, in order to achieve a balanced picture.

Competition and innovation

21. We considered the effects of different ways of showing past performance on competition. Very broadly we felt that it was important that in setting out how past performance should be presented we did not affect competition or innovation adversely, both in our own market and the UK's competitiveness in, for example, Europe (where we expect similar standards to be set). We would also favour a measure for past performance that facilitates both competition and innovation. Any proposals we made would also need to be proportionate.

Specific issues

22. We identified some particular issues that needed considering, including:
 - time frame – in particular, a 5 or 10 year period;

- data form – pounds or percentages? We suspected that consumers would prefer pounds;
- presentation type – bar charts, line graphs, tables or text; and
- inclusion of comparison - an index or benchmark.

Consumer research

23. To shed light on the effectiveness of some of these issues, we commissioned The Research Business International (TRBI) to explore consumer attitudes towards the different styles of presentation of past performance information. We prepared a range of stimulus material using permutations of the four factors above, but which each at least in part met our overall objectives. TRBI conducted some qualitative research to explore the messages being drawn from different presentations of past performance. They examined consumers' understanding of different types of information and the influence and importance attributed to it.
24. TRBI carried out individual one hour face to face depth interviews in order to gather these views. They split the quota of interviewees primarily by financial sophistication into three broad areas:
 - good knowledge/understanding and high level of interest;
 - reasonable knowledge; and
 - low knowledge/interest.
25. They also took into account gender, ensuring an even split within each area, and a broad spread of ages. Interviewees were either people who had recently bought an investment or were in the market to buy one.
26. The interviews followed the same general format, summarised below:
 - a brief introduction and background discussion about general attitude towards and understanding of financial services and investments products;
 - interviewees were shown a sample copy of a 'key facts' document, with headings in tact, but with the main text replaced with nonsense so that they were not distracted by other issues. They then discussed how the past performance information sat within the document, and consumers' reaction to it and the importance they gave it;
 - TRBI considered the different permutations of information and how different combinations of information worked, and explored consumers' interpretations and preferences;
 - interviewees were given options to choose a combination of presentations that they preferred and asked to explain why; and

- they then discussed briefly the interviewees' views on past performance warnings.
27. The research aimed to get a better understanding of consumers' attitudes towards past performance information, including its content, format and design. The objective was to assess the effectiveness of various past performance illustrations in communicating key message, including the time period, the data form and the presentation medium.
 28. The researchers also explored the way respondents viewed particular information and what they would use it for. They looked at the way different pieces of information did or did not work together, whether there was a preference for discrete or cumulative information, and crucially, why. And the research company aimed to find out whether respondents were viewing information correctly.

What did the research tell us?

29. The research highlighted the different levels of understanding across the spectrum of financial sophistication. It showed a large gap between sophisticated (high and medium) and non-sophisticated (low) respondents.
30. The non-sophisticated respondents often found it difficult to engage and interpret information correctly. They were more likely to focus on tangible figures and more easily interpreted information. The sophisticated respondents were better able to interpret data, put it in context and make market comparisons. They were more likely to view the figures and graphs as a source of information.
31. Overall, TRBI found that respondents generally preferred cumulative figures to annual percentages, although there were some older respondents who tended to be more familiar, and thus happier, with percentages.
32. Many respondents, but particularly those of high and medium sophistication recognised the need for both discrete and cumulative information.
33. However, the research showed that while respondents liked what they considered to be 'easily understandable' information – such as a simple table or text stating the average return over the last 10 years – they misinterpreted information presented in that form and made assumptions about future returns. This showed that consumers like to 'latch on' to information they felt comfortable with, particularly when easily understood, and were likely to attach more importance to it.

Use of a benchmark

34. The use of a benchmark was popular within our research, with most respondents in favour of such a comparator somewhere within the past

performance information. Respondents preferred to see the benchmark on the line graph, rather than on the bar chart of annual returns, although the more sophisticated in particular also liked the second approach. All respondents largely understood that having a benchmark provided context, and it added perspective, helped assess the fund and was seen as informative and useful.

35. However, the research also seemed to indicate that the inclusion of a benchmark was likely to make the past performance information much more persuasive. The research suggested that consumers were likely to perceive a fund that out-performed a benchmark was a good investment, or to dismiss a fund that under-performed a benchmark. This was largely without further consideration of the underlying reasons. Although the charts without benchmarks may not have been as popular, they were also more neutral in terms of individuals' attitudes towards investing in that particular fund.

Disclosing charges for 'guaranteed' or derivative- backed products

The proposed disclosure method

1. The PIA issued guidance on the disclosure of guaranteed products¹ in 1997, but this guidance was not carried forward to our rules. Although the PIA method does have problems, which we discuss below, we propose to adopt the principles behind it in our new rules.
2. We use the following example to illustrate the method: a guaranteed equity bond that provides return of the initial investment increased in line with the FTSE 100 index after 6 years, together with a guaranteed return of capital.
3. “What your plan would be worth after charges” is illustrated by assuming the index increases at a rate consistent with the intermediate growth rate. Our rules² state that reduced rates of return must be used if the firm expects the rates in the tables to overstate the investment potential of the contract. The FTSE 100 is based on changes in share prices and excludes dividends. Using the gross intermediate rate of 7% an appropriate dividend yield might be 3% so an appropriate growth rate might be 4%.
4. Using a growth rate of 4% and a £10,000 premium the example would disclose a “What your plan would be worth after charges” of £12,653. The problem arises in trying to determine a suitable figure for “what you plan would be worth before charges”.
5. To get a “before charges” amount the method takes the appropriate charge and accumulates it to the end of the fixed term using the net intermediate rate and adds it to the after charges amount.
6. So if the appropriate charge in the example above was 8%, the amount “without charges” would be $800 \times 1.06^6 + 12,653 = 13,788$ after six years. This figure is then used to work out the RIY – which in this example would show charges reducing the yield from 5.5% to 4%.

1 PIA Regulatory update 38, August 1997

2 COB 6.6.49R (2)

7. The main problem with this method is that it is difficult to explain. The growth rate implied for the “without charges” amount is a notional figure and it does not enable an easy comparison with the charges table for other packaged products. However, it is important for consumers to be given information that allows them to appreciate the charges and expenses of a particular product, and we believe this method is the best way of doing this for these products.
8. Although we have included draft rules for our proposed disclosure method for these products, we are aware that this solution is not perfect so we would welcome any comments about this method and any alternative suggestions.
9. We can highlight some more of the difficulties of disclosing charges for these products by considering other possible methods.

Alternative 1: use the intermediate growth rate for “without charges”

10. We could prescribe that the “without charges” amount should always be worked out using the intermediate growth rate. So in the example the “without charges amount” would be $10,000 * 1.06^6 = 14,185$ and the charges would reduce the yield from 6% to 4%.
11. Although this presentation would enable easier comparison with other packaged products, it does not make allowance for the actual appropriate charge of the product. This means that using this method of disclosure would enable providers to devise products that disclosed nil or negative charges.

Alternative 2: a specific disclosure regime

12. We could prescribe a disclosure regime specifically for these products. For example, the appropriate charge could be disclosed as a percentage of the initial premium and only the “after charges” amount would be shown.
13. This might be easier to explain than the other methods but would not be consistent with the charges table on other products.

Alternative 3: treat guaranteed products as deposits for the purposes of disclosing charges

14. Some of these products are written as deposits and so do not need to follow our packaged product disclosure rules. It could be argued that, in any case, if the product guarantees return of capital at the end of the term, it should given the same treatment as a deposit in relation to and so not be required to disclose charges.
15. However, it would seem reasonable that a consumer should be able to compare the charges of a guaranteed product that claimed to give stock market returns with a product that invested in the stock market, like a FTSE 100 tracker ISA.

Mocked-up version of a key facts document and example for a personal pension product

- 1 The following ten pages contain a mocked-up version of a key facts document for a personal pension plan. The first six pages are the main key facts document, followed by a three-page example. We would expect the example to be provided as a stand-alone document, as it contains personalised information and would probably be produced by the firm at the point of sale, rather than pre-printed.
- 2 The product and firm are fictitious, but the information is representative of products that are currently available.

A black speech bubble with a white border, containing the word 'keyfacts' in a white, lowercase, sans-serif font. The bubble is positioned in the upper left quadrant of the page.

keyfacts

The ABC Personal Pension Plan

See inside for:

- A quick guide, and
- Some frequently asked questions

Quick guide

Use this quick guide to help you decide if the **ABC Personal Pension Plan** is right for you.

1. Is a personal pension plan the right choice for me?

- The aim of a personal pension plan is to help you save for retirement in a tax efficient way.
- It is not a stakeholder pension plan or a company pension scheme – if you are eligible, these may be better for you.
- You can only use your investment in a personal pension plan to give you an income in retirement – you won't be able to cash in your plan.
- If you think you might need access to your investment before you retire, there are other products, such as ISAs, that also let you save over the longer term.
- Not everyone is eligible to invest in a personal pension plan, and there are limits on how much you can pay in.

2. Will the ABC personal pension plan give me what I want?

- This plan aims to build a fund of money that you must use at your chosen retirement age to give you an income for life.
- You can usually take up to a quarter of your fund as a tax-free lump sum at retirement. But, you will have to use the remainder to buy you an income, which will be taxable.
- We can't guarantee the income you will get from this plan.

3. Do I understand the commitment I'll be making?

- To have the best chance of getting the income you want from this plan, you need to make the payments you commit to at the start.
- A personal pension is a long term investment designed to provide you with an income in retirement – you won't be able to cash it in.
- You should keep track of how your plan is doing – we'll send you yearly statements to help you.

Where to find out more

Look at the **Frequently asked questions** in this document, in particular:

What is the ABC personal pension plan?
Is this a stakeholder pension?
How much can be paid into my plan each year?

You could also look at our **Further Information booklet** in particular: pages 2-5.

If anything is unclear, you may wish to speak to a financial advisor.

Where to find out more

Look at the **Frequently asked questions** in this document, in particular:

What might I get when I want to retire?
What choices will I have when I retire?

And look at the **key facts example** attached to this document.

Where to find out more

Look at the **Frequently asked questions** in this document in particular:

What commitment do I need to make?
How flexible is it?

And look at the **key facts example** attached to this document.

4. Am I comfortable with the risks?

- The value of your fund may go down as well as up. So, what you get back is not guaranteed.
- There are a several reasons why your retirement income may be less than you want. Some of these factors you can control - like keeping up your payments - and others you can not, such as investment performance.
- If you stop your payments, we will continue to take our charges. This could reduce the amount you have already saved, and you might get nothing back when you retire.
- Some of our funds are more risky than others – but you can choose one, or a number of our funds to invest in.
- If you make a single lump sum investment and then cancel you may get back less than you paid in.

Where to find out more

Look at the *Frequently asked questions* in this document, in particular:

What are the risks?

Can I change my mind?

You should also look at our *Choosing a fund? booklet* in particular: page 2 and the risk profile of each fund.

And look at the *key facts example* attached to this document.

5. What choices will I have to make?

- You need to decide how much to pay in, and when you intend to start taking an income (you can change your mind later but you should check whether there is a penalty if you do that).
- You must choose which fund or funds you would like your payments to be invested in – remember some funds are riskier than others.
- You may be able to buy some additional benefits, such as life cover and payment protection cover.
- You will also have some choices to make when you retire – for example, about whether to take a tax-free lump sum.

Where to find out more

Look at the *Frequently asked questions* in this document, in particular:

How flexible is it?

What choices will I have when I retire?

Where are my payments invested?

What other benefits can I choose?

You should also look at our *Choosing a fund? booklet* in particular: the risk profile of each fund.

And our *Further Information booklet* in particular: pages 6-7

How can I compare the cost of this plan with others?

- You should receive a **key facts example** with this key facts document. It tells you how our charges would reduce the growth of your plan. As all companies must give a similar example, you can use it to compare plans.
- **If you want to shop around, ask other companies to give you an example for their personal pension plan. You can use the information in the example to compare charges across companies and products. Or you can find out more from the FSA's comparative tables at www.fsa.gov.uk/tables. But make sure you compare like with like.**

**Remember – charges aren't the only thing to consider.
Make sure you choose a plan that is suitable for your needs.**

Frequently asked questions

1. What is the ABC Personal Pension Plan?

- It is a tax-efficient savings plan for anyone under 75 who is not in a company scheme and who wants to save for an income in retirement.
- It will give you a fund of money that you must use to buy an annuity when you retire. An annuity will give you an income for life.
- Or, you may be able to take up to quarter of your fund as a tax free lump sum and use the rest to buy a smaller annuity income.

2. Is this a stakeholder pension?

- This plan is not a stakeholder pension plan. It does not meet all the rules the government has set to do with payment levels, costs, and terms and conditions.
- A stakeholder plan might meet your needs at least as well as this plan. To find out more about stakeholder pensions, ask for a copy of the *key facts* for our stakeholder pension.'

3. How flexible is it?

- You and your employer can pay into this plan.
- You can make one-off payments at any time as well as regular monthly or yearly payments.
- You can increase your regular payments or arrange for them to increase automatically each year.
- You can reduce your payments, or stop and restart them at a later date. Reducing or stopping your payments will reduce the size of your fund. If you want to stop paying you should ask us for more information on how our charges might reduce your pension fund.
- To find out more about how flexible this plan is look in our *Further Information* booklet, page 10.

4. What other benefits can I choose?

- There are separate products you can buy for life insurance and payment protection cover, but these benefits do not form part of the ABC Personal Pension Plan. To find out more contact us or ask your financial adviser.

5. How much can be paid into my plan each year?

- The minimum payment to start this plan is £20. After that, the minimum at any time is £20.
- The Inland Revenue sets the maximum that you can pay. This will depend on your age and earnings and other pension plans you may have.
- If you've chosen to 'contract-out' of the State-Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P), the government will direct part of your National Insurance contributions into this plan.
- For full details about payments and how we collect them see our *Further information* booklet, pages 10-12.

6. What about tax?

- You'll get income tax relief on your payments at the basic rate of tax, even if you're not a taxpayer.
- We'll claim the tax relief for you from the Inland Revenue and pay it into your plan.
- For example, if basic rate income tax is 22% and you pay £78 a month, tax relief would add £22 a month. This means that for every £78 you pay, £100 goes into your plan.
- If you're a higher rate taxpayer, you must claim your extra tax relief from your tax office, usually through your tax return.
- You don't get tax relief for any money you transfer into this plan from another plan.
- Your fund will grow free of UK income and capital gains tax. Corporation tax is paid on dividends received from UK shares.
- You can usually take up to a quarter of your fund as a tax-free cash sum. But the income you receive from an annuity is taxable. How much you have to pay will depend on your total income.
- If you die before taking your pension, any cash sum payable will normally be free of inheritance tax.

7. Where are my payments invested?

- We invest your payments into one or more of our funds. You choose which ones.
- We offer 12 funds. Each fund has different aims and levels of risk. You can find out more about the funds and how many are available to you in the *Choosing a Fund?* booklet.
- Each fund is divided into 'units' of equal value. We use your money to buy units in your chosen funds. The value of the units will rise or fall depending on the investment performance of the funds.
- You can change the funds your payments are invested in. You can do this once a year without charge, but after that we will charge £10 for each change.

8. What are the risks?

- The value of your fund can go down as well as up.
- What you get back is not guaranteed. It will depend on a number of things, such as, our charges, investment performance and the cost of buying the annuity that will give you an income.
- Inflation will also affect what you get back as will a change in the tax rules.
- Our funds have different levels of risk. So before choosing where to put your money, please read our *Choosing a fund?* booklet.
- For a complete list of all the risks see our *Further Information* booklet, pages 6-7.

9. What are the charges?

- We charge for managing your plan and investments. We take some of our charges from your payments before they are invested, and some from your fund value.
- Our charges vary for each fund. See our *Choosing a fund?* booklet for a complete list of all our charges.
- The **key facts example** we have given you with this document shows you how our charges can affect the size of your fund.

10. What about the cost of advice?

- If you have an adviser, we may pay him commission out of the charges we take. He will tell you how much commission he has been paid.

11. What might I get when I want to retire?

- Your income when you retire will depend on the size of your fund and the cost of buying the annuity that will give you an income.
- We cannot guarantee what you will get when you retire. But the **key facts example** we have given you with this document shows how our charges can affect the size of your fund.

12. What choices will I have when I retire?

- You can buy an annuity with your fund between ages 50 to 75, even if you're still working. But you don't have to use the whole fund at once. You can do it in stages up to age 75.
- You can use the whole of your fund to buy an annuity. Or you may normally take up to a quarter as tax-free cash and use the rest for a smaller income which will be taxable.
- People in some occupations, or who cannot continue working because of ill-health, may be able to take their pension earlier than age 50.
- You can buy the annuity to give you an income from us or from any pension provider.
- You can find out more about your choices in our *Further Information* booklet, page 15. And, we'll remind you about your choices nearer to your chosen retirement age.

13. Can I transfer my plan?

- You can transfer the value of your fund to another pension plan at any time before you use it to buy an annuity.
- We don't charge for a transfer, but depending on investment performance, the amount transferred may be less than the total payments to the plan.

14. What happens to the plan if I die before I retire?

- If you die before you start taking an income, we'll pay out the value of your fund as a cash sum, or as an income for your husband, wife or dependants. If you have transferred some or all of your contributions from another pension plan or you have been contracted-out we may have to use all or part of the fund to provide an income.
- If you've arranged your plan under a suitable trust we'll pay any cash sum to the trustees.

15. Can I change my mind?

- You can change your mind within 14 days from when you get your cancellation notice. If you decide you don't want the plan, we'll give you your money back.
- If you have made a single payment and the fund value has fallen, you'll get back your payment minus any fall in the investment value in this period.

16. How will I know how my plan is doing?

- We'll send you a statement each year showing the payments into your plan and the current value of your fund(s).
- You can check the current price of our investment funds by:
 - visiting our website at:
 - calling our price line on:0000 000 0000

Other information

How to complain

If you ever need to complain, first write to us at the address below. If you're not satisfied with our response, you can complain to:

Investment Division
Financial Ombudsman Service,
South Quay Plaza
183 Marsh Wall
London
E14 9SR

Tel: 0845 080 1800

This won't affect your legal rights.

Compensation

Qualified advisers will recommend that you buy products suitable for your needs. You have legal rights to compensation if at any time it's decided that you've been sold a plan that wasn't suitable for your needs at that time.

The Financial Services Compensation Scheme covers your plan. It'll cover you if ABC becomes insolvent and is unable to meet its obligations under this plan. You'll normally be covered for at least 90% of the value of your plan.

Terms and conditions

This key facts document gives a summary of the ABC Personal Pension Plan. It doesn't include all the definitions, exclusions, terms and conditions.

The policy document gives the full terms and conditions. If you'd like a copy please ask your financial adviser or contact us direct.

We have the right to change some of the terms and conditions. We'll write to you and explain what has changed if this affects your plan.

Law

The law and courts of England will apply in legal disputes

Personal Pension Plan

Prepared for Mr. J. Brown on 30th May 2002

Age 40 next birthday

Chosen pension age: 65

What do I pay in this example?

You pay £39 a month

Basic tax rebate £11 a month

Total payment £50 a month

Does this example show me what I'm going to get back?

- No. The value of the investments in your plan may go up or down or stay the same. And our charges could change, too. So we cannot predict what you will get back.
- But our example can show you how our charges could reduce what you might get back.

Let's assume:

- you decide to invest 100% of your payments in the balanced managed fund;
- we do not change the level of charges we take and the tax rebate remains the same (not guaranteed); and
- the investments in your plan grow at a steady rate of 7% each year (not guaranteed).

See next page

The early years

At the end of year	You would have paid in: (inc tax rebate) £	What your plan would be worth without charges £	What your plan would be worth after charges £
1	600	622	588
2	1,200	1,280	1,210
3	1,800	2,000	1,900
4	2,400	2,760	2,630
5	3,000	3,570	3,400

- In the early years our charges could mean that the value of your plan would be less than you have paid in.

The later years

At the end of year	You would have paid in: (inc tax rebate) £	What your plan would be worth without charges £	What your plan would be worth after charges £
10	6,000	8,598	8,030
15	9,000	15,620	14,200
20	12,000	25,490	22,500
25	15,000	39,280	33,600

What does this example tell me?

How can I use it to compare with others?

- The second-last column shows how much your plan would be worth if we took no charges at all and all the other assumptions were met. Of course, all companies charge for running plans – but they don't all charge the same amounts. The last column shows you what your plan would be worth after we take our charges.
- Because all companies must give you a similar example, you can use the figures in the last column to compare the effect of our charges with those of other companies.
- Put another way: at age 65, our charges would have reduced the assumed growth of your plan from 7% to 5.9%. **The bigger the gap between these two rates, the more expensive the plan.**
- You can also compare charges across companies and products by looking at the FSA's comparative tables at www.fsa.gov.uk/tables.

Please remember: the investments in your plan can go up and down. What you get back is not guaranteed. Your plan could be worth more or less than the amount shown.

See next page

What would a fund of £33,600 give me if I retire at age 65?

- You must use your fund to buy an annuity to give you an income.
- If we make some assumptions, we can give you an idea of how much income you could get with a fund of £33,600.

Let's assume:

- you choose to have your income paid monthly from the day you retire;
- you choose to have the same income paid out each year;
- inflation from now until you are 65 averages at 2.5% a year (not guaranteed); and
- at age 65, annuity rates are based on an interest rate of 5.4% (not guaranteed);

You could use this to get:

A tax-free lump sum of: £8,410	A yearly income of: <i>(before tax)</i> £2,000	What this income would be worth in today's money: £1,080
OR		
A tax-free lump sum of: £Nil	A yearly income of: <i>(before tax)</i> £2,660	What this income would be worth in today's money: £1,440

What does this example tell me?

- It gives you an idea of the size of the tax-free lump sum and income, or income only, that you might be able to buy with a pension fund of £33,600.
- You will only receive the amount shown if all the assumptions are met and you chose one of the pension options shown.

Please remember: these figures are not guaranteed. You could receive more or less than this.

Why tell me what the income would be worth in today's money?

- Over time, inflation reduces the buying power of money. We tell you what the income would be in today's money to give you an idea of what it will actually buy when you retire.

Your yearly statement

The Department for Work and Pensions requires us to send you a statement each year to estimate what your income might be when you retire. This is to help you keep track of how well your plan is doing.

The assumptions we must use are different from those used in the example above. They are:

- that you take no lump sum on retirement and use all of your fund to buy an annuity;
- that the annuity will also provide a spouse's pension payable on your death; and
- that the income from the annuity you buy will increase with prices.

On that basis, the yearly income you would receive would be worth £942 in today's money.

Draft rules

FSMA Powers

- 1 The proposed amendments to the rules and guidance set out in this annex will be made under the powers specified in Schedule 4 of the relevant sourcebook.
- 2 The draft text appears in this annex in the following order:
 - the new text for Chapter 6 of COB, including a summary of the amendments to the current COB6.6 (Projections);
 - amendments to COB 5.3 in relation to the suitability letter, and a consequential amendment to the current COB 6.5.45.
 - amendments to the glossary;
 - consequential amendments to other parts of the Handbook, including amendments to other chapters of COBS; and
 - our proposed transitional provisions.
- 3 The text in the new COB sections 6.1 – 6.10 and 6.12 – 6.15 is proposed new text. But elsewhere, where we are indicating our intention to amend existing Handbook text, underlining in the text indicates proposed amendments and strikethrough indicates text we propose to delete.

6.1 Consumer information and disclosure for packaged products and cash deposit ISAs

Application

- 6.1.1 G This chapter sets out the requirements that apply to a *firm* in respect of the information it must provide to a *client* about a *packaged product*, *cash deposit ISA* or election to make *income withdrawals*; and about a *customer's* right to cancel or withdraw from an agreement.
- 6.1.2 R (1) COB 6.2 applies to a *firm* which:
- (a) makes available for sale a *packaged product* or *cash deposit ISA*;
 - (b) sells, *personally recommends* or *arranges (brings about)* the sale of a *packaged product*;
 - (c) manages, sells or *personally recommends* a *cash deposit ISA*;
 - (d) sells, effects, *personally recommends* or *arranges income withdrawals*; or
 - (e) sells, *arranges* or *personally recommends* a *traded life policy*;
- to or for a *client*, unless a particular rule in that section has a specific application.
- (2) COB 6.3 to COB 6.10 apply to a *firm* which carries on any of the activities in (1)(a) to (e) to or for a *private customer*, unless a particular rule has a specific application.
- (3) COB 6.11 applies to a *firm* which produces or provides a *projection* in respect of a *life policy*, *scheme*, an election to make *income withdrawals* or a *stakeholder pension scheme*.
- (4) COB 6.12 applies to a *firm* that:
- (a) is selling, *recommending* or *arranging* a *stakeholder pension scheme* to or for a *private customer*, or
 - (b) produces or provides a decision tree for a *stakeholder pension scheme*.
- (5) COB 6.13 applies to a *firm* which is:
- (a) a *product provider*;
 - (b) an *insurer* which provides *pure protection contracts*;
 - (c) acting as an *EIS manager*, *ISA manager* or *plan manager*, or when *selling on* to a *customer units* which the *firm* has bought or redeemed as *principal* for that purpose;

- (d) responsible for holding *deposits* in respect of another *firm's cash deposit ISA*;
- (e) the operator of a *stakeholder pension scheme*.
- (6) COB 6.14 applies to a *firm* which effects, *personally recommends* or arranges a variation of a *life policy* for or to a *policyholder*.
- (7) COB 6.15 applies to a *firm* which:
 - (a) is a *long-term insurer* and receives:
 - (i) a request from a *policyholder* for a quotation for the surrender value of a *life policy*; or
 - (ii) any other indication that a *policyholder* wishes to surrender a *life policy*;
 - (b) receives a request from a *policyholder* or *scheme member* for a retirement quotation in respect of any of the following contracts that it provides:
 - (i) a *personal pension scheme*;
 - (ii) a *stakeholder pension scheme*;
 - (iii) a *free-standing additional voluntary contribution contract*;
 - (iv) (where an *open market option* is available under the contract terms) a *retirement annuity contract*; or
 - (v) (where an *open market option* is available under the contract terms) a *pension buy-out contract*.

Purpose

- 6.1.3 G (1) This Chapter amplifies *Principle 7* (Communications with clients), which requires a *firm* to pay due regard to the information needs of its *clients*. A *firm* selling a *packaged product* is required by COB 6.2.2R to take reasonable steps to provide sufficient information to a *client* about the product and any other factors that might reasonably be relevant to the *client's* decision to invest.
- (2) In the case of *packaged products* there is a further special need to ensure that *private customers* are supplied with information which will highlight particular *packaged product* features in a way that helps them to understand the suitability of the product for their needs and circumstances and so make an informed decision to buy it. This also needs to be achieved in a way which will help the *private customer* to compare different *packaged products*. This is achieved through the provision of a *key facts document*.

- (3) The *key facts document* is not, therefore, intended to include all possible information about a product (whether in terms of subject matter in some cases or level of detail in others) that a *firm* should disclose to consumers. Further guidance on this point is given in COB 6.2.3G(2)(General requirement to disclose information about a packaged product).
- (4) These *rules* also address a similar information need in relation to *cash deposit ISAs*.
- (5) This chapter also implements certain aspects of the *Third Life Directive* and the *UCITS Directive* in relation to the information that must be provided or offered to *policyholders* and *clients*. The scope of these requirements is drawn wider than the scope of the *key facts document* regime, to reflect the requirements of the directives.
- (6) The structure of this Chapter is explained in (a) to (j). The arrangement of the material reflects the time at which information is required to be delivered, and is arranged to show first the broadest requirements before moving to more detailed and specific rules (COB 6.2 to COB 6.12). So the first sections concern information that must be delivered at, or immediately following, the point of sale, and set out the *key facts document* regime; this is followed by the requirement to provide information post sale about cancellation. COB 6.14 to COB 6.15 set out information requirements relating to events arising in connection with existing contracts, such as variation, surrender, or vesting.
 - (a) COB 6.2 contains the overarching requirement for disclosure about a *packaged product* at the point of sale. The minimum information to be provided in accordance with the *Third Life* and *UCITS Directives* is also set out in this section.
 - (b) COB 6.3 sets out the responsibility of a *firm* to produce a *key facts document* and the circumstances in which the *key facts document* format may be applied voluntarily.
 - (c) COB 6.4 sets out when and how a *key facts document* must be delivered to a *private customer*.
 - (d) COB 6.5 explains the standards of physical production and plain language that apply to a *key facts document*, including the prescription of the front sheet or screen of the document.

- (e) COB 6.6 to 6.10 set out the specific content requirements that apply in general to *key facts documents*, those which are specific to particular types of product, and those which relate to the content of the *examples* (explaining the effect of charges) that must be contained in or accompany a *key facts document*.
- (f) COB 6.11 contains the detailed rules concerning the calculation and use of *projections* (which may appear in a *key facts document* for a pension or income withdrawals, or may be prepared outside the *key facts document* at the request of a consumer or in other specified circumstances) and other prescribed financial information.
- (g) COB 6.12 concerns the use and production of stakeholder decision trees.
- (h) COB 6.13 contains the rules on cancellation and withdrawal.
- (i) COB 6.14 specifies the circumstances in which the variation of an existing *life policy* triggers the need to provide a *key facts document* or other form of product information.
- (j) COB 6.15 sets out information requirements in relation to existing contracts, such as those arising when an individual seeks information about a surrender value or approaches the vesting date of his personal pension.

6.2 Product information: general

Application

- 6.2.1 G The rule specifying the general application of this section is COB 6.1.2R(1).

General requirement to disclose information about a packaged product

- 6.2.2 R (1) A firm that is selling, *personally recommending or arranging (bringing about)* the sale of a *packaged product* to or for a *private customer* must take reasonable steps to provide or make available to the *private customer* any information that might reasonably be relevant to the *private customer's* decision to invest.
- (2) The information provided or made available under (1) must include information about the product, its terms and conditions and other relevant factors, including information about complaints and compensation arrangements and any right to cancel or withdraw from the product.
- (3) The information provided or made available under (1) must be clear, fair and not misleading, and be sufficient to enable the *private customer* to make an informed decision whether or not to invest.
- (4) The information provided or made available under (1) must be provided or its availability explained to the *private customer* before the completion of an application for the *packaged product*.
- (5) In relation to the *protected rights* of an *appropriate personal pension* or *stakeholder pension scheme*, the information to be provided under (1) must include a projection prepared in accordance with COB 6.11.11(Pension projections).
- (6) If the *packaged product* is to be acquired without a written application, the *firm* must explain to the *private customer* what information is made available under (1) to (5), and provide any of that information which is requested by the *private customer* to the *private customer* after the completion of the transaction.

- 6.2.3 G (1) COB 6.2.2R requires a *firm* to disclose fully to a *private customer* any information relevant to an informed assessment of a product's terms, conditions, benefits and risks. These rules do not attempt to catalogue every factor that might fall to be disclosed under COB 6.2.2R(1), because normally the *firm* should be best placed to identify such factors. But a *firm* should not necessarily restrict its disclosure to aspects of the product itself; other relevant factors may include disclosure of cross-liabilities between products, or material risks faced by the *product provider* or its *associates*.
- (2) The purpose of the *key facts document* is not to deliver all of the information that might be required by COB 6.2.2R. That document should focus on material factors that might affect the suitability of the product for the average, or typical, consumer, and should seek to aid the *private customer's* understanding of the cost of the product. If further information or detail is to be provided in compliance with COB 6.2.2R, it should be included in other relevant documents provided to the *private customer* at the time, and signposted clearly in the *key facts document*.
- (3) *Firms* are reminded of the requirements of *Principle 9*; (Customers: relationships of trust); COB 5.3 (Suitability); and COB 3.9.7R (Direct offer financial promotions), in relation to their responsibilities in respect of ensuring the suitability of advice and discretionary transactions, and the need to make clear that, if a *private customer* is in any doubt about the suitability of a product, he should contact the *firm* or other adviser if the *firm* does not offer *advice*.
- (4) A *firm* should note that COB 6.4.30R contains further requirements in relation to the information to be provided in the course of a telephone call.

Matters required by EU Directives

- 6.2.4 G COB 6.2.5R to COB 6.2.10R set out the minimum information that *firms* need to communicate to *clients* and *policyholders* in order to comply with Annex II of the *Third Life Directive*, in relation to *life policies*, and to *clients* in order to comply with the *UCITS Directive* Schedule C, in relation to *simplified prospectuses* for *UCITS schemes*.
- 6.2.5 R (1) A *firm* which is *selling* or *arranging (bringing about)* the sale of a *life policy* to a *client* must communicate in writing the information prescribed in COB 6.2.7 R ('*Third Life Directive* information') to the *client* or *policyholder*, before the *policy* is concluded, in an official language of the *EEA State of the commitment*.

- (2) This information may be in another language if the *client* or *policyholder* so requests, and the law of the *EEA State* so permits or the *client* or *policyholder* is free to choose the law applicable.
- (3) A *firm* may meet the requirement in (1) by providing a *key facts document* in accordance with COB 6.4.4R (Provision (life policies): general requirements); COB 6.4.6R or COB 6.4.8R (Provision (life policies): pre-completion variations) or COB 6.4.30R (Provision of a *key facts document* in connection with a telephone call).
- (4) The requirement in (1) does not apply to a *firm* if, at the time that the *client* or *policyholder* signs the application, he is *habitually resident*:
 - (a) in an *EEA State* other than the *United Kingdom*; or
 - (b) outside the *EEA* and he is not present in the *United Kingdom*.

6.2.6 G The headings and other wordings in COB 6.2.7R follow those used in the *Third Life Directive*.

6.2.7 R Table Third Life Directive: 'Information for policyholders'
This table belongs to COB 6.2.5R

Third Life Directive: 'Information for policyholders'	
Information about the assurance undertaking	
(1)	The name of the <i>undertaking</i> and its legal form;
(2)	the name of the <i>EEA State</i> in which the head office and, where appropriate, the agency or branch concluding the <i>policy</i> is situated;
(3)	the address of the head office and, where appropriate, of the agency or branch concluding the <i>policy</i> ;
Information about the commitment	
(4)	a definition of each benefit and option;
(5)	the term of the <i>policy</i> ;
(6)	the means of terminating the <i>policy</i> ;
(7)	the means of payment of <i>premiums</i> and duration of payments;
(8)	the means of calculation and distribution of bonuses;

- (9) an indication of surrender and paid-up values and the extent to which they are guaranteed;
- (10) information on the *premiums* for each benefit, both main benefits and supplementary benefits, where appropriate;
- (11) for unit-linked *policies*, a definition of the *units* to which benefits are linked;
- (12) an indication of the nature of the underlying assets for unit-linked *policies*;
- (13) arrangements for application of the right to cancel;
- (14) general information on the tax arrangements applicable to the type of *policy*;
- (15) the arrangements for handling complaints concerning *policies* by policyholders, lives assured or beneficiaries under *policies*, including, where appropriate, the existence of a complaints body, without prejudice to the right to take legal proceedings;
- (16) the law applicable to the *policy* where the parties do not have a free choice, or, where the parties are free to choose the law applicable, the law the *long-term insurer* proposes to choose.

UCITS Directive schedule C: contents of simplified prospectus

- 6.2.8 R (1) *A firm selling units in a UCITS scheme to a client in the UK or any EEA State must, subject to (4), offer the client a document containing an up-to-date summary of the information prescribed in COB 6.2.10 R (a 'simplified prospectus') before it concludes the contract.*
- (2) *This information may be in another language if the client or unit holder so requests, and the law of the EEA State so permits or the client or unit holder is free to choose the law applicable.*
- (3) *This information must be in writing or any durable medium and must be structured and written in such a way that it can be easily understood by the average client or unitholder.*

- (4) The requirement in (1) to offer a simplified prospectus does not apply if the *client* has been or is to be provided with a *key facts document* in accordance with COB 6.4.10R (Provision (Schemes)) or COB 6.4.30R (Provision of a key facts document in connection with a telephone call).
- 6.2.9 G The headings and other wordings in COB 6.2.10 R follow those used in the *UCITS Directive*.
- 6.2.10 R Table UCITS Directive table of contents of simplified prospectus
This table belongs to COB 6.2.8R

Contents of simplified prospectus	
Brief presentation of the UCITS	
(1)	when the <i>collective investment scheme</i> was created and an indication of the <i>EEA State</i> where the <i>collective investment scheme</i> has been registered or incorporated;
(2)	in the case of a <i>UCITS scheme</i> having different investment compartments (sub-funds), the indication of this circumstance;
(3)	the name of the management company (when applicable);
(4)	the expected period of existence (when applicable);
(5)	the name of the depositary;
(6)	the name of the auditors;
(7)	the name and address of the financial group (e.g. a bank) promoting the <i>UCITS scheme</i> ;
Investment information	
(8)	short definition of the <i>UCITS scheme's</i> objectives;
(9)	the <i>collective investment scheme's</i> investment policy and a brief assessment of the fund's risk profile (including, if applicable, information according to items (24) to (27) and by investment compartment or sub-fund);

Contents of simplified prospectus

- (10) the historical performance of the *collective investment scheme* (where applicable) and a warning that this is not an indicator of future performance: such information may be either included in or attached to the simplified prospectus;
- (11) a profile of the typical investor the *collective investment scheme* is designed for;

Economic information

- (12) the tax regime applicable to the *UCITS scheme* in the *United Kingdom*;
- (13) any entry and exit commissions;
- (14) any other possible expenses or fees, distinguishing between those to be paid by the *client* or *unitholder* and those to be paid out of the *collective investment scheme's* assets;

Commercial information

- (15) how to buy the *units*;
- (16) how to sell the *units*;
- (17) in the case of a *UCITS scheme* having different investment compartments, an explanation of how to switch from one investment compartment into another and any charges applicable in such cases;
- (18) when and how dividends on *units* or *shares* of the *UCITS scheme* (if applicable) are distributed;
- (19) when and where prices are published or made available;

Additional information

- (20) a statement that, on request, the full prospectus, the annual and half-yearly reports may be obtained free of charge before the conclusion of the contract and afterwards;
- (21) the *competent authority* which has *authorised* or registered the *UCITS scheme* ;
- (22) a contact point (person or department, timing etc) where additional information may be obtained if needed;

Contents of simplified prospectus

(23) the date of publication of the simplified prospectus;

Further details

- (24) An indication of the categories of asset in which the *UCITS scheme* is authorised to invest;
- (25) Where relevant, the statement required by *CIS 5.2.14R(4)* (Spread: general);
- (26) If the *UCITS scheme* invests a substantial proportion of its assets in other *UCITS scheme* or *collective investment schemes*, a statement of the maximum level of the management fees that may be charged both to the *UCITS scheme* itself and to other *UCITS schemes* or *collective investment schemes* in which it intends to invest;
- (27) where *derivatives* transactions may be used in a *UCITS scheme*, a prominent statement as to whether transactions are for the purposes of hedging or meeting the investment objectives or both, and the possible outcome of the use of *derivatives* on the risk profile of the *scheme*;
- (28) If the *UCITS scheme* invests principally in any category of assets other than *transferable securities* or *money market instruments*, or has an investment policy that takes advantage of *CIS 5.2.32R* (schemes replicating an index), a prominent statement drawing attention to the investment policy;
- (29) If the net asset value of a *UCITS scheme* is likely to have a high volatility due to its portfolio composition or portfolio management techniques, a prominent statement drawing attention to this likelihood.

[Note for CP readers: guidance on the content to be provided in fulfilment of these headings will be consulted upon in a supplement to this CP to be issued at the end of February.]

6.3 Production of the key facts document

Application

- 6.3.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

Requirement to produce a key facts document

- 6.3.2 R (1) *A product provider, stakeholder pension scheme operator, ISA manager or broker fund adviser or firm which is a UK distributor of an overseas packaged product must, for each packaged product or overseas packaged product which it makes available for sale, produce a key facts document which, as to design and content, complies with the requirements of COB 6.5 – COB 6.11.*
- (2) *A key facts document must be produced as a stand-alone document and may not be attached to any other document or information except where it is essential in order to keep together the elements of a package of information that constitutes a direct offer financial promotion, in which case the key facts document must be presented prominently within the package.*
- (3) For the purposes of (1) and (2):
- (a) *a firm which makes available for sale units or shares in more than one scheme may produce a separate key facts document for each scheme, or produce a single key facts document to cover a range of schemes provided the differences between those schemes are made clear;*
 - (b) *where a key facts document covers more than one scheme (for example, in the case of a brochure comprising information on some or all the funds offered by a unit trust manager), a firm may arrange the required information so that there is a Frequently Asked Questions section at the beginning giving details common to all the relevant funds, followed by separate pages setting out, for each fund, those items which are specific to it;*
 - (c) *if the scheme is an umbrella scheme:*
 - (i) *a firm must produce a consolidated key facts document covering all the sub-funds; but providing that if some sub-funds are not available to all clients this must be made clear;*

- (ii) a firm may also produce a separate *key facts document* for a sub-fund if it wishes to market that sub-fund separately; but the status of the sub-fund, and in particular any cross-liabilities, must be made clear.
 - (4) A *firm* that manages, *personally recommends*, makes available for sale or sells a *cash deposit ISA* must, unless (5) applies, produce a *key facts document* containing the information set out in COB 6.9.2R (Cash deposit ISAs).
 - (5) Paragraph (4) does not apply to a *firm* if it is a *bank* or a *building society* which instead subscribes to, and produces a *key facts document* containing the information that is suggested in, the January 2001 edition of the "Guidance for subscribers" to the Banking Code issued by the British Bankers' Association and the Association for Payment Clearing Services.
- 6.3.3 G (1) The purpose of COB 6.3.2R(2) is to ensure that *key facts documents* are easily identified and that *private customers* are not likely to be confused as to what information forms part of the *key facts document*. The exception in this rule is to allow all of the information in a *direct offer financial promotion* that is to be inserted in, for example, a newspaper or magazine, to be bound together as a single booklet. *Firms* are reminded that under COB 6.4.3G(3) (Provision: general) they should arrange the content of a *direct offer financial promotion* to draw attention to the *key facts document*; they are also reminded of the references to prominence in COB 6.5.6G(2) (Quality and presentation).
- (2) The purpose of COB 6.3.2R(3) is to allow some flexibility to *firms* presenting information about a range of *schemes*, while still meeting the requirements of the *UCITS Directive*. But *firms* producing, for example, a *key facts document* for a unit-linked *life policy* should observe the guidance in COB 6.2.3G(2), and consider providing the detailed information about their range of individual funds in a separate document, signposted from the *key facts document*.

Voluntary use of the key facts document approach

- 6.3.3 R A *firm* must not, except in accordance with this chapter, produce a document which is presented as or held out as a *key facts document*.

Key facts documents and financial promotions

6.3.4 G *Firms* are reminded that:

- (1) any *key facts document* or other information required by COB 6, other than, for example, stand alone *projections* or cancellation notices, may be a form of *financial promotion* and therefore the *financial promotion rules* in COB 3 may apply (subject to the application provisions in COB 3.1 to COB 3.3). The same is true for a document relating to a *cash deposit ISA* produced by a *bank* or *building society* under the Banking Code;
- (2) COB 3.7 requires a *firm* to keep records of *non-real time financial promotions* for specified periods of time.

6.4 Provision of the key facts document

Application

6.4.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

Provision: general

- 6.4.2 G (1) This section sets out the circumstances in which a *firm* is required to provide a *key facts document* to a *private customer*.
- (2) The timing of delivery of the document is important. A *firm* should seek to provide a *key facts document* as early as possible in the course of a transaction, so that the *private customer* may have maximum benefit from its use.
- (3) In providing a *key facts document*, a *firm* should seek to draw the *private customer's* attention to the document and encourage the *private customer* to read and understand its content. If the *key facts document* forms part of a *direct offer financial promotion*, a *firm* should arrange the package of information so that it draws attention to the *key facts document*, and provides each part of the *key facts document* (such as any stand-alone *personal example* or past performance information) together. Firms are reminded of the requirement in COB 6.3.2R to produce the *key facts document* as a stand-alone document in most circumstances.
- (4) Where the *private customer* has responded to a *direct offer financial promotion* and the mailing package or *direct offer financial promotion* has included a *key facts document* containing a *generic example*, there is no requirement to provide a further *key facts document* in respect of the transaction, subject to COB 6.4.6R (Provision (life policies): pre-completion variations).
- (5) Further guidance on electronic provision may be found at COB 1.8 (Application to electronic media) and COB 3.14 (The Internet and other electronic media).
- 6.4.3 G (1) COB 6.4.4R to 6.4.9G deal with the provision of *key facts documents* for *life policies*.
- (2) COB 6.4.10R to 6.4.13G deal with the provision of *key facts documents* for *schemes*.
- (3) COB 6.4.14G to 6.4.29R deal with the provision of *key facts documents* in special situations.
- (4) COB 6.4.30R deals with the provision of a *key facts document* in relation to a telephone call.

Provision (life policies): general requirements

- 6.4.4 R (1) When a *firm* is selling or *arranging (bringing about)* the sale of a *life policy* to a *private customer*, the *firm* must provide the *private customer* with an appropriate *key facts document* without delay and before the *private customer* completes an application for the *policy*, subject to COB 6.4.30R (Provision of a key facts document in relation to a telephone call).
- (2) When a *firm* personally recommends a *life policy* to a *private customer*, the *firm* must provide the *private customer* with an appropriate *key facts document* at the same time as the recommendation or at latest before the *private customer* completes an application for the *life policy*, subject to COB 6.4.30R (Provision of a key facts document in relation to a telephone call).
- (3) Paragraph (1) does not apply to a *product provider* when its *life policy* is sold on the *personal recommendation* of, or the sale is *arranged (brought about)* by, another *firm*.
- 6.4.5 R (1) There is no requirement to provide a *key facts document* in respect of a *life policy* in accordance with COB 6.4.4R (Provision (life policies): general requirements), 6.4.6R or 6.4.8R (Provision (life policies): pre-completion variations) if, at the time that the *client* signs the application he is *habitually resident*:
- (a) in an *EEA State* other than the *United Kingdom*; or
- (b) outside the *EEA* and he is not present in the *United Kingdom*.
- (2) Paragraph (1)(a) does not apply to a *firm* acting as an *outgoing ECA provider*.

Provision (life policies): pre-completion variations

- 6.4.6 R Where a *firm* has already provided a *key facts document* in accordance with COB 6.4.7R (Provision (life policies): general requirements) and the terms for the proposed *life policy* are subsequently materially altered before the *private customer* completes an application form, the *firm* must, unless COB 6.4.5(1) applies, ensure that the *private customer* is provided with a revised *key facts document*, unless the alteration is one or more of the following:
- (1) the amount of the *premium* is changed; or
- (2) a rider benefit is added, removed or amended.

- 6.4.7 G (1) COB 6.4.6R is intended to allow simple changes to be made before a *private customer* commits himself without a *key facts document* being provided again. Changes in the amount of *premium* alone, of whatever size, will not require a revised *key facts document* if the underlying purpose of the proposed contract is unchanged. So, for example, an increase in the proposed regular *premium* for a *personal pension policy* will not require a revised *key facts document*; nor will a change in *premium* and sum assured under a mortgage policy if the loan has to be increased before the house sale is finalised.
- (2) However, changes to the type of *packaged product* or the underlying purpose would require a revised *key facts document* (examples being a change from regular to single *premiums* under a *personal pension policy* or a change from maximum life cover to balanced or standard protection under a flexible whole-life policy, with or without a change in *premium*).
- 6.4.8 R Where a *firm* has already provided a *key facts document* to a *private customer*, and the terms of the proposed *life policy* are materially altered after the *private customer* completes an application form, the *firm* must ensure, unless COB 6.4.5R(1) (Provision (life policies): general requirements) applies, that the *private customer* is provided with written details of the change as soon as practicable and offered a revised *key facts document*.
- 6.4.9 G What constitutes 'materially altered' requires consideration of the facts in the circumstances of each case. Changes which lead to an increase in the proposed *premium* of 25 per cent or less can be regarded as not material and can be ignored, so long as the underlying *policy* terms and conditions are the same. Other changes to the terms of the proposed contract, such as a different *charges* structure or an extension of the *policy* term should be regarded as material.

Provision (schemes)

- 6.4.10 R (1) When a *firm* is selling or *arranging (bringing about)* the sale of *units* or *shares* in a *scheme* to a *private customer*, the *firm* must provide the *private customer* with a *key facts document* for the *scheme* without delay and before the *private customer* completes the application form, unless COB 6.4.12R (Exceptions to the requirement to provide a key facts document (schemes)) or COB 6.4.30R (Provision of a key features document in relation to a telephone call) apply.

- (2) When a *firm* is *personally recommending* the purchase of *units* or *shares* in a *scheme* to a *private customer*, the *firm* must provide the *private customer* with an appropriate *key facts document* for the *scheme* at the same time as the recommendation or as soon as possible after, and before the *private customer* completes the application form, unless COB 6.4.12R (Exceptions to the requirement to provide a key facts document (schemes)) or COB 6.4.30R (Provision of a key features document in relation to a telephone call) apply.
 - (3) Paragraphs (1) and (2) do not apply:
 - (a) to a *product provider* when the *units* or *shares* in the *scheme* are sold on the *personal recommendation* of, or *arranged (brought about)* by, another *firm*; or
 - (b) to a *UK firm* and the obligation arises from *business* carried on in another *EEA State* under an *EEA* right.
- 6.4.11 G COB 6.4.10R applies not just to new *purchases* but also to any *personal recommendation* or application to transfer the value of a particular *scheme holding* within a *scheme* to a different fund within the same *scheme*.

Exceptions to the requirement to provide a key facts document (schemes)

- 6.4.12 R COB 6.4.10R(1) and (2) (Provision(Schemes)) do not apply if
- (1) at the time he signs the application, the *private customer* is *habitually resident* outside the *EEA* and is not present in the *United Kingdom*; or
 - (2) in the case of an *investment trust savings scheme* if, at the time the *private customer* signs the application he is *habitually resident* in an *EEA state* other than the *United Kingdom*, and the obligation does not arise in the course of an *electronic commerce activity*; or
 - (3) the *private customer* is transferring from *accumulation units* or *shares* to *income units* or *shares* of the same *scheme* (or vice versa) and has already been supplied with an appropriate *key facts document* or *key features* for that *scheme*; or
 - (4) the *units* or *shares* are purchased on an execution-only basis; or
 - (5) the *units* or *shares* are purchased on behalf of a *private customer* by an *investment manager* exercising discretion; or

- (6) the *units* or *shares* are purchased on behalf of a *private customer* by an *investment manager* who is not exercising discretion and the *private customer* has agreed that, either in relation to the specific purchase or all purchases to be made under the terms of business in force between the *investment manager* and the *private customer*, a *key facts document* need not be provided; or
- (7) a *private customer* is making a purchase of *units* or *shares* in a *scheme* in which he already has a *scheme holding*:
 - (a) where the terms and conditions, including all charges, are the same as applied at the time of the previous *purchase* of *units* or *shares* in the same *scheme*; and
 - (b) a *key facts document* or *key features* outlining those terms and conditions were offered or provided to the *client* in respect of that previous *purchase*.

6.4.13 G COB 6.4.12R lists the exceptions to the requirement to provide a *key facts document* to a *private customer* in relation to the purchase of a *scheme holding*. But firms should note that the overarching requirement in COB 6.2.8R(1) (UCITS Directive Schedule C: contents of simplified prospectus) to offer a *simplified prospectus* to a *client* may still apply. This requirement can be met by offering a *key facts document* in circumstances where it is not required to be provided.

Provision: special situations

6.4.14 G COB 6.4.19G to 6.4.30R deal with the provision of *key facts documents* and other information documents in respect of *occupational pension schemes*, self invested personal pensions, *income withdrawals*, *cash deposit component ISAs*, *traded life policies* and *stakeholder pension schemes*.

Occupational pension schemes

6.4.15 G *Firms* are reminded that:

- (1) there is no requirement in this section to provide *key facts documents* for *packaged products* sold to the trustees of *defined benefit pension schemes*; and
- (2) *group personal pension schemes* are not *occupational pension schemes* and COB 6.4.16R does not apply to them. *Firms* should therefore provide each *private customer* who is offered membership of a *group personal pension scheme* with a *key facts document* in accordance with this section. This does not preclude a *key facts document* being sent out as part of a *financial promotion*.

- 6.4.16 R (1) When a *firm* sells, *personally recommends* or *arranges* (*brings about*) the sale of a new group or master *life policy*, the first in a series of individual *life policies*, or the first *units* in a particular *scheme*, to or for the trustees of a *money purchase occupational pension scheme* it must provide the trustees with a *key facts document*, in accordance with COB 6.4.4R to COB 6.4.15R (Provision (life policies) and Provision(schemes)).
- (2) For the purposes of (1)
- (a) the *firm* must treat trustees as *private customers*;
- (b) the *example* within the *key facts document* provided under (1) can be a *generic example*, using a range of representative actual or hypothetical scheme members (covering, for example, different ages, sexes and salaries), so that the trustee can assess the effectiveness of the investment for their pension scheme members.
- (3) In addition to the information to be provided to trustees under (1), the *firm* must ensure that a *key facts document* or sufficient information about the *occupational pension scheme* that would allow comparison with alternative personal investments is made available to the trustees to distribute to all scheme members at the outset of the scheme and for subsequent new members.
- (4) The requirement in (3) applies to main scheme benefits and to *additional voluntary contributions* where members' benefits are linked to earmarked segments of *life policies* or *schemes*. It does not apply where trustees make pooled *investments* and make their own arrangements for allocation of *investment* returns to determine members' benefits, whether attached to *defined benefit pension schemes* or *money purchase occupational schemes*.
- 6.4.17 G (1) The definition of *money-purchase occupational scheme* includes executive pension plans (established for *directors*, executives and senior employees), *small self-administered schemes* that provide *money-purchase benefits* and *additional voluntary contribution schemes*.
- (2) The objective of COB 6.4.16(3)R is to ensure that prospective scheme members have access to information about the *occupational pension scheme* that could enable comparison with alternative personal *investments*. This requirement may be met by supplying individual *key features documents* or a schedule of information that the trustees or their advisers can assimilate into other pension scheme communications.

Self-invested personal pension schemes

- 6.4.18 R (1) A *firm* which sells, *personally recommends* or *arranges* (*brings about*) the sale of a *packaged product* to or for a member, prospective member or trustees of a self-invested *personal pension scheme*, must provide a *key facts document* to that member or to the trustees, in accordance with COB 6.4.
- (2) For the purposes of (1), members, prospective members and trustees must be treated by the *firm* as *private customers*.
- (3) Paragraph (1) does not apply to a *product provider* where its *packaged product* is sold on the *personal recommendation* of, or *arranged (brought about)* by another *firm*.
- 6.4.19 G *Investments* within a self-invested *personal pension scheme* (a “SIPP”) are effected by the trustees on behalf of scheme members. A *key facts document* should be given to the trustees and to members of SIPPs when transactions in *packaged products* (whether *life policies* or *schemes*) are recommended by a *firm* to scheme members or effected by SIPP trustees. Where appropriate, cancellation notices should also be copied to SIPP members in these circumstances, in accordance with COB 6.13 (Cancellation and withdrawal).

Income withdrawals

- 6.4.20 R (1) When a *firm* sells, *personally recommends*, *arranges* or effects an election to make *income withdrawals* to or for a *private customer*, *policyholder* or *scheme member*, the *firm* must provide a *key facts document* to that *person* without delay and before he signs any form of application or authority electing to make those withdrawals, whether that election is made with *advice* or on an execution-only basis unless COB 6.4.22R to COB 6.4.24R apply.
- (2) Paragraph (1) does not apply to a *product provider* when the election to make *income withdrawal* is made on the *personal recommendation* of, or *arranged* by another *firm*.
- 6.4.21 R In relation to an election to make *income withdrawals*, the requirement for the provision of a *key facts document* in:
- (1) COB 6.4.4R also applies where an existing *life policy* is to be endorsed; and
- (2) COB 6.4.10R also applies where an existing *scheme holding* is to be used.
- 6.4.22 R In relation to an election to make *income withdrawals*, the requirements of COB 6.4.23R and 6.4.24R override any other relevant requirements in this section where there is conflict.

- 6.4.23 R When a *policyholder* or *scheme* member makes a series of elections within a period of 12 months to make *income withdrawals*, the *firm* that is *personally recommending*, arranging or effecting the elections may provide one combined *key facts document* for those elections, or may provide separate *key facts documents* for elections which relate to *life policies* and *schemes*.
- 6.4.24 R At intervals no longer than 12 months from the date of an election by a *policyholder* or *scheme* member to make *income withdrawals*, the relevant *product provider* must:
- (1) provide the *policyholder* or *scheme* member with such information required by COB 6.11.13R (A projection for income withdrawal from a personal pension or stakeholder pension scheme) as will enable the *private customer* to review the election; and
 - (2) inform the *policyholder* or *scheme* member how to obtain *advice* in respect of his *income withdrawals* and that it would be in his best interests to do so.

Stakeholder pension schemes

- 6.4.25 R When a *firm* sells, manages, *personally recommends* or *arranges (brings about)* the sale of a *stakeholder pension scheme* to or for a *private customer*, the *firm* must, subject to COB 6.4.26R, provide the *private customer* with a *key facts document* without delay and before the *private customer* completes an application for the *stakeholder pension scheme*.
- 6.4.26 R COB 6.4.25R does not apply to a *stakeholder pension scheme* operator when its *stakeholder pension scheme* is sold on the *personal recommendation* of, or the sale is *arranged brought about*) by, another *firm*.
- 6.4.27 G COB 6.12 deals with the provision of information through decision trees.

Cash deposit ISAs

- 6.4.28 R (1) A *firm* that manages, *personally recommends* or sells a *cash deposit ISA* must ensure, in relation to that *cash deposit ISA*, that the *private customer* is provided with a *key facts document* containing the information in COB 6.9.3R (Cash deposit ISAs) before the transaction is entered into.
- (2) Paragraph (1) does not apply to a *firm* if it is a *bank* or *building society* which instead subscribes to, produces and provides a document containing the information that is suggested in, the January 2001 edition of the "Guidance for subscribers" to the Banking Code issued by the British Bankers' Association and the Association for Payment Clearing Services.

- (3) Paragraph (1) does not apply to a *product provider* or to a manager of a *cash deposit ISA* when its *cash deposit ISA* is sold on the *personal recommendation* of, or the sale is *arranged (brought about)* by, another *firm*.

Traded life policies

- 6.4.29 R When a *firm personally recommends* that a *private customer* should purchase a *traded life policy*, it need not provide a *key facts document*, if it instead provides the information in COB 6.2.5R (Third Life Directive information) in writing to the *private customer* before he is asked to complete any form of application or authority giving effect to the purchase of the *traded life policy*.

Provision of a key facts document in relation to a telephone call

- 6.4.30 R (1) Where during the course of a telephone call a *firm personally recommends, arranges (brings about)* or sells a *packaged product* or *cash deposit ISA* to a *private customer* without a written application, the *firm* must seek the *private customer's* explicit consent to proceed on the basis of oral information only.
- (2) If such consent is given, the *firm* must ensure that it:
- (a) provides to the *private customer* an adequate oral explanation of the main characteristics of the product;
 - (b) informs the *private customer* that other information is available on request, and what the nature of that information is; and
 - (c) sends without delay a *key facts document* and any other information required to be provided by COB 6.2.2R (General requirement to disclose information about a packaged product);
- (3) If the product is a *tax exempt policy* issued by a *friendly society*, the *firm* may send an abbreviated *key facts document* in accordance with COB 6.9.5R (Friendly Society tax-exempt policies).
- (4) For the purposes of (2)(a), an adequate oral explanation must include:
- (a) the identity of the person in contact with the customer and his or her link with the *firm*;
 - (b) a description of the main characteristics of the *packaged product* or *cash deposit ISA* including:
 - (i) its name, including where relevant the policy type, brand name and issuing company;

- (ii) its aims, including where relevant its purpose or objectives, and benefits;
 - (iii) the main risk factors;
 - (iv) where relevant, the amount or level of any charges payable by the *private customer* and their effect on the *investment*; and
 - (v) a warning, where relevant, that other taxes or costs may exist that are not paid by the firm or imposed by it;
- (c) an explanation of the commitment including, where relevant, the amount to be invested or the amount and frequency of premiums or contributions to be made, including an explanation of any pre-determined increases and any taxes paid by the *firm*, in such terms as will either indicate to the *private customer* the total amount to be paid to the *firm* or, when an exact amount cannot be given, will provide a basis for the calculation of the price, enabling the *private customer* to verify it;
 - (d) a summary of the reasons for any recommendations and a statement, where relevant, that commission or remuneration will be paid to the *adviser* or *representative*;
 - (e) the existence or absence of any cancellation rights, their duration and the conditions for exercising them, including a warning about the risk of shortfall; and
 - (f) if it is the case, any specific additional cost to the consumer of making the transaction by telephone.

6.4.31 G *Firms* are reminded of the requirements in COB 3.10 (Unsolicited real time financial promotions) and COB 3.8.21 to 25 (Real time financial promotions) in relation to telephone calls that may fall within the definition of a *financial promotion*.

6.5 Quality and presentation for key facts documents

Application

- 6.5.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

Introduction

- 6.5.2 G *Principle 7* requires a *firm* to pay due regard to the information needs of its *clients*. *Key facts documents* are intended to be consumer-friendly documents and *firms* should apply high standards of quality and presentation to the documents, both in hard-copy and electronic format and prepare the information required in plain language.

Medium for provision of the key facts document

- 6.5.3 R (1) If a *firm* is required by COB 6.4 to provide a *key facts document*, it must do so on paper or in any other *durable medium*.
- (2) A *firm* that provides a *key facts document* in any *durable medium* other than on paper must provide a *private customer* with a *key facts document* on paper on request.
- (3) Paragraph (2) does not apply to a *firm* if the obligation to provide a *key facts document* arises in the course of an *electronic commerce activity*.

The front sheet or screen of the key facts document

- 6.5.4 R (1) A *firm* must ensure that the front sheet or screen of the *key facts document* conforms to the design and format of the appropriate template set out in COB 6 Ann 1R (Templates for key facts document front sheets and screen).
- (2) When using the appropriate template to prepare the front sheet or screen, a *firm* may use the editable space permitted for the *product provider's* brand to include the distributor's brand in accordance with (3).
- (3) A *firm* must:
- (a) not increase the space permitted for the *product provider's* brand to allow for the co-branding;
 - (b) ensure that the *product provider's* brand is at least as prominent as the co-branding *firm's* brand; and
 - (c) ensure that it is clear who is the *product provider*.

Quality and Presentation

- 6.5.5 R (1) Provided it does not deviate from the contents structure, format or text prescribed in COB 6.5 to COB 6.11, a *firm* may design the *key facts document*, other than the front sheet or screen, according to its corporate style to reflect the usual design of its promotional material.
- (2) A *key facts document* must be produced and presented to at least the same quality and standard as other associated sales or marketing material being used by the *firm* to promote the product.
- (3) If any part of the *key facts document* is permitted in COB 6.6 to COB 6.10 to be produced as a separate document from the main text (for example, a personal *example* or information about past performance), it must show prominently the *key facts logo* at the top right-hand corner of the stand-alone document.
- (4) Where the *example* is produced as a separate document, a *firm* must take reasonable steps to ensure that:
- (a) it is presented in such a way as to draw the reader's attention to it;
 - (b) it is clear from its design and layout that the text should be associated with the *key facts document*; and
 - (c) the title '*example*' must follow the *key facts logo* at the top right-hand corner of the document.
- 6.5.6 G (1) A *firm* should make every effort to produce *key facts documents* and stand-alone *examples* to a high standard of quality and presentation, so that consumers are not deterred by their appearance from reading them.
- (2) Where a *key facts document* is permitted in COB 6.3 to be included in another document, the need for due prominence is unlikely to be satisfied if it is hidden away at the end, or produced in such small type that its impact on the reader is likely to be materially less than other parts of the document or series of screens.
- (3) A *key facts document* should be laid out clearly so that consumers can easily understand the information presented.
- (5) A *firm* may use colour to enhance visual appeal, but should use emphasis sparingly. A *firm* should use bullet points where possible and consider the use of icons or symbols to highlight important information (for example, ways in which the *firm* can be contacted).

- (6) The use of the key facts logo in stand-alone documents is intended to reinforce the idea that the various documents form parts of a whole.

Quality and Presentation: written versions

- 6.5.7 R (1) Where an element of the *key facts document* such as the *example* or past performance information is produced as a stand-alone document, a firm may use different paper and black-and-white print; but the *firm* must otherwise conform as far as is reasonably practicable to the standard of presentation required by COB 6.5.5R(2) (Quality and presentation).
- (2) A *firm* must ensure that a *key facts document* printed from a screen is A4 format and that all the *key facts document* text on the screen appears on the printout.
- 6.5.8 G A *firm* should:
- (1) have particular regard to the quality of paper and the type size and consider the use of colour printing;
 - (2) use a typeface and font size that are easy to read (a type size between 9 and 12 points is usually appropriate for the main body text);
 - (3) use appropriate spacing (for example: 10 point type should usually have line spacing of between 12 and 15 points);
 - (4) ensure that the print stands out against the background so that it can be read easily;
 - (5) make use of colour and white space to enhance clarity and visual appeal;
 - (6) use columns of information, provided this does not detract from clarity; and
 - (7) use A4 size paper, but other sizes and formats may be used, provided the document is clear and legible.

Quality and presentation: electronic media

- 6.5.9 R A *firm* must take reasonable steps to ensure that:
- (1) a *key facts document* presented on an Internet website or in another electronic medium is in a format consistent with other parts of the site covering *packaged products* and *cash deposit ISAs*;
 - (2) the front screen is designed so as to appear in full on a normal single screen and each section of content is laid out so as to avoid the need for the reader to scroll across the screen;
 - (3) downloaded versions of the *key facts documents* pages are of a similar standard to other pages in that website

and should take no longer to download than other pages on the main website unless the *key facts document* includes a *personal example*; and

- (4) no banners, or other information or hyperlinks unrelated to the content of the *key facts document* appear on the *key facts document* screens.

- 6.5.10 G (1) Where an electronic format is used, the *firm* should have regard to the design and appearance of the *key facts document* screens, as compared to other screens being used to promote the product. This means that if the main site uses XML format, the *key facts document* should not be presented in .pdf format.
- (2) *Firms* should avoid laying out text on a screen in a column format if that would require the consumer to scroll in different directions vertically to read all of the text in sequence.
 - (3) *Firms* are reminded of the guidance in COB 3.14 (The internet and other electronic media).

Plain Language

- 6.5.11 R A *firm* must take reasonable steps to ensure that all text is in clear, easily understood language, following the principles of plain language.
- 6.5.12 G A *firm* should draft a *key facts document* as an informative rather than a technical document. Follow the principle of 'less is more'. This is not a document intended to communicate the full terms and conditions of a product to the *customer*. The content should properly describe the contract but the document should not overload the *customer* with too much detail. This is particularly important when drafting the content of the Quick Guide (see COB 6.6). A *firm* should:
- (1) use explanatory boxes within the Frequently Asked Questions section (see COB 6.6) to clarify difficult, unfamiliar or technical expressions or concepts (for example 'What is an ICVC?' or 'Income units and growth units');
 - (2) avoid jargon, 'legalese' and bureaucratic language (for example, 'herewith', 'aforementioned', 'terminate', 'per annum');
 - (3) avoid abbreviations unless the *firm* has reason to believe that they are widely known (for example, FSAVC). If an abbreviation is used, the term should be written in full the first time it is used, together with any further explanation that may be necessary;
 - (4) keep sentences as short as is reasonable, and avoid superfluous words (for example, 'in terms of');

- (5) use active, rather than passive, verbs, and address the reader directly, using personal pronouns rather than the third person (for example, 'you can find details' rather than 'details can be found'; 'we will give you', rather than 'the customer will receive from the company');
- (6) use terms that are clear, fair, not misleading and consistent, both within the document and across other relevant literature; and
- (7) apply any short-form name for the product (eg 'plan' or 'scheme' or 'policy') consistently throughout a *key facts document* and the *example*.

6.6 **Contents of the key facts documents: general**

Application

6.6.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

General

- 6.6.2 G The rules setting out the required content of the *key facts document* are set out in the following sections:
- (1) COB 6.6: general requirements for all *key facts documents*;
 - (2) COB 6.7: *key facts document* content for *life policies, personal pensions and stakeholder pension schemes*;
 - (3) COB 6.8: *key facts document* content for *schemes*;
 - (4) COB 6.9: *key facts document* content for *ISA wrappers; cash deposit ISAs; individual pension accounts; friendly society tax-exempt policies; ISAs (excluding cash deposit ISAs); and PEPs*;
 - (5) COB 6.10: generic and personal examples.
- 6.6.3 R (1) A *firm* must ensure that:
- (a) the *key facts document* it produces or provides contains the following elements:
 - (i) a front sheet or screen;
 - (ii) a Quick Guide;
 - (iii) a Frequently Asked Questions section;
 - (iv) an *example*; and
 - (v) an Other Information section;
 - (b) the elements in (a) contain any required headings and information prescribed in this section and COB 6.7 to 6.11.
- (2) A *firm* producing a *key facts document* for a *scheme* may omit item (1)(a)(ii) (Quick Guide).
- (3) A *firm* producing a *key facts document* for a *stakeholder pension* may omit item (1)(a)(iv)(an *example*), subject to COB 6.6.16R(2) (The example).
- (4) Subject to COB 6.3.2R(3)(b) (which relates to *key facts documents* for more than one *scheme*), the sequence of the elements of the *key facts document* must follow the sequence in (1)(a)(i) to (v), omitting the *example* if it is produced as a stand-alone document as permitted by COB 6.6.15R(1)(b).
- 6.6.4 R A *firm* may vary the prescribed structure and content requirements in COB 6.6 to COB 6.11 only where it can

demonstrate:

- (1) that it is essential to reflect the terms and nature of a particular *investment* or to maintain the clarity and consistency of the *key facts document*; and
- (2) when applicable, that the adapted text complies with the minimum information requirements of the *Third Life Directive* or *UCITS Directive*, set out in *COB 6.2.7R* and *6.2.10R*.

6.6.5 G Where the *rules* in *COB 6* do not require the use of prescribed text, a *firm* may give the relevant information using its own words and style, subject to *COB 6.5*.

Quick guide section

6.6.6 R A *firm* that is required to produce a Quick Guide must ensure that:

- (1) the Quick Guide appears immediately after the front sheet or screen of the *key facts document*;
- (2) it designs the Quick Guide to draw the consumer's attention to it in a way that does not detract from the importance of any part of the content; and
- (3) the whole Quick Guide section may be seen in its entirety by the consumer without the need to turn a page to view any part.

6.6.7 R (1) The quick guide section must begin with the following heading and sub-heading:

QUICK GUIDE

Use this quick guide to help you decide if the [full product name] is right for you.

- (2) The heading of the Quick Guide must be more prominent than any part of the sub-heading.
- (3) A *firm* may present the heading and sub-heading in a box or otherwise highlighted, may emphasise the name of the product relative to the other text in the sub-title, and may present the name of the product on a separate line.

6.6.8 R A *firm* must ensure that:

- (1) the sequence of questions set out in the left hand column of *COB 6.6.10R* is adhered to in the *key facts document*;
- (2) each question is numbered; a question may be omitted if its inclusion would cause the Quick Guide to be unclear or misleading; and if a *firm* does omit a question, the other questions should be re-numbered accordingly;
- (3) it has regard to the 'key' provided in *COB 6.6.10R* when preparing the text of the questions; and any instructions set out in the right hand column of *COB 6.6.9R* relating to

matters in the left hand column are complied with; and

- (4) it sets out in relation to each question brief bullet points explaining any material factors about the specific product or product type that a typical *private customer* might reasonably be expected to consider in relation to that question; in preparing this information, the *firm*, should have regard to the matters indicated in the right-hand column of the table at COB 6.6.10R.

6.6.9 R A *firm* must ensure that the numbered question part of the Quick Guide is set out in two columns. The left hand column must contain the numbered questions followed by the matters to be covered under each question, as indicated in COB 6.6.10R. The right hand column must consist of a series of boxes, one for each question, headed "Where to find out more". The boxes must indicate where the relevant information may be found, whether in the *key facts document* or other document produced by the *firm*.

6.6.10 R Table: matters to be explained under each Quick Guide question.

This table belongs to COB 6.6.8R

Question	Matters to be covered under the question
<p>1. Is a [generic product type][†] the right choice for me?</p>	<ul style="list-style-type: none"> • The purpose of the product (for example, medium-long term savings, protection; income; tax efficiency); • any other product types that would normally be considered substitutable or alternative options for such a product, including the existence of CAT or stakeholder standard products; • any particular constraints on the flexibility of the product or on the consumer's access to the funds; • existence of eligibility issues and/or any constraints on investment (for example, pension contribution limits).
<p>2. Will the [product name]* give me what I want?</p>	<ul style="list-style-type: none"> • What the product is intended to deliver (accumulation of a lump sum; growth on a lump sum; income; access to pension fund; access to stockmarket growth with/without smoothing); • when the benefits will become payable (for example, on death; maturity; cashing-in; retirement etc); • the extent to which the outcome or any specific benefit is guaranteed, and which outcomes are not guaranteed and cannot be predicted with any certainty; • the level of any life cover or other (not

Question	Matters to be covered under the question
	optional) benefit; <ul style="list-style-type: none"> • any particular features offering flexibility (for example, a right to take a payment holiday).
3. Do I understand the commitment I'll be making?	<ul style="list-style-type: none"> • the importance of making regular payments and any frequency, and a brief mention of the effect of any failure to make payments in terms of any target, erosion of capital through continuing charges, or maintenance of live cover; • any need to limit withdrawals; • any potential increase in the commitment, including liability to pay increased charges; • any need to review regularly the performance of the product (for example, targeted investment; income withdrawal); • inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers.
4. Am I comfortable with the risks?	<ul style="list-style-type: none"> • Any risk that would have a material effect (on the basis of an assessment of its potential impact and probability) on a typical consumer's decision about the suitability of a product.
5. What choices will I have to make?	<ul style="list-style-type: none"> • Initial decisions such as: how much to pay in/how much life cover to buy/what fund(s) to invest in/whether to buy any additional benefits etc; • a reference to any future choices (if relevant to the initial decision making process).
Key: <ul style="list-style-type: none"> * Full product name; insert the name of the specific product to which the <i>key facts document</i> relates. † Generic product type: insert the full generic product type: eg; 'pension plan'; 'whole of life insurance policy'; 'low-cost endowment policy'; 'single premium investment bond'; 'mini/maxi ISA'. ** Short product name: insert an appropriate short-form version of the product name to describe the product to which the <i>key facts document</i> relates – for example, 'Pension Plan'; 'Plan'; 'Endowment Policy'; 'Bond'; 'Scheme'. 	

6.6.11 R A *firm* must complete the Quick Guide by including a further highlighted question as specified in COB 6.6.12 R. This question does not require a 'Where can I find out more?' box and should not be numbered.

6.6.12 R Table: Content of the final question for the Quick Guide. This table belongs to COB 6.6.11 R

How can I compare the cost of this [short product name] with others?*

You should receive a 'key facts example' with this key facts document. It tells you how our charges would reduce the growth of your plan. As all companies must give a similar example, you can use it to compare plans.

If you want to shop around, ask other companies to give you an example for their [short product name[†]]. You can use the information in the example to compare charges across companies and products. [Or you can find out more from the FSA's comparative tables at www.fsa.gov.uk/tables.]** (Firms should delete the sentence in square brackets where the product in question is not yet covered by FSA Comparative Tables)
But make sure you compare like with like.

Remember – charges aren't the only thing to consider. Make sure you choose a product that is suitable for your needs.

Frequently Asked Questions section

- 6.6.13 R (1) A *firm* must set out in the 'Frequently Asked Questions' section a description of the principal terms and any other information necessary to enable the *client* to make an informed decision.
- (2) The description in (1) must explain any factors which may have an adverse effect on performance or are otherwise material to the decision to invest in the *investment*, including further explanation of any matters touched upon in the Quick Guide.
- (3) Where information in (1) or (2) relates specifically to a subset of, rather than the full range of, funds from which a *private customer* may make a selection, a *firm* may, in the interests of brevity in the *key facts document*, indicate the existence of the information and its location in any other document provided in accordance with COB 6.2.2R (General requirement to disclose information about a packaged product).
- (4) The content of the frequently asked questions in (1) must be set out in the form of appropriate questions and their answers in full; the questions should be numbered sequentially.

Matters to be included in a key facts document

- 6.6.14 G (1) In complying with COB 6.6.10R (Quick Guide) and COB 6.6.13R (Frequently Asked Questions section), a *firm* should, when relevant, include in its *key facts documents* information on the following, or a signpost to where the information may be found if COB 6.6.13R(3) applies,:
- (a) whether the value of the capital and any income from it might fluctuate;

- (b) particular risks, if any, associated with the underlying assets in which the *packaged product* is invested;
- (c) risks associated with the markets in which investments will be made, with particular reference to emerging markets; such risks might include dealing difficulties, settlement and *custody* practices;
- (d) where buying income or dividend stripping forms part of the investment strategy;
- (e) volatility, in particular with regard to *higher volatility funds* such as *geared futures and options schemes* and *warrant schemes* and the fact that the loss on realisation of the investment could be very high, even equalling the amount originally invested;
- (f) risks attached to the investment, including investment risk and extent of business risk (where material), with sources of potential profits or losses identified;
- (g) the inclusion of a 'market value reduction' in respect of with-profits funds, and the risk that, in adverse circumstances, benefits could be reduced;
- (h) the fact that there is no guarantee that a *life policy*, such as an *endowment assurance* used to repay an interest-only mortgage, will produce sufficient funds at the end of the mortgage term, and that the amount the investor will have to continue to pay may need to increase to achieve repayment of the loan;
- (i) in the case of a guaranteed *packaged product*, where it is a possibility, the fact that there may be a capital shortfall at the end of the contract; where there is a fixed regular payment of income, it should be drawn to the attention of the *client* that such payments often involve a risk to capital;
- (j) cancellation issues, including the fact that, if the value of the investment falls before notice of cancellation is given, a full refund of the original investment may not be provided but rather the original amount less the fall in value;
- (k) special risks such as capital erosion or constraints on capital growth in the case of funds where charges are deducted from capital;
- (l) potential problems with investment in property in respect of liquidity, and the fact that repurchase or surrender might be delayed during a period when the property is not readily saleable, and that property valuation is a matter of judgment by a valuer;

- (m) in the case of a *broker fund*, whether the *client* has the right, or may be required, to transfer out of that fund to any other fund or *scheme* of a *firm*; if so, the name of the fund or *scheme*, the transfer terms and the circumstances in which, and by whom, such a transfer may be required or made;
 - (n) the risk that a current favourable situation may not be maintained in future, for example the tax treatment of *ISAs*;
 - (o) the fact that if the *client* does not maintain contributions he may not meet any target benefit which has been projected and may lose the benefits of any life protection;
 - (p) in the case of a new fund, the risk that, if its assumed size is not achieved, the proportion of charges and expenses allocated to the investment may be higher and the value of the investment consequently reduced;
 - (q) the fact that with personal pensions there may be penalties if the *client* takes the benefits before the stated retirement date;
 - (r) for a *security* or an *investment trust savings scheme* which satisfies the conditions specified in *COB* 3.8.9G(6), the fact that the *investment* may be subject to sudden and large falls in value and the *private customer* may get back nothing at all;
 - (s) that *commission* may be payable to an *adviser*.
- (2) A *firm* should, where appropriate, include in the Frequently Asked Questions section boxed or otherwise highlighted sections of text at appropriate points to explain any technical, complex or otherwise difficult concepts to the consumer.

The example

- 6.6.15 R (1) Where an *example* is required under *COB* 6.6.3R(1), a *firm* must prepare it in accordance with *COB* 6.10 (Contents of the key facts document: the example); and:
- (a) include it in the Frequently Asked Questions section of the *key facts document*, preceded by an appropriate question; or
 - (b) produce it as a separate document, presented in accordance with *COB* 6.5.5R(3) (Quality and presentation) and cross-referred to from an appropriate question in the *key facts document*.

- (2) The *example* must be either a *personal example* or a *generic example*, and in each case the content of the *example* must conform to the relevant requirements of COB 6.10 (The example).

6.6.16 R A *firm* must provide a *personal example*:

- (1) in the case of a *life policy*, unless:
- (a) the *life policy* is a single premium *life policy* and the *private customer* has not explicitly indicated a desire to acquire:
 - (i) a specified sum of money on a specified date; or
 - (ii) a specified sum of money on death; or
 - (iii) an annuity of a specified amount payable as from a specified date; or
 - (b) the total premiums payable under the contract do not exceed £120 a year, or £130 a year if the premiums are paid every four weeks); or
 - (c) the *key facts document* is provided as part of a *direct offer financial promotion*;
- (2) in the case of a *stakeholder pension scheme*, on the request of a *private customer*,
- (3) in the case of a *scheme*:
- (a) if the *scheme* relates to an election to make *income withdrawals*; or
 - (b) if the *private customer's* primary objective in investing in the *scheme* is to acquire any of (1)(a)(i) to (iii).

Other information section

- 6.6.17 G (1) A *firm* should consider covering in this section topics not directly relevant to product features, such as 'How to complain', 'Compensation' or 'How to contact us'.
- (2) A *firm* is not required to include information about cancellation, complaints procedures or compensation arrangements in a *key facts document* for a *UCITS scheme*; but a *firm* may do so to meet the requirements of COB 6.2.2R (General requirement to disclose information about a packaged product).

6.7 **Contents of the key facts document: life policies and personal pensions including stakeholder pension schemes**

Application

6.7.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

General

6.7.2 R A *firm* that produces a *key facts document* for a *life policy*, *stakeholder pension scheme*, *personal pension scheme*, *long-term care investment contract* or *FSAVC* must ensure that it includes:

- (1) the information prescribed in COB 6.2.7R (Third Life Directive information); and
- (2) an explanation how the *client* may obtain further information about complaints and compensation arrangements and other matters relating to the *life policy*.

6.7.3 R A *firm* must, in addition to the requirements in COB 6.6 (Contents of the key facts document: general) include the following matters in its *key facts document*:

- (1) for a *life policy* such as an endowment which is being used to repay an interest-only mortgage loan, details of how and when the *client* will be notified whether the *life policy* is on target to provide sufficient funds to repay the loan and, if it is not, what options the *client* has;
- (2) for a *life policy*, the consequences of making the *life policy* paid up or taking a payment holiday;
- (3) for a *long-term care insurance* which is based on single premium investment bonds, a statement drawing attention to the possible effect on the capital invested where withdrawals are taken to pay for care; this can be communicated by including a standard, non-*client*-specific, example comparing the effect of *claim* payments on the value of the *life policy*, first assuming no *claims* and then assuming a *claim* beginning at age 80 and lasting for five years; the standard mid rate of return should be used assuming *claim* payments at the highest benefit level payable under the *life policy*;
- (4) for an *FSAVC*, a prominent warning that, as an alternative, a scheme *AVC* exists which may offer better terms, details of which can be obtained from the *occupational pension scheme* administrator;

- (5) for a *personal pension scheme*, including a *group personal pension scheme*, a clear and prominent indication of the general availability of *stakeholder pension schemes* and the fact that these might meet the consumer's needs at least as well as the *personal pension scheme* on offer;
- (6) for a *stakeholder pension scheme*:
 - (a) a description of the default investment option offered under regulation 3(5) of the Stakeholder Pension Schemes Regulations 2000; and
 - (b) the following statement: "We will take a charge each year of [y%] of the value of the funds you accumulate. If your fund is valued at £500 throughout the year, this means that we will deduct [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct [£7500 x y/100] that year"; where y is replaced by the rate of any annual charge payable by the *private customer*

6.8 Contents of the key facts document: schemes

Application

- 6.8.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

General

- 6.8.2 R A firm that produces a *key facts document* for a *scheme* that is a *collective investment scheme* must include the information prescribed in COB 6.2.10R (Contents of the simplified prospectus).
- 6.8.3 G [Guidance on the content to be included in key facts for collective investment schemes will be consulted upon in a supplement to this CP, to be issued at the end of February 2003.]
- 6.8.4 R A firm that produces a *key facts document* for an *investment trust savings scheme* must ensure that it includes the following:
- (1) when *shares* will be purchased for the *scheme*, where uninvested *money* will be held and whether interest is paid;
 - (2) where information about the *investment trust share* price, yield, and *premium* and discount information can be obtained;
 - (3) where information about the net asset value and latest dividend can be found;
 - (4) whether the *private customer* has a choice to reinvest income, how it is reinvested, or how it is paid to the *private customer*;
 - (5) details of any nominees with which *shares* are registered;
 - (6) how *shares* can be sold and how the *sale* proceeds are determined;
 - (7) whether applications and payments will be acknowledged and whether contract notes or certificates are issued;
 - (8) whether there will be a statement of account showing details such as number and cost of *shares* and balance of cash;
 - (9) an explanation of any right to withdraw or cancel (as specified in COB 6.13 (Cancellation and withdrawal)), or, where it is the case, that such rights do not apply;
 - (10) where the *investment trust* report and accounts may be obtained;

- (11) information about the *manager* and administrator of the *scheme*;
- (12) the *private customer's* options in the case of items such as rights issued;
- (13) how to stop investing in or how to leave a *scheme* and the position in respect of the *shares* held;
- (14) terminations or alterations by the *scheme manager*;
- (15) taxation details in respect of the *private customer's investment*; and
- (16) how complaints are dealt with and how further details of compensation arrangements (if any) can be obtained.

6.9 **Content of key facts documents: cash deposit ISAs; individual pension accounts; Friendly Society tax-exempt policies, ISAs (excluding cash deposit ISAs), and PEPs**

Application

6.9.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

Cash deposit ISAs

6.9.2 G COB 6.4.28R(1) (Cash deposit ISAs) requires a *firm* to provide a *private customer* with a *key facts document* for a *cash deposit ISA* containing the information in COB 6.9.3R unless COB 6.4.28R(2) (which makes an exception for *firms* that conform to requirements under the Banking Code) applies.

6.9.3 R Table: Minimum information to be included in a *key facts document* for a cash deposit ISA

This table belongs to COB 6.4.28 R

Cash deposit ISA: minimum information

- | | | |
|------|-----|---|
| (1) | (a) | If the <i>cash deposit ISA</i> which is stated as satisfying the <i>CAT standards</i> , a comparison with the <i>CAT standards</i> ; or |
| | (b) | if the <i>cash deposit ISA</i> is not stated as satisfying the <i>CAT standards</i> , a statement making this clear, together with, if desired, any relevant information; |
| (2) | | a statement making it clear whether the <i>ISA</i> is a mini- or a <i>maxi-ISA</i> and explaining the difference between the two; |
| (3) | | the minimum amount needed to open an account; |
| (4) | | the maximum yearly <i>deposit</i> ; |
| (5) | | the interest rate earned, and if and how it may vary; |
| (6) | | the calculation of interest; |
| (7) | | how to make withdrawals and any limits; |
| (8) | | details of the arrangements for the application of the right to cancel; |
| (9) | | the arrangements for handling complaints; |
| (10) | | that the favourable tax treatment may not be maintained; |
| (11) | | that compensation may be available from the Financial Services Compensation Scheme; |

Cash deposit ISA: minimum information

- (12) where applicable, that the *firm* cannot accept *money* directly and acts only as agent in arranging the *cash deposit ISA*, identifying the *principal* to whom such *monies* should be made payable, and explaining that the *principal* has accepted responsibility for the activities of the *firm* in relation to the *cash deposit ISA*;
- (13) where a *private customer* can obtain further information about *ISAs* and, if applicable, other products within the *firm's* range; and
- (14) a warning that a *mini-* and *maxi-ISA* may not be opened in the same tax year and that, by opening a mini cash *ISA*, the *customer* will be limiting the amount that he could put into another type of *ISA*, if he does not already have a mini stocks and shares or insurance *ISA* (not applicable to a TESSA-only *ISA*).

Individual pension accounts

- 6.9.4 R For an *individual pension account*, where the *key facts document* relates to a *stakeholder pension scheme* or *personal pension scheme* and the *firm* chooses to highlight, within the *key facts document* or elsewhere, that the *investment* will be made through an *IPA*, the information required in the Quick Guide or Frequently Asked Questions sections of the *key facts document* must include a statement:
- (1) identifying by name any *IPA eligible investments* which are to be or may be held as assets of the *stakeholder pension scheme* or *personal pension scheme*; and
 - (2) indicating which of those assets will benefit from the Stamp Duty Reserve Tax exemption available to *IPAs*.

Friendly society tax exempt policies

- 6.9.5 R Where a *private customer* buys a *tax-exempt policy* issued by a *friendly society*, or agrees to make additional contributions to such a *policy*, the *firm* may, where there is a right to cancel under COB 6.13 (Cancellation and withdrawal), issue an abbreviated form of *key facts document* containing only the details of:
- (1) the amount of the contribution;
 - (2) the term over which the contribution will be paid; and
 - (3) material differences between the terms of any increase and those of the existing *policy*.

ISAs (excluding cash deposit ISAs) and PEPS

- 6.9.6 R If the *packaged product* is an *ISA* that is not a *cash deposit ISA*, a *firm* must in addition to the other requirements in this chapter include the following information in the appropriate *key facts document*:
- (1) a description of the nature of the services which will be provided for the *private customer*;
 - (2) for *ISAs* or *ISA* components which are stated as satisfying the *CAT standards*:
 - (a) a comparison of the *ISA* or *ISA* component with the *CAT standards*;
 - (b) clarification that satisfying the *CAT standards* does not mean that the *investment* is appropriate for the *private customer* or that there is any guarantee of performance;
 - (3) the fact, if applicable, that an *ISA* does not meet the *CAT standards*, together with any relevant explanation;
 - (4) a statement that the favourable tax treatment of *ISAs* may not be maintained;
 - (5) how and when statements (if any) will be sent;
 - (6) an explanation of how the *ISA* or plan may be terminated or transferred to another *ISA* or *PEP manager*; and
 - (7) whether the *ISA* is a mini or *maxi-ISA* agreement and an explanation of the differences between the two.

6.10 **Contents of the key facts document: the example**

Application

- 6.10.1 G The rule specifying the general application of this section is COB 6.1.2R(2).

Purpose

- 6.10.2 G The purpose of this section is to set out the required content and format of a *generic* and a *personal example* when they are included or provided with a *key facts document*.

Contents of the example

- 6.10.3 R A *firm* must ensure that an *example* contains the following sections where relevant:
- (1) in the case of a *personal example*, personal information; in accordance with COB 6.10.5R;
 - (2) general questions and answers as set out in COB 6.10.7R – COB 6.10.10R;
 - (3) a table and accompanying text explaining the effect of charges prepared in accordance with COB 6.10.11R - COB 6.10.21G;
 - (4) statements concerning targets set out in accordance with COB 6.10.22R – COB 6.10.24R; and
 - (5) *projections* as set out in COB 6.10.25R – COB 6.10.28R

Personal and generic examples

- 6.10.4 R A firm must ensure that:
- (1) the financial information contained in a *personal example* is calculated on the basis of the private customer's personal circumstances, such as age, sex, the sum assured and chosen payment levels and frequencies;
 - (2) the financial information contained in a *generic example* is calculated using information representative of the typical type of business the firm carries on or proposes to carry on in relation to the contract in question.

Personal Information

- 6.10.5 R A *personal example* must, where it is relevant to the product, show the following personal information prominently at the beginning of the document:
- (1) the full product name (only required where the *example* is produced as a separate document);
 - (2) the name of the customer;
 - (3) the sex and age of the customer;
 - (4) the assumed start and end date;

- (5) the target amount; and
 - (6) other personal information that has been taken into account, such as smoker status.
- 6.10.6 G (1) A firm should avoid the inclusion of unnecessary or irrelevant personal information in the *example*. Some personal information such as the amount of premium or sum assured will be adequately covered under the general questions and answers section of the *example* and should not be duplicated here.
- (2) A firm may wish to highlight the personal information by showing it in a box.

General questions and answers

- 6.10.7 R When producing an *example*, a *firm* must include where relevant the questions and information specified by COB 6.10.10R.
- 6.10.8 R When preparing the general questions and answers for inclusion in an example, a firm must:
- (1) follow the sequence of question headings set out in COB 6.10.10R;
 - (2) where there is an option in COB 6.10.10R, choose the question which is most suitable for the product;
 - (3) omit a question prescribed by COB 6.10.10R where a *firm* considers it inappropriate to the product;
 - (4) answer the questions by including reference, where appropriate, to the bulleted points in the table at COB 6.10.10R, and other information where materially relevant.
- 6.10.9 R A firm must ensure that:
- (1) a table and accompanying text explaining the effect of charges, prepared in accordance with COB 6.10.11R, is included in the general questions and answers section of the *example* where:
 - (a) the contract may have a cash in value; or
 - (b) the main benefits of the contract depend on future investment performance;
 - (2) in the case of a non-profit annuity or other contract not falling within (1), the statement 'Please remember – this plan has no cash in value at any time' is included in the *example* in place of a table showing the effect of charges.

6.10.10 R Table: prescribed questions and content of general questions and answers section

This table belongs to COB 6.10.7R.

Question	Matters to be covered under the question, where applicable
<p>What do I pay in this example?</p> <p>or</p> <p>How much is transferred in this example?</p>	<ul style="list-style-type: none"> ● <i>Generic example:</i> a typical payment. ● <i>Personal example:</i> the payment by the customer and/or the expected transfer value to be received from another product. ● Any automatic or contractual payment increases. ● If different to an automatic or contractual payment increase, an indication of whether the payment is or is not guaranteed to increase (relevant for protection products).
<p>What [benefits] will this give me?</p> <p>(This question may be omitted in the case of pure investment products.)</p>	<ul style="list-style-type: none"> ● The protection benefits offered by the product. ● An indication of whether any benefits are or are not guaranteed. ● Any spouse's or dependant's pension.
<p>How much [income/withdrawals] will I take out?</p> <p>(This question should be omitted where it would be inappropriate or irrelevant.)</p>	<ul style="list-style-type: none"> ● <i>Generic example:</i> a typical income payment or withdrawal. ● <i>Personal example:</i> The income payment or withdrawal requested by the customer, or assumed by the contract. ● Any limitations on the income or withdrawals that can be taken. ● For <i>income withdrawals:</i> the initial amounts of minimum and maximum income as specified in the current tables published by the Government Actuary, and an indication of how long these amounts are fixed for.

<p>Does this example show me what I'm going to get back? (relevant to most investment products including those which may acquire a surrender or transfer value)</p> <p>or</p> <p>Does this example show me what I will get back if I cash in my plan? (relevant to protection products with a potential cash in value)</p> <p>or</p> <p>Does this example show me what I'm going to have at the end of my plan to buy an annuity? (relevant for personal pensions and pension withdrawal plans)</p>	<ul style="list-style-type: none"> • No (in circumstances where what the consumer might get back depends on investment returns or other variable factors). • A statement of why the final return cannot be predicted, and the factors that are likely to influence the return. • An explanation that the example can show how the charges affect what the customer might get back. • The list of assumptions on which any table showing the effect of charges is based and an indication of whether the assumptions are or are not guaranteed, preceded by the words "Let's assume:". • A table and accompanying text explaining the effect of charges, prepared in accordance with COB 6.10.11R - COB 6.10.21G.
--	---

6.10.11 R Table: table and accompanying text explaining the effect of charges

This table belongs to COB 6.10.9R

The early years				
At the end of year	You would have paid in [inc. tax rebate]	[Income/ Withdrawals] taken each year	What your plan would be worth	
			Without charges	After charges
1	£	£	£	£
2				
3				
4				
5				
<ul style="list-style-type: none"> • In the early years our charges could mean that the value of your plan would be less than you paid in. 				
The later years				
10				
[15]				
[20]				
[30]				
[XX]				

What does this example tell me?

How can I use it to compare with others?

- The second-last column shows how much your [plan/fund(s)] would be worth if we took no charges at all and all the other assumptions were met. Of course, all companies charge for running [plans/fund(s)] – but they don't all charge the same amounts. The last column shows you what your [plan/fund(s)] would be worth after we take our charges.
- Because all companies must give you a similar example, you can use the figures in the last column to compare the effect of our charges with those of other companies.
- Put another way [leaving out the cost of life cover and sickness benefits]: [at age [r]/after [r] years], our charges would have reduced the assumed growth of your [plan/fund(s)] from [s]% to [t]%. **The bigger the gap between these two rates of growth, the more expensive the plan.**
- [You can also compare charges across companies and products by looking at the FSA's comparative tables at www.fsa.gov.uk/tables.]

[Please remember: the investments in your [plan/fund(s)] can go up and down. What you get back is not guaranteed. Your [plan/fund(s)] could be worth more or less than the amount shown.] (Appropriate for most life policies and schemes.)

or

[Please remember: the investments in your plan can go up and down. Only the income for the first [] year(s) is fixed. After that your income could be more or less than the amount shown. This plan has no cash in [or transfer] value at any time.] (Appropriate for investment linked annuities.)

or

[Please remember: the investments in your plan can go up and down. What your plan would be worth at the end is not guaranteed. It could be worth more or less than the amount shown.] (Appropriate for income withdrawals.)

or

[Please remember – if you cash in your plan before [], the value of your plan may be considerably less than you have paid in and it will not be directly linked to the value of the [index or other benchmark] at that time.] (Appropriate for some guaranteed or derivative-backed products.)

Completing the charges table

- 6.10.12 R When completing a table showing the effect of charges as required by COB 6.10.10R, a *firm* must conform to the format set out in COB 6.10.11R and:
- (1) use the wording in brackets in the table that is most appropriate to the contract and complete any blank text in brackets with appropriate text applicable to the product;
 - (2) include figures calculated in accordance with COB 6.11(Projections).

'The Early Years'

- 6.10.13 R A firm must, for 'the early years' in its table showing the effect of charges:
- (1) include figures for the end of each of the first five years of a *life policy* or, if the *life policy* has a fixed term of less than five years, as many of them as fall before the maturity date;
 - (2) omit the statement 'In the early years our charges could mean that the value of your plan would be less than you paid in' for products where there are no initial or exit charges.

'The Later Years'

- 6.10.14 R A firm must, for 'the later years' in the table showing the effect of charges, include figures for the tenth and every subsequent fifth year of the term of the *contract* (or of the contract period as defined in COB 6.11.25 R if that is shorter) and for the final year, except in the following cases:
- (1) for a *whole-life policy*, the *firm* must include figures for every tenth year and:
 - (a) the final year, assuming that the *life policy* will continue (unless and until converted to a fixed term) until the insured life (or the youngest insured life) attains the age of 75 years or to a term of ten years if that is later; or
 - (b) the year in which the projected fund reaches zero if earlier than (i); the consequence of this must be drawn to the *private customer's* attention;

- (2) in the case of a single payment contract with no fixed term, the *firm* should assume a term of ten years , and may in addition show figures for a longer term;
- (3) for a contract with *income withdrawals*, the *firm* must include figures for the sixth year and at three-yearly intervals thereafter;
- (4) in the case of a long-term care insurance *packaged product* based on a single *premium* investment bond, where the standard ten-year table does not illustrate adequately how the charges taken from a policy can increase considerably with age, the *firm* must extend the table to show figures at ten-year intervals and the year in which the *private customer* attains 100 years or the year the fund is exhausted if earlier; and
- (5) where there is any significant discontinuity in the trend of surrender or transfer values, the *firm* must show figures for all the intervening years.

Additional columns

- 6.10.15 R A firm must include in its table showing the effect of charges:
- (1) a column headed "You would have paid in [inc tax rebate]" and show the cumulative totals of the regular premiums paid (making allowance as necessary to take account of any automatic premium increases), where the *example* illustrates the payment of regular *premiums*;
 - (2) a column headed "[Income/Withdrawals] taken each year"; and show the withdrawals taken in each year, where the *private customer* is entitled to exercise and has chosen, or expressed the intention, to exercise the right to take income or make partial surrenders or where the contract involves periodic redemptions at pre-determined intervals to the private customer.

Other rules and guidance on completing the table

- 6.10.16 R In the case of a with-profits policy the benefits of which are guaranteed benefits except on surrender or variation, a firm must delete 'without charges' and 'after charges' split in the 'What your plan would be worth' column of the table showing the effect of charges:

- 6.10.17 R (1) A firm should complete the entries in the “What your plan would be worth without charges” column with figures calculated in accordance with COB 6.11.53AR(1).
- (2) A firm should complete the entries in the “What your plan would be worth after charges” column with figures calculated in accordance with COB 6.11.53AR(2). The figures in this column should be shown in bold typeface or otherwise highlighted relative to the rest of the table.
- 6.10.18 R When inserting the third bullet point following the questions 'What does this example tell me?' and 'How can I use it to compare with others?', a firm should substitute actual figures for the variables shown in the rules as follows:
- (1) [r] is the contract period in accordance with COB 6.11.25R to COB 6.11.27R except for a long-term care insurance packaged product where it is 10 years;
- (2) [s] is the intermediate projection rate appropriate to the category of business as required by COB 6.11.49R (Rate of return assumptions); and
- (3) [t] is the rate of return calculated in accordance with COB 6.11.55R (2) (Basic calculation method of reduction in yield).
- 6.10.19 R A firm must include the statement "You can also compare charges across companies and products by looking at the FSA's comparative tables at www.fsa.gov.uk/tables" only where an equivalent product is included in the FSA's comparative tables.
- 6.10.20 G A *firm* should not include the "You would have paid in [inc tax relief]" column in a table where the *private customer* has expressed the intention to make only one lump sum payment or transfer. This is because the amount of money to be paid into the contract should be clear from the statements preceding the effect of charges table and will not change throughout the duration of the contract.
- 6.10.21 G The "[Income/Withdrawals] taken each year" column should specify the total amount of any withdrawals taken out each year, not the sum of the withdrawals rolled up over the years.

Target statements

- 6.10.22 R Where a *firm* is recommending, arranging (bringing about) or selling a *packaged product* in response to a *private customer's* explicit objective to acquire a specified sum of money or fund value on a specified date (a 'target') and the final entry in the 'what your [product]' would be worth after charges' column is: :
- (1) lower than the target, the *firm* must insert the question "Why doesn't this example meet my target?" immediately after the charges table, followed by the statements (1) to (4) of COB 6.10.23R adjusted appropriately in accordance with COB 6.10.24R;
 - (2) higher than the target, the *firm* must insert the question "Why does this example give me more than my target?" immediately after the table, followed by the statements (1) to (4) of COB 6.10.23R adjusted appropriately in accordance with COB 6.10.24R;
 - (3) the same as the target, the *firm* must insert the question 'Does this mean I am going to get my target?' immediately after the table, followed by statement (5) of COB 6.10.23R adjusted appropriately in accordance with COB 6.10.24R.
- 6.10.23 R Following a question relating to the outcome of a target, a *firm* must include the following statements as required by COB 6.10.22R:
- (1) The example shows that if the investments in your [plan/fund(s)] grew at [s]% a year, and all the other assumptions were met, your investment would grow to £[u] at the end of [v] years. But this is [more/less] than your target of [£vv].
 - (2) The figures in the example are based on an assumed growth rate of [s%] because this is the figure used by all firms so that you can compare like with like when looking at charges.
 - (3) But in reality, growth rates will vary. In order to work out how much you need to pay each month to meet your target, we have to judge how your [product] is likely to grow. Based on our investment experience and expertise, we have assumed that investments will grow at a [higher/lower] rate of [w%] a year.

- (4) So if the investments in your [product] grow at [w%] or higher each year, and the other assumptions remain the same, you should meet your target at the end of [v] years.

But if the growth of your plan falls below [w%] a year, or the other assumptions are not met, your plan may not meet your target and you will need to consider investing more.

- (5) The example shows that if the investments in your [product] grow at [s%] or higher each year, and all the other assumptions remain the same, you should meet your target at the end of [ww] years.

But if the growth of your plan falls below [s%] a year, or the other assumptions are not met, your plan may not meet your target and you will need to consider investing more.

6.10.24

R For the purposes of COB 6.10.23R:

- (1) [s%] is the intermediate projection rate appropriate to the category of business as set out in COB 6.11.50R to COB 6.11.51R (Rate of return assumptions);
- (2) [u] is the figure in the final year of the table in the column 'What your plan would be worth after charges';
- (3) [v] is the intended duration of the contract in years and months;
- (4) [vv] is the target amount that the *private customer* wishes to achieve;
- (5) [w%] is the assumed growth rate used by the *firm* to calculate the premium.

Projections in the example (personal pensions and income withdrawals)

6.10.25

- R (1) A firm must include in an example relating to a pension contract the question "What would a fund of [£u] give me if I retire at age [bb]?".
- (2) The question in (1) must follow the table explaining the effect of charges and include the statements set out in COB 6 Ann 2 (Projection of the future value of a pension fund).

6.10.26

- R (1) A *firm* must include in an example relating to an income withdrawal plan the additional question "What would a fund of [£u] give me at age [bb]?".

- (2) The question in (1) must follow the table explaining the effect of charges and must include the statements set out in *COB 6 Ann 3* (Projection of the future value of an income withdrawal fund).

6.10.27 R When completing the statements in *COB 6 Ann 2* and *Ann 3*, a *firm* must:

- (1) use the wording in brackets that is most appropriate to the contract and complete any blank text in brackets with text appropriate to the product;
- (2) include only figures calculated in accordance with *COB 6.11*; and
- (3) include the heading "Your Yearly Statement" and its following statements set out in *COB 6 Ann 2* in cases where the assumptions made to produce the *example* projection do not match those required for the production of a projection in accordance with the format of Statutory Money Purchase Illustrations.

6.10.28 R In *COB 6 Ann 2* and *COB 6 Annex 3* the following figures must be inserted by the firm at the appropriate point:

[bb] is the age at which it is assumed an annuity will be purchased;

[£u] is the figure in the final year of the 'What your plan would be worth after charges' column of the charges table;

[dd%] is the appropriate intermediate rate from *COB 6.11.51R* (Rate of return assumptions);

[ee%] is the rate in accordance with *COB 6.11.48AR(1)* (Rate of inflation assumptions);

[ff%] is the critical yield figure calculated in accordance with *COB 6.11.13AR* (Calculation and presentation of critical yield);

[£gg] is the figure calculated in accordance with *COB 6.11.13R (1)(e)* (A projection for income withdrawals from a personal pension or stakeholder pension scheme); and

[cc] is the annuity age in accordance with *COB 6.11.13AR (2)* (Calculation method and presentation of the critical yield), excluding the age used at [bb].

COB 6.11 Projections

Under the proposed new rules, COB 6.6 will be renumbered COB 6.11. However, apart from the changes described below, any rule in the new 6.11 will be the same as the corresponding rule in the old 6.6. So, for example, COB 6.11.5 is the same as the current COB 6.6.5.

The following are the proposed rule changes to COB 6.6. All references to COB 6.6 have been amended to COB 6.11 and references to 'key features' have been changed to 'a key facts document'.

6.11 Projections

This section consists of the current section COB 6.6 reproduced and renumbered as 6.11 with the following amendments:

...

Content

- 6.11.3 G COB 6.11 sets out:
- (1) When these *rules* apply (COB 6.11.4 R–COB 6.11.7R);
 - (2) the information and statements to accompany *projections* (COB 6.11.8R–COB 6.11.18R);
 - (3) What records must be kept of *projections* issued to *customers* (COB 6.11.19R);
 - (4) the method of calculating a *projection* COB 6.11.20G – COB 6.11.53G);
 - (5) the method of calculating ~~the effect of deductions~~ “what your plan would be worth without charges”, “what your plan would be worth after charges” and (the reduction in yield) which must be included within a *key features facts document*
COB 6.11.53A R–COB 6.11.62R);
 - (6) the method of calculating charges and expenses relating to *schemes* (COB 6.11.63G – COB 6.11.79G);
 - (7) Assumptions to be used when converting a *retirement fund* into an annuity (COB 6.11.80R – COB 6.11.85R); and
 - (8) how to produce a *pension transfer* value analysis (COB 6.11.86G – COB 6.11.93R).

...

Projections issued by independent intermediaries

- 6.11.7 R ~~An independent intermediary must, in addition to complying with other rules in this section, ensure that a projection given to a particular customer is relevant to that customer's circumstances. [deleted]~~

Information to accompany projections

- 6.11.8 R (1) ~~A document containing a projection must include the information detailed in COB 6.5 (Key Features) under the headings ‘An Example’, ‘Tables’, ‘Deductions Summary’ and ‘Commission and Remuneration’, unless (2) applies. A projection included in a key facts document must be presented in the format detailed in COB 6.10.~~

- (2) The information under the headings 'Tables', 'Deductions Summary' and 'Commission and Remuneration' need not be included in a *projection* issued in respect of: Where (1) does not apply, a *projection* must be followed by the appropriate statements from COB 6.11.15 R and must be calculated using:
- (a) ~~an existing contract; or the lower, intermediate and higher rates of return in COB 6.11.49 R; or~~
 - (b) ~~a *financial promotion* (other than a *direct offer financial promotion*); or for existing contracts, the lower and higher rates of return in COB 6.11.49 R;~~
or
 - (c) ~~an *execution-only transaction* relating to a *scheme*; the method set out in COB 6.6.34 R (5) for *type P* and *type Q* *projections*~~
 - (d) If the private customer has previously been given a *key facts document* for a pension scheme, stakeholder pension scheme or other contract with a target, that contains a *projection* presented in accordance with COB 6.10, the intermediate rate of return in COB 6.11.49 R; or
 - (e) the method and assumptions set out in COB 6.11.11 R for an *appropriate personal pension*
- (3) If the *projection* relates to a contract to which regular *premiums* or contributions can be made, the total amount or number of *premiums* or contributions payable over the *projection* term must be made clear.
- (3) If the *projection* is a *type P* *projection* or a *type Q*
- A) *projection*, the basis used for increases in *premiums* or contributions must be disclosed.
- (4) Other than a *type P* *projection* or a *type Q* *projection*, where a *projection* is given which makes allowance for increases in *premiums* or contributions, the *premium* or contribution in the final year must be shown (or, where the rate of possible future increments is based upon rates of growth in a salary or index, details of that salary or index).

Generic and stochastic projections

- 6.11.9 R (1) A *firm* may provide a generic *projection* for illustrative purposes based on a single rate of investment return only in the following circumstances:
- (a) in a *financial promotion* (other than a *direct offer financial promotion*) which comprises a table (or extracts from a table) published by a newspaper, magazine or other periodical publication, or by the *firm* itself, which compares illustrative *projections* from at least five *product providers*; or
 - (b) where the purpose is to indicate the likely cost of a proposed *transaction*; or

- (c) to provide an estimate of the additional *premium* or contribution required to achieve a specified target; or
 - (d) when providing a *type P projection* or a *type Q projection*.
- (2) A *firm* which provides a generic *projection* must ensure that:
- (a) it does not relate solely to an existing contract;
 - (b) the rate of return used does not exceed the higher *projection* rate for its class of business;
 - (c) where the rate used exceeds the ~~middle~~intermediate rate by more than 0.5 percentage point, a statement is included advising why it is believed reasonable to project at such a high rate of return;
 - (d) where the charges and expenses (as described in *COB 6.11.23R*) of the *product provider* are available, they are used, or an estimate is given based on the *firm's* knowledge of the charges and expenses applicable to similar contracts;
 - (e) it is accompanied by the written statements contained in *COB 6.11.17R*; and
 - (f) ~~key features~~facts documents are supplied in accordance with *COB 6.1 to COB 6.54* (~~Key Features~~Provision of the key facts documents) if a recommendation is subsequently made.

...

- 6.11.11 R A *projection* in respect of the protected rights for an *appropriate personal pension or protected rights for a stakeholder pension (in accordance with COB 6.2.2 R(5))* must, for the purpose of comparison, include a *projection* which:
- (1) Is calculated to the *customer's* State retirement age, using the lower and higher real rates of return specified in *COB 6.11.52R*, together with a statement of the benefits which the minimum contributions would secure if the *customer* did not take out an *appropriate personal pension*;
 - (2) [deleted]
 - (3) aggregates contributions in respect of the current and the next two tax years;
 - (4) is followed by the *appropriate personal pension projection* and a description of any differences in:
 - (a) presentation, for example, real or monetary rates of return, joint or single life;
 - (b) the dates from which the benefits are assumed to be payable;
 - (c) the nature of the benefits, for example, index-linked or limited price indexation ('LPI') increases.

...

- 6.11.13 R A *projection other than in a key facts document for income withdrawals* from a personal pension or *stakeholder pension scheme*:
- (1) must include:
 - (a) a statement of the initial amounts of minimum and maximum income as specified in the current tables published by the Government Actuary for *income withdrawals*;
 - (b) a statement of the assumed initial level of income and the assumed basis for future years;
 - (c) a schedule showing under the heading 'WHAT THE BENEFITS MIGHT BE' the amount of income and the fund at each, or every third, anniversary for each of the rates of return specified in COB 6.11.49R;
 - (d) a statement of the projected open market values and the amounts of annuity at age 75 or the date at which it is reasonably assumed an annuity will be purchased; ~~and~~
 - (e) a statement of the amount of annuity that could be secured using an immediate annuity rate available in the market; ~~and~~
 - (f) critical yields presented and calculated in accordance with COB 6.11.13 A R
 - (2) must assume that the current rate of gilt-index yield will continue to apply in projecting amounts of minimum and maximum income throughout the term of the *projection*.

Calculation method and presentation of the critical yield

- 6.11.13 R (1) A firm must calculate the critical yield for income withdrawals as follows:
- A
- (a) the current annuity must be calculated from the premium or current fund value by dividing by:
 - (i) competitive immediate annuity rates available in the marketplace; or
 - (ii) an annuity rate calculated using an investment return of the higher of the current Government Actuary's Department rate or that used by the firm in the calculation of its own annuity rates or competitive open market annuity rates, the mortality tables in COB 6.11.84 R and expenses in COB 6.11.83 R,
 - (b) the ultimate fund value must be calculated, at the date when an annuity is assumed to be purchased, by multiplying the current annuity as in (a), with increases as appropriate, by the annuity rate calculated using the assumptions as in (a),

- (c) the critical yield must be calculated as the annual compound rate of return necessary to accumulate the premium or current fund value as in (a) to the ultimate fund value as in (b) allowing for appropriate charges and assumed current annuity payments from (a).
- (2) The critical yields must be calculated assuming that the age when the annuity is to be purchased is 65, 70 and 75, but the *firm* may, in addition show other ages.
- (3) The critical yields must be presented showing at least two of the following:
 - (a) the critical yield calculated in (1)(c);
 - (b) the rate of investment return as in (1)(a); or
 - (c) the additional yield being the difference between the rates in (3)(a) and (3)(b).
- (4) The presentation must include a prominent statement to the effect that a more favourable annuity may be obtained on the open market and this would increase the critical yield.

Statements to accompany projections

- 6.11.14 R (1) *A document containing a projection, other than a key facts document must include the appropriate statements set out in COB 6.11.16R– COB 6.11.18R.*
- (2) *A statement may be altered if a *firm* believes on reasonable grounds that it is not wholly appropriate to the contract in question. But the alteration must not reduce the significance or impact of the statement.*
- (3) *Any statement required to accompany a *projection* must appear adjacent to the projected values and be in a type size no smaller or less prominent than that used for the projected values.*

...

- 6.11.16 R *Statements to accompany projections of life policies, schemes or stakeholder pension schemes (excluding generic projections, and protected rights annuity projections and projections in a key facts document)*
 This table belongs to COB 6.11.15R.

Statements to accompany *projections of life policies, schemes or stakeholder pension schemes* (excluding generic projections, and protected rights annuity projections and projections in a key facts document)

1. These figures are only examples and are not guaranteed – they are not minimum or maximum amounts. What you will get back depends on how your investment grows and on the tax treatment of the investment.

Or, where there is only a single projection.

This figure is only an example and is not guaranteed – it is not a minimum or maximum amount. What you will get back depends on how your investment grows and on the tax treatment of the investment.

2. [You could get back] [your retirement fund could be] more or less than this.

3. All firms use the same rates of growth for projections but their charges vary. [They also use the same rates to show how funds may be converted into pension income].

4. (a) Do not forget that inflation would reduce what you could buy in the future with the amounts shown.

(b) This illustration shows, in today's prices, the pension that might be payable when you retire. This means we have allowed for future inflation to give you an indication of how much you would be able to buy with your pension if it were payable today.

5. [Your pension income will depend on how your investment grows and on interest rates at the time you retire].

6. These rates of return are not necessarily appropriate [for contracts written in] [for units traded in] [for shares traded in] currencies other than sterling.

7. Benefits may also be affected by fluctuations in exchange rates.

Note:

In respect of statement 4, the *firm* must include the appropriate statement (a) or (b).

Statement 5 applies to *pension contracts* only and statements 6 and 7 apply to non-sterling *investments* only.

6.11.17 R Statements to accompany generic *projections*

This table belongs to COB 6.11.15R.

Statements to accompany generic projections

These figures are only illustrative.

Or, where there is only one projection

This figure is only illustrative.

An assessment of your needs will be confirmed before a recommendation can be made OR Your needs will be confirmed before a recommendation can be made.

Statements to accompany generic projections

A Key features facts document, including a projection which is personal to your circumstances, will be provided if a recommendation for an investment product is made.

- 6.11.18 R Statements to accompany *projections* for *protected rights* contracts
This table belongs to COB 6.11.15R.

Statements to accompany projections for protected rights contracts

1. These figures are only meant to give you a rough idea of the amount of pension you might get compared with the benefit that you would be giving up under the State Second Pension.

2. The figures show what might happen if we achieved an investment return of [x%] or [y%] each year on top of the rate of earnings inflation.

3. They are only examples and are not guaranteed – they are not minimum or maximum amounts. What you will get back depends on how your investment grows.

4. You could get back more or less than this.

5. All *firms* use the same rates of growth for projections but their charges vary. They also use the same rates to illustrate how funds may be converted into pension income.

6. Your pension income will depend on how your investment grows and interest rates at the time you retire.

Note:

[x%] and [y%] in statement 2 are the real rates of return used in the *projection* as specified in COB 6.11.5452 R

...

Adjusted premium

- 6.11.22 R (1) The adjusted *premium* is the *premium* or contribution payable under the contract during the contract period (defined in COB 6.11.25R), disregarding any increases that cannot be quantified at the commencement of the contract (but allowing for any increases which are assumed and disclosed in the *key features facts document*).
- (2) When calculating the amount of *premium* or contribution, a *firm* may deduct:
- (a) the cost of any rider benefits;
 - (b) any part of a *premium* or contribution which is payable in respect of an exceptional mortality risk.

Charges and expenses

- 6.11.23 R (1) For a *scheme* or unit-linked *life policy*, charges and expenses are all explicit charges and expenses the *customer* will or may bear:
- (a) Including:
 - (i) all other deductions and expenses which will or

- may bear upon the fund (including charges in respect of any *collective investment scheme* or insurance fund in which any funds of the contract in question are invested but excluding dealing costs of the underlying portfolio); and
- (ii) all deductions from the *premium* or contribution payable which do not accrue to the benefit of the *customer* by way of contribution to the value of the benefit;
- (b) Having regard to:
 - (i) the principal terms of the contract; and
 - (ii) any tax relief which will be available to the fund or scheme in respect of so much of the fund's or *scheme's* gross expenses as can be properly attributed to the contract.
- (2) (a) For a with-profits contract, or a unit-linked *life policy* where not all charges and expenses are determined in accordance with (1), charges and expenses are such expenses as the *firm* reasonably determines to be appropriate to the contract having regard to:
- ~~(a)~~ (i) the principal terms of the contract;
 - ~~(b)~~ (ii) any tax relief which will be available to the *firm* in respect of so much of the *firm's* gross expenses as can properly be attributed to the contract;
 - ~~(c)~~ (iii) any transfers to *shareholders' funds*, or equivalent retentions from established surplus offset by any sustainable rate of transfer of surplus from non-profit business;
 - ~~(d)~~ (iv) dealing costs of the underlying portfolio which should be excluded; and
 - ~~(e)~~ (v) any *guidance* published by the Institute of Actuaries or the Faculty of Actuaries (or by both jointly).
- (b) No offset against charges or expenses in (a) may be made by the transfer of surplus from non-profit business except in accordance with (2) (a) (iii).
- (c) Where a straight addition of the expenses in (2) (a) produces what the *firm* considers a misleading result, the amounts may be reduced by amounts from the estate or *shareholders' funds* only if the *firm* can:
- (i) demonstrate that sufficient amounts are or will be available from the estate or from *shareholders' funds* as appropriate to meet such expenses as they arise;

- (ii) provide a strong commitment that the resultant expense assumptions will be the basis for expenses under the relevant contracts or policies both immediately and in the future; and
 - (iii) provide definite business plans, using reasonable assumptions, showing that any reductions in expenses anticipated in future years are attainable.
- (3) If a contract has explicit charges, it should be assumed that they continue at a rate no less than that at which similar charges are being made at the time when the *projection* or calculation of the effect of the charges is made.
- 6.11.24 G (1) For the calculation of the effect of deductions charges and expenses in *projections a key facts document*, charges are all explicit charges adjusted for tax as in COB 6.11.23R(1)(b) and expenses are all other deductions. For *stakeholder pension schemes*, charges are all explicit charges and expenses for the underlying *policy* or contract, including any charges levied by the *manager* or trustees of the *stakeholder pension scheme*.
- (2) Examples of circumstances where certain expenses may be met from the estate or shareholders' funds might include:
- (i) large one-off costs;
 - (ii) support for exceptional new business expenses in a particular year; and
 - (iii) support for maintenance expenses whilst cost-reduction measures are being taken.
- (3) For compliance with COB 6.11.23R(2)(c)(ii), the FSA will expect a *firm* to be able to provide appropriate evidence of a commitment that the resultant expense assumptions will be used for the relevant contracts or policies both immediately and in the future. A board minute detailing the commitment would typically be appropriate evidence.

...

- Projections for contracts where the returns are determined by a formula linked to a stock market or other index
- 6.11.35 R Where the amount of any future benefit or value of a contract is determined by a formula linked to the performance of an index or indices or the performance of individual or a portfolio of shares, the rate of return used for the *projection* (as set out in COB 6.11.50R – COB 6.11.52R) must be reduced, where appropriate, to allow for:
- A (1) The dividend yield, if the index excludes dividends;

- (2) The effect of a reasonable level of volatility in the performance of the index or portfolio over the period of the contract; and
- (3) The effect of a reasonable level of dispersion in the performance of the indices or shares over the period of the contract.

...

Rules specific to products or features of products: annuities

- 6.11.39 R (1) Any *projection* of an annuity with one or more years to maturity must show ~~an annuity value based on the higher and lower rates of return as set out in COB 6.11.50R to COB 6.11.52R, and make allowance for: mortality (as set out in COB 6.11.84R) and also, in the case of *life policies*, morbidity appropriate to the class of *customers*, and charges and expenses (as described in COB 6.11.23R)~~ and show an annuity value based on:
- (a) The lower, intermediate and higher rates of return as set out in COB 6.11.50R to COB 6.11.52R; Mortality (as set out in COB 6.11.84R) and also, in the case of *life policies*, morbidity appropriate to the class of *customers*; and
 - (b) For existing contracts, the higher and lower rates of return as set out in COB 6.11.50R to COB 6.11.52R; or charges and expenses (as described in COB 6.11.23R).
 - (c) ~~an execution only transaction relating to a scheme;~~ the method set out in COB 6.6.34 R (5) for *type P* and *type Q* projections
 - (d) If the private customer has previously been given a *key facts document* for a *pension scheme*, *stakeholder pension scheme* that contains a *projection* presented in accordance with COB 6.10, the intermediate rate of return in COB 6.11.49 R; or
 - (e) the method and assumptions set out in COB 6.11.11 R for an *appropriate personal pension*
- (2) Any *projection* of an annuity with less than one year to maturity must be calculated using annuity rates no more favourable than the *firm's* current immediate annuity rates.
- (3) Where a *firm* which does not offer annuities *issues* a *projection* for a contract the proceeds of which are to be applied to the *purchase* of an annuity, the *firm* must use annuity rates no more favourable than those currently being used in the open market for such a *projection*.

...

Appropriate personal pensions and protected rights annuities

- 6.11.41 R (1) The *retirement fund* for a *protected rights annuity* under an *appropriate personal pension scheme* or *stakeholder pension scheme* must be calculated by accumulating the

relevant contribution less charges and expenses (as described in COB 6.11.23R) at the relevant rates of return for the period.

- (a) The relevant period is either:
 - (i) where the relevant contribution is a minimum contribution, from the 1st September following the end of the tax year to which the minimum contribution relates up to the maturity date; or
 - (ii) where the relevant contribution is a transfer value, from the commencement of the contract up to the maturity date.
 - (b) The relevant rates of return are:
 - (i) in the case of a *protected rights annuity projection* issued in accordance with COB 6.11.11R(1), the real rates of return in COB 6.11.52R;
 - (ii) in the case of any other *protected rights annuity projection*, the monetary rates of return in COB 6.11.51R (this includes *type P* and *type Q projections*).
- (2) The annuity must be calculated by reference to the *retirement fund* using the relevant rates of return set out in COB 6.11.51R, with allowance for mortality (as set out in COB 6.11.84R) charges and expenses and the relevant rate of increase in payment.

...

Calculation method for "what your plan would be worth without charges" and "what your plan would be worth after charges"

- 6.11.53 R (1) Amounts in the "what your plan would be worth without charges" column of the *key facts document* Example must be calculated by accumulating the premiums at the appropriate intermediate rate in COB 6.11.49R, making no allowance for charges and expenses and other deductions.
- A (2) Amounts in the "what your plan would be worth after charges" column of the *key facts document* Example must be calculated in accordance with COB 6.11.38R by accumulating the premiums at the appropriate intermediate rate in COB 6.11.49R allowing for charges and expenses in accordance with COB 6.11.23R.

- (3) The calculations specified in (1) and (2) must allow for any partial withdrawals, partial encashment of *units* or *shares* or distributions of income where the *private customer* has exercised, or has expressed the intention of exercising, an option to make such encashments or to receive such income or withdrawals or where such withdrawals, encashments or distributions will automatically apply. The allowance must be assumed in accordance with the estimated rate or amount, unless to do so would be inappropriate.
- (4) The surrender value of a premium on a particular date must be calculated by assuming that any premium payable on that date is payable on the following day.

Calculation of the reduction in yield due to the effect of charges and expenses content

- 6.11.54 R COB 6.11.55R– COB 6.11.62R set out the *rules* to be used when calculating the effect of deductions (the ‘reduction in yield’) to be provided within a ~~key features~~ *facts document* (COB 6.510) for all types of *life policies* and *schemes*. COB 6.11.63G– COB 6.11.79G provide *guidance* in assessing the expenses and charges relating to *schemes*.

...

Unit-linked contracts with more than one fund

- 6.11.60 R (1) Where there is more than one fund into which the *premiums* under a unit-linked contract are expected to be paid initially (disregarding any option of the *customer* to require the funds to be changed):
- (a) the effect of charges and expenses must be calculated separately in relation to each such fund;
 - (b) unless a representative figure is shown in accordance with (3), each of those reductions in yield must be shown in the information required within a ~~key features~~ *facts document*; and
 - (c) a brief explanation of the difference between them may be included.
- (2) If any of the funds referred to in (1) is a unitised with-profits fund, the calculation relating to that fund must be made on the with-profits expenses basis as described in COB 6.11.23R(2).
- (3) If, in the case of any contract, two or more of the calculations of the effect of charges and expenses would produce results which are so similar that one may fairly be regarded as representative of the other or others, only one figure for the effect of charges and expenses need be shown, accompanied by an indication that it is a representative figure.

Regular and single premium contracts

- 6.11.61 R In the case of any contract where the *premiums* include both a regular and a single *premium*:
- (1) the reduction in yield should be calculated separately for

- the regular *premiums* and for the single *premium*; and
- (2) each of those reductions in yield should be shown in the information required in COB 6.10 (Contents of key features facts: the example) with a brief indication of the difference between them.

...

Representative unit trust

- 6.11.66 G (1) Where a document refers to investment in a number of trusts, charges and expenses (as described in COB 6.11.23R) applicable to the trusts selected by the *customer* should be used. Where this is not practicable, it is permissible to use the charges and expenses of a representative *unit trust*.
- (2) The representative *unit trust* will normally be the one that is most likely to be selected by the *customers* to whom the material is issued. Where advantage is taken of this option, the *document* should include information which shows the differences if other trusts are selected. The normal presentation will be to show the differences as a reduction of investment return, or as an adjustment to the table in the key features facts document. Where the reduction of *investment* return is used, it will not be necessary to show differences unless the rounded difference is at least 0.1% and the unrounded difference is at least 0.05%.

...

Representative investment trust company

- 6.11.71 G (1) Where a document refers to investment in a number of *investment trusts*, charges and expenses (as described in COB 6.11.23R) applicable to the trusts selected by the *customer* must be used. Where this is not practical, it is permissible to use the charges and expenses of a representative *investment trust* company.
- (2) The representative *investment trust* company will normally be the one that is most likely to be selected by the *customers* to whom the material is issued. Where advantage is taken of this option, the *document* must include information which shows the differences if other *trusts* are selected. The normal presentation will be to show the differences in the other reduction of investment return, or as an adjustment to the table in the key features facts document. Where the reduction of investment return is used, it will not be necessary to show differences unless the rounded difference is at least 0.1% and the unrounded difference is at least 0.05%.

...

Translation to trust level

- 6.11.73 G (1) Having identified all the expenses in COB 6.11.72G(2), a *firm* needs to express them as rates of charges and

expenses (as described in COB 6.11.23R) that can be used in *projections* and *key features facts documents*

- (2) The process is as follows.
 - (a) The expenses in COB 6.11.72G(2)(a) and (b) should be expressed as a proportion of the overall fund using net asset value: For established companies, the relevant fund is taken to be based on the average size of the *investment trust* company for the period of assessment.
 - (b) The expenses in COB 6.11.72G(2)(c) and (d) will usually be expressed as a proportion of the fund based on *share price* or the amount of the *investment*, as appropriate. Some expenses will be a one-off expense or spread and some will be in the form of an annual charge.
 - (c) The rates of charges and expenses calculated under (a) and (b) should be added together. The fact that the calculation at (a) used net asset value can be ignored as it is assumed that the level of discount or *premium* remains unaltered.
- (3) The charges and expenses will normally be historic and need to be adjusted for any expected variation in the level of costs from the period used in the assessment to the period relevant to the disclosure of the expenses if such variation is believed to make a material difference.
- (4) Where the use of the figure calculated in (3) would be misleading, a fair estimate of the size of the company which is consistent with the adjusted expenses should be used. The same method should be used in the case of new *investment trusts*. In determining the reasonable levels of expense to be assumed, account may be taken of the expenses attributable to the existing *investment trust* which most closely corresponds to it, but with proper regard to any material differences in cost.
- (5) Set-up costs may be amortised over a limited period not normally exceeding five years.

...

The parameters

- 6.11.77 G (1) Contract details: *unit trust* for a term of 10 years with a single *investment* of £6,000 (SP).
- (2) Distributions: at the rate of 2.4% per annum, distributed as 1.2% of the offer value at the end of each half year.
 - (3) Charges:
 - (a) initial charge of 3% of *investment* (IC);
 - (b) fund management charge of 1/12 of 1.25% per month (FMC) on distribution *units*;
 - (c) attributable expenses of 1/12 of 0.25% per month (AE);
 - (d) investment spread of 3% (IS) making total bid/offer spread of 6%.

- (4) Calculation:
- (a) investment of £6,000 (SP) less (IC+IS) giving an initial bid value of £5,640
 - (b) interest of 6% pa or 0.4868% per month less (FMC + AE) = $1.004868 \times (1 - 0.015/12) - 1 = 0.3612\%$ per month
 - (c) the value after 10 years as shown in COB 6.11.79G is £6,720
 - (d) the internal rate of return necessary to generate £6,720 plus distributions over 120 months from an initial investment of £6,000 is 0.3030% per month or 3.7% per annum
 - (e) one method of creating the table is to use 20 periods of six months, each of which end with the payment of a distribution.
 - (f) after 6 months:
 - (i) the bid value of the fund before the distribution is $6000 \times 0.94 \times (1.003612)^6 = £5,763$
 - (ii) the distribution is $0.012 \times 5763/0.94 = £73$
 - (iii) the fund carried forward is $5763 - 73 = £5,690$
 - (iv) after the end of Year 1, that is, after the second 6 months
 - (v) the bid value of the fund before the distribution is $5690 \times (1.003612)^6 = £5,814$
 - (vi) the distribution is $0.012 \times 5814/0.94 = £74$
 - (vii) the fund carried forward is $5814 - 74 = £5,740$
 - (viii) this bid value is disclosed as there is no exit penalty as 'what you might get back your plan would be worth after charges'.
 - (g) the 'effect of deductions what your plan would be worth without charges' is calculated from the accumulation of the *investment* with no allowance for charges and expenses but with allowance for income:
 - (i) the accumulated fund after 1 year with no allowance for charges is $[6000 \times (1.004868)^6 - 73] \times (1.004868)^6 - 74 = £6,210$
 - (ii) the 'effect of deductions' is ~~this figure less 'what you might get back', that is, £6,210 - £5,740 = £470~~
 - (h) this process is continued throughout the term of the table; after 10 years, the accumulated investment at 0.4868% per month with no allowance for charges and expenses but with allowance for the same distributions of income is £8,621; ~~'What you might get back' is £6,723 so 'effect of deductions' is the difference or £1,898;~~
 - (i) the deduction in *investment* return is determined by calculating the rate of interest which accumulates

the *investment* with no allowance for charges and expenses but with allowance for income to £6,723; this is 0.3030% per month (0.4868% per month gives £8,621); the yearly rate is $(1.00303)^{12} - 1$ or 3.7%.

At end of year	Investment to date £	Income to date <u>Yearly income taken by you</u> £	Effect of deductions to date <u>What your plan would be worth without charges</u> £	What you might get back What your plan would be worth after charges £
1	6,000	148	470 6,210	5,740
<u>2</u>		<u>150</u>	<u>6,420</u>	<u>5,840</u>
3	6,000	454 153	715 6,660	5,940
<u>4</u>		<u>156</u>	<u>6,900</u>	<u>6,050</u>
5	6,000	766 159	998 7,150	6,150
10	6,000	1,600 173	1,890 8,620	6,720
<p>The last line in the table shows that over 10 years the effect of total charges and expenses could amount to £1,890.</p> <p>Putting it another way, this would have the same effect as bringing the illustrated investment growth from 6.0% a year down to 3.7% a year.</p>				

...

Charges and expense disclosure for contracts where the returns are determined by a formula linked to a stock market or other index.

6.11.79
A

- R Where the returns are determined by a formula linked to a stock market or other index:
- (1) “What your plan would be worth after charges” must be calculated in accordance with COB 6.11.38R by assuming the index (or indices) underlying the formula increases at the appropriate intermediate rate in COB 6.11.49R reduced by an appropriate amount, as appropriate, in accordance with COB 6.11.35A.
 - (2) Charges and expenses must be assessed in accordance with COB 6.11.23R. To calculate “what your plan would be without charges” the charges and expenses must be accumulated at the appropriate intermediate rate in COB 6.11.49R without any reduction for dividend yield. The accumulated charges and expenses must then be added to “what your plan would be worth after charges” to determine “what your plan would be worth without charges”.
 - (3) The reduction in yield is the difference between:

- (a) the rate of return which, if applied (on an annual compound basis) to the *premium* over the contract period will produce “what your plan would be worth without charges”; and
- (b) the rate of return which, if applied (on an annual compound basis) to the *premium* over the contract period will produce “what your plan would be worth after charges”.

Example of the calculation of reduction in investment return

6.11.79
B

- G (1) This guidance contains an example that has been prepared to assist understanding of the method of calculating the reduction in investment return for contracts where the returns are determined by a formula linked to a stock market index. However, the figures should not be regarded as representative or indicative of likely levels of charges and expenses to be expected.
- (2) Contract details: Guaranteed equity bond for a term of 6 years with a single investment of £10,000. There is no surrender value available before the end of the 6-year term.
- (3) The contract provides full FTSE 100 return over the 6-year period, together with guaranteed return of capital.
- (4) Charges: charges and expenses are 8% of the investment
- (5) Rate of return: The intermediate rate of return for tax exempt business from table COB 6.11.50R is 7% (this is appropriate because the formula is linked to the gross change in the FTSE 100). An appropriate dividend yield might be 3%, so the proceeds could be calculated assuming that the FTSE 100 rises by 4% per annum.
- (6) Calculation:
- (a) “what your plan would be after charges” is $£10,000 * 1.04^6 = £12,653$;
 - (b) charges and expenses accumulated to the end to the contract are $£10,000 * 0.08 * 1.06^6 = £1135$. (a 6% rate of return has been used here because the contract is in the life fund);
 - (c) “what your plan would be worth without charges” is $£12,653 + £1135 = £13,788$;
 - (d) so the charges and expenses reduce the growth in the contract from $(13,788/10,000)^{(1/6)} - 1 = 5.5%$ to 4%.

...

6.11.85 R In the formulae in COB 6.11.81R, the mortality functions must be calculated at a rate of interest J, where:

- (1) $J = (1 + I)/(1 + R) - 1$;
- (2) R is the rate of escalation increase appropriate for the *customer* in formulae (2) and (3) in COB 6.11.80R; it is

3% for pre-April 1997 *protected rights* benefits in formula (45), and zero otherwise;

- (3) The rate of return assumptions (1) are as set out in the tables in COB 6.11.50R– COB 6.11.52R with real rates of return being used for formulae (1) and (5) for post-April 1997 protected rights in COB 6.11.81R and monetary rates otherwise; and
- (4) different factors will need to be calculated where a *projection* is being prepared on lower and higher rates of return, and where appropriate also the intermediate rate.

6.12 Stakeholder pension schemes: decision trees

Application

- 6.12.1 G The rule specifying the general application of this section is COB 6.1.2R(4).

Requirement to provide a decision tree

- 6.12.2 R A *firm* must ensure that the *key facts document* it provides in relation to a *stakeholder pension scheme* is accompanied by a decision tree prepared in accordance with this section and COB 6 Ann 4, unless COB 6.12.4R applies.
- 6.12.3 G There is no obligation to supply a decision tree as specified in COB 6.12.2R where a *firm* has *personally recommended a stakeholder pension scheme* to a *private customer* because a *firm* who *personally recommends* is required to give an example as part of the appropriate *key facts* document. *Firms* may wish to supply a copy of any decision tree used as part of the advice process along with the mandatory *suitability letter*.

Omission of irrelevant decision trees

- 6.12.4 R Where a *firm* knows that a certain decision tree or trees will not be relevant to a *private customer* to whom *key facts* are to be given, the *firm* can omit them and include only the relevant decision tree or trees.
- 6.12.5 G There are three versions of the decision trees – for employed persons, the self-employed and those not in employment. The specified introductory text is a required part of each decision tree. *Firms* are permitted to issue one decision tree, consisting of the introductory text and the relevant version of the flowcharts, where the employment status of the *customer* is known. In other circumstances, the introductory text and all three versions of the flowcharts should be included. This *guidance* applies whether decision trees are within the *key facts document* or are used separately.

Use of decision trees during telephone calls

- 6.12.6 R (1) When a *firm* proposes to *deal* with a *private customer* on the telephone for the purposes of providing information through a decision tree about *stakeholder pension schemes*, the *firm* may do so only if it has adequate evidence to show that the *private customer* has access to a copy of a decision tree, prepared in accordance with this section and COB 6 Ann 4 (Decision trees for stakeholder pension schemes: text, content and format), during the conversation.
- (2) Paragraph (1) does not apply to a *stakeholder pension scheme operator* when its *stakeholder pension scheme* is sold on the *personal recommendation* of, or arranged to be sold by, another *firm*.

- 6.12.7 G COB 6.12.6R is intended to ensure that, where a *firm* takes a *private customer* through the decision tree process by telephone it takes reasonable care to ensure that the *private customer* has a decision tree in front of him. For example, on first contact *firms* could enquire whether the *private customer* has a decision tree, and if not, send one to him before taking him through the decision tree process during a follow-up telephone call.

Information to be provided where a decision tree is used but no advice or recommendation made

- 6.12.8 R (1) When a *firm* provides a *private customer* with information through a decision tree concerning membership of a *stakeholder pension scheme* but does not give *advice on investments* or make a *personal recommendation*, the *firm* must provide the *private customer* with a written notice that:
- (a) confirms that no *advice on investments* has been given and that the *private customer* has decided that the *stakeholder pension scheme* is appropriate as a result of the answers he has given to the questions posed in the decision tree; and
 - (b) includes a copy of the decision tree indicating the answers which the *private customer* has given.
- (2) The written notice required by (1) must be provided by the *firm* no later than the *issue* of the post-sale notification of the *private customer's* right to cancel under the *cancellation rules*.

Decision trees: form and content

- 6.12.9 R If a *firm* produces a decision tree it must (subject to COB 6.12.10R) reproduce the text, content and format set out in COB 6 Ann 4 (Decision trees for stakeholder pension schemes: text, content and format).

Extent to which form and content may be adapted

- 6.12.10 R The only adaptations, other than those in COB 6.12.12R, that a *firm* may make to the decision trees specified in COB 6.12.9R are those suitable to brand the decision tree with the corporate image of the *firm*, to reflect the design of its *stakeholder pension scheme* promotional material or to reflect the use of interactive delivery.
- 6.12.11 G (1) There is a limited scope within COB 6.12.9R to depart from the prescribed decision tree format and content in order to blend the trees in with other promotional materials such as the *key facts document* or internet *financial promotions*. However, the text and general design should follow the prescribed content and format. *Firms* will be aware that the *FSA* publishes its own

version of the decision trees for public use: *firms* may consider them as examples of acceptable design.

- (2) Examples of items and formatting where no adaptations should be made include:
 - (a) the text – both content and order – whether in the introduction, the boxes within the flowcharts or any other sections of the decision trees;
 - (b) the use of boxed items within the introductory text;
 - (c) the use of emphasis (*firms* can choose the method of giving emphasis, such as size, bold or Italic text);
 - (d) the vertical flow and pagination of the flowcharts within the decision trees;
 - (e) the boxes within the flowchart pages – these should be rectangular and filled with one consistent colour, except that two tints of the base colour may be used to highlight tick boxes and to differentiate columns of figures;
 - (f) the directional arrows linking the boxes within flowchart pages – these should be one design and the same colour as fills the flowchart boxes.
- (3) Examples of items where adaptations can be made include:
 - (a) the typeface and font size of the text;
 - (b) the pagination of the introductory text and the use of columns;
 - (c) the edging of boxes (for example, use of shadow or rounded corners);
 - (d) the use of background colours, for example, to match corporate colours or product brochures (see (2)(e));
 - (e) separate colour schemes to differentiate between sets of decision trees, for example, between employed and self-employed versions;
 - (f) the use of extra colour to highlight headings within flowchart pages and to identify separate versions of the decision trees;
 - (g) the size of paper (A4 is recommended, but other sizes are possible, provided that the flowchart pages are clear and legible);
 - (h) where delivery is through an interactive computer-based system, the wording of the introductory text that explains how to use the decision trees.

Requirement to include specified information

- 6.12.12 R (1) A *firm* must ensure that its decision trees include:
- (a) (in the place in the relevant table in the introductory text at COB 6 Ann 4 where the square brackets appear):
 - (i) in the heading of the table, the current tax year; and
 - (ii) the Basic State Pension rates and Minimum income Guarantee rates for the current tax year; and
 - (b) (where the square brackets appear) at the bottom of the cover page and at the bottom of each page of the flow charts, the current tax year.
- (2) A *firm* must, subject to COB 6.12.16R (Reconciling the time limits for making changes), make the changes required by (1) as soon as reasonably practicable and, in any case, within three *months* of the start of the tax year.
- 6.12.13 G The appropriate rates will be those announced by the Government (usually, but not necessarily, in the Chancellor of the Exchequer's annual Budget) as applying to the tax year in question. The relevant Basic State Pension and Minimum Income Guarantee rates for the current tax year will be included in the version of the trees published by the FSA.

Requirement to amend decision trees when the rules change

- 6.12.14 R If COB 6 Ann 4 is subsequently amended:
- (1) the *firm* must amend its decision trees as soon as reasonably practicable and, in any case, within three *months* of the date when the amendments to COB 6 Ann 4 come into force; and
 - (2) the *firm* may continue to use decision trees that complied with the previous version of COB 6 Ann 4 until it has done so.
- 6.12.15 G The FSA expects to review the decision trees once each year and will amend them as necessary as near as possible to the start of the new tax year. The amended version of the decision trees will be published on the a FSA's web-site and available in printed form when the rules are amended each year. *Firms* must bring their trees into line with the amended rules within three *months*, but may continue to use their "old" trees until they have done so.

Reconciling the time limits for effecting changes

- 6.12.16 R Where, in any year, a *firm* is required to make changes to decision trees under COB 6.12.12R and COB 6.12.14R, it may make both sets of changes at the same time, provided that it does so within the time limits in COB 6.12.14R.
- 6.12.17 G *Firms* are required by COB 6.12.12R, to insert the basic State Pension rates and Minimum Income Guarantee rates for the current tax year into the relevant table in the introductory text to their decision trees each year and to identify the relevant year in the heading of the table and also at the bottom of the pages specified in COB 6.12.12R(1). The *rules* require *firms* to do this within three *months* of the start of the tax year if no other changes to the trees are required. However, COB 6.14.16R allows them to delay updating the Basic State Pension and Minimum Income Guarantee rates until the same time as they make any other amendments to their trees which they are required to make under COB 6.12.14R, provided that they do so within no more than three *months* of the date when those amendments come into force.

Requirement to use only the most recent version of decision trees

- 6.12.18 R A *firm* must ensure, subject to COB 6.12.16R, that it uses only the most recent version of its decision trees.
- 6.12.19 R Where a *firm* makes use of both electronic and hard copy versions of the decision trees specified in COB 6.12.9R, it must synchronise the timing of any changes to those trees as far as reasonably practicable.
- 6.12.20 G *Firms* are expected to ensure that they make the necessary changes to all of their trees at the same time (or as close to the same time as possible), including those used by other organisations for which they are responsible, in order to minimise the risk of consumer confusion. This may mean delaying changes to the trees in some instances until the *firm* is able to make all of the required changes, but all of a *firm's* trees must be amended within the time period allowed.

6.13 Cancellation and withdrawal

Note to CP readers: this section will consist of the current rules and guidance in COB 6.7 reproduced and renumbered as 6.13 with the following amendments:

6.13.1 **RG** ~~COB 6.7 applies to:~~ The rule specifying the general application of this section is COB 6.1.2R(5).

- ~~(1) a product provider;~~
- ~~(2) an insurer which provides pure protection contracts;~~
- ~~(3) an independent intermediary, when acting as an EIS manager, ISA manager or plan manager, or when selling on to a customer units which the firm has bought or redeemed as principal for that purpose;~~
- ~~(4) a deposit-taking firm, when acting as ISA manager or as the firm responsible for holding deposits in respect of another firm's cash deposit ISA;~~
- ~~(5) the operator of a stakeholder pension scheme.~~

6.13.13 **G** For the purposes of COB 6.13.12R(2)(a), disclosure of the option to make regular contributions may, for example, take place in ~~key features~~ the key facts document. For the purposes of COB 6.13.12R(2)(b) an individual customer's intention to make regular contributions could, for example, be demonstrated by the establishment of a direct debit mandate or instructions to an employer to deduct regular contributions from salary.

6.13.16 **R** Table Notes to cancellable investment agreements - life

This table belongs to COB 6.13.15R

Notes to COB 6.13.15R(1):

1. Recurring single premium life policy. Under certain conditions, only the first premium in what might be a series of premiums (for example, in the case of a mini-ISA insurance component) attracts cancellation rights under COB 6.13.7R(1). The conditions are:

- (a) the option to make a series of single premium payments is disclosed at outset (for example, in ~~key features~~ the key facts document); and

6.13.18 **R** Table Notes to cancellable investment agreements – non-life

This table belongs to COB 6.13.17R

Notes to COB 6.13.17R(1):

1. Recurring single payment *pension contracts* and *unit savings plans*. Under certain conditions, only the first payment in what might be a series of payments attracts cancellation rights under COB 6.13.7R(1). The conditions are:

(a) the intention or option to make a series of single payments is disclosed at outset (for example, in ~~key features~~ the key facts document); and

- 6.13.19 R Table Cancellation substitute
This table belongs to COB 6.13.14R(2), cases 4(a) and 7(a) of column 2 to COB 6.13.15R and case 12 of column 2 to COB 6.13.17R

Cancellation – cancellation substitute

1. (e) that the *customer* is entitled to ~~key features~~ a key facts document and is advised to check with the firm if the ~~key features have~~ it has not been received;

Note:

1. The notice must be issued separately or feature prominently as part of the application form, or suitability letter ~~or key features~~ supplied to the *customer*.

- 6.13.20 R Table Cancellation – cash deposit ISA
This table belongs to COB 6.13.7R(3)(3)

Cancellation – cash deposit ISA

1. The notice must be issued separately or feature prominently as part of the minimum information ~~or key features~~ supplied to the *customer*.

- 6.13.26 G COB 6.13.23 R (1)(a) and (b) do not apply where the increase results from a 'pre-selected option'. Increases of this type (for example, index-linked *premiums* or previously disclosed (for example, in the ~~key features~~ key facts document or 'terms and conditions) and agreed with the *customer* at the outset. Any subsequent increases of 25% or more resulting from a 'pre-selected option' will not, therefore, attract fresh disclosure or cancellation rights.

- 6.13.36 R A *post-sale notice* must state:

- (1) that there is an agreement between the *customer* and the *firm*;
- (2) that there is a right to cancel the agreement;
- (3) the duration of the right to cancel and the date at which the right begins and ends;

- (4) the steps the *customer* must take to cancel the agreement;
- (5) the consequences of cancelling the agreement, including a prominent statement of any *shortfall* (see COB 6.13.54R) which the *customer* will have to bear;
- (6) (as a prominent reminder) that the *customer* is entitled to ~~key features~~ a key facts document and is advised to check with the *firm* if the ~~key features~~ key facts document has not been received (except in the case of *pure protection contracts*);
and
- (7) that the *customer's* right to cancel will remain unaffected if any contingency beyond the *customer's* control arises which makes it impracticable for the *customer* to communicate his wish to cancel (see COB 6.13.28).

Note that current COB 6.7 is also being amended as set out in CP166 (Reforming Polarisation: removing the barriers to choice) and 6.13 will contain the relevant amendments arising from that consultation.

6.14 Variations to existing life policies

Application

- 6.14.1 G The rule specifying the general application of this section is COB 6.1.2R(6).

Variations

- 6.14.2 R (1) When a *policyholder* applies to vary a *life policy* issued before [dd/mm/yy] (or is *personally recommended* to do so), and the variation of the *life policy* gives rise to a right to cancel under COB 6.13.23R (Variations), information must be given to the *policyholder* by the *firm* that is *personally recommending, arranging (bringing about) or effecting* the variation before it is put into effect, unless COB 6.14.5R applies.
- (2) The *firm* must believe on reasonable grounds that the information given in accordance with (1) is sufficient to enable the *policyholder* to understand the consequences of the variation.
- (3) If *key features* were issued originally to a *policyholder*, a *firm* may:
- (a) provide a complete new set of *key features* or a *key facts document*; or
 - (b) provide relevant elements of the information contained within *key features* where this is sufficient to meet the requirements of (2).
- 6.14.3 G If the *life policy* was issued to the *policyholder* on or after [dd/mm/yy] and the *key facts document* were provided to the *policyholder* a *firm* may comply with the requirements of COB 6.14.2 R (1) by either:
- (1) providing a new *key facts document*; or
 - (2) providing relevant elements of the information contained in the *key facts document* where this is sufficient to meet the requirements of COB 6.14.2R.
- 6.14.4 R If the *policyholder* in COB 6.14.3 R or COB 6.14.2R (3) had been provided with the information required by COB 6.2.5R (Third Life Directive information) instead of a *key facts document* or *key features*, a *firm* may comply with the requirements of COB 6.14.2R (1) by either:
- (1) providing a new information document setting out the information required by COB 6.2.5R; or
 - (2) providing relevant elements of the information set out in that table where this is sufficient to meet the requirements of COB 6.14.2 R(2).

Exceptions to providing information in respect of variations

- 6.14.5 R (1) *COB 6.14.2R* does not apply to a *product provider* where the variation to its *life policy* is effected on the *personal recommendation* of or *arranged (brought about)* by another *firm*.
- (2) *COB 6.14.2R* does not apply to a *firm* where the *policyholder* is to vary a *life policy* without making a written application, but the *firm* must instead ensure that it gives an adequate oral explanation of the variation and must give or send the *policyholder* the information required by *COB 6.14.2* without delay after the variation being effected.
- (3) (a) There is no requirement to provide information in accordance with *COB 6.14.2R* for a variation to an existing *policy* if, at the time that the *policyholder* signs the application, he is *habitually resident*:
- (i) in an *EEA State* other than the *United Kingdom*;
or
 - (ii) outside the *EEA*, and he is not present in the *United Kingdom*.
- (b) Paragraph (a) does not apply to a *firm* acting as an *outgoing ECA provider*.

6.15 **Information on existing contracts**

Application

6.15.1 G The rule specifying the general application of this section is COB 6.1.2R(7).

Surrender values

- 6.15.2 R (1) Where a *long-term insurer* receives:
- (a) a request from a *policyholder* who is a *private customer* for a quotation for the *surrender value* of a *life policy*; or
 - (b) any other indication that a *policyholder* who is a *private customer* wishes to surrender a *life policy*;
- which is of a type which may be traded on an existing secondary market for *life policies*, it must, before or when providing the quotation or, if no quotation is provided, before accepting a surrender), make the *policyholder* aware in writing of the information in (2).
- (2) The *policyholder* must be made aware of:
- (a) the fact that, as an alternative to surrendering to the *long-term insurer*, the *life policy* may be traded on that secondary market;
 - (b) the fact that there may be financial benefits in trading the *life policy* when compared to surrendering to the *long-term insurer*;
 - (c) how the *policyholder* may trade the *life policy* on the secondary market should he decide to do so; and
 - (d) other relevant options available to the *policyholder*.
- 6.15.3 G (1) When complying with COB 6.15.2R, a *long term insurer* may identify whether the policy is of a type which may be traded by obtaining information from a trade association or other body which holds information on the relevant secondary market.
- (2) COB 6.15.2R(2)(a) requires a *firm* to ensure that the *policyholder* is made aware of the existence of the secondary market and how he might access it. A *firm* may, if it wishes, go further than this (for example, by telling the *policyholder* more about the market and the procedures) but it is not obliged to do so.
- (3) The other relevant options referred to in COB 6.15.2R(2)(d) may, for example, include informing the *policyholder* about making the policy paid-up or taking a loan against the policy, and about the desirability of obtaining professional advice before surrendering.
- 6.15.4 R Where a *long-term insurer* believes that COB 6.15.2R does not apply because its own policies are of a type which is not

tradable, it must review the position every six months and make and retain records indefinitely to support this view.

Open market option: "Wake-up letter"

- 6.15.5 R (1) A *firm* must provide a *scheme* member or *policyholder* described in (2) with the information set out in (3) in writing:
- (a) when there is a request for a retirement quotation more than four months before the *scheme* member's or *policyholder's* intended retirement date; and
 - (b) at least four months before the *scheme* member's or *policyholder's* intended retirement date.
- (2) A person in relation to whom (1) applies is a *private customer* who:
- (a) is a member of a *personal pension scheme*; or
 - (b) is a member of a *stakeholder pension scheme*; or
 - (c) is the holder of a *free-standing additional voluntary contribution* contract; or
 - (d) (where an *open market option* is available under the contract terms) is the holder of a *retirement annuity* contract; or
 - (e) (where an *open market option* is available under the contract terms) the holder of a *pension buy-out* contract.
- (3) The information which a *firm* must provide in writing under (1) is an explanation of:
- (a) the *open market option* (including the fact that companies offer different annuity rates and different types of annuity, and that the *scheme* member or *policyholder* may get a better deal by shopping around);
 - (b) the financial advantages and disadvantages in general terms of making use of this option when compared with taking a pension annuity with that *firm*;
 - (c) how the *scheme* member or *policyholder* may make use of the *open market option* should he decide to do so; and
 - (d) the advisability of taking professional advice.

6.15.6 G *Principle 7* (Communications with *customers*) requires a *firm* to pay due regard to the information needs of its *clients* and communicate information to them in a way which is clear, fair and not misleading. In the *FSA's* view, a *firm* would not normally be able to satisfy its obligations under *Principle 7* if it sent the information required by *COB 6.15.5R* more than six months before the *scheme* member's or *policyholder's* intended retirement date.

6.15.7 G (1) A *firm* may comply with its obligations under *COB 6.15.5R* by providing a copy of the *FSA's* factsheet about annuities entitled "Your pension – it's time to choose?". However, if a *firm* is aware that its pension *scheme* or contract offers particular features which are likely to be relevant to *customers'* decisions (for example, an option to acquire an annuity at a guaranteed rate of interest) then the *firm* would also be expected to draw attention to those features. *Firms* can obtain copies of this factsheet by telephoning the *FSA's* Consumer Helpline on 0845 606 1234.

(2) Where a *firm* provides the *FSA's* factsheet about annuities ("Your pension – it's time to choose?") under *COB 6.15.5R*, it may wish to include the following wording in its covering letter:

"The enclosed factsheet about your options is from the Financial Services Authority (FSA), the independent watchdog set up by Parliament. Please read this document carefully."

Open market option "Reminder letter"

6.15.8 R A *firm* which has provided information under *COB 6.15.5R*, must, at least six weeks before his *intended retirement date*, remind the *scheme* member or *policyholder* of that communication, and must provide him with an estimated *final transfer value*.

COB 6 Annexes 1 to 4

COB 6 Annex 1R

Templates for the front sheet or screen of the key facts document.

The following four pages contain the templates which *firms* may use to prepare their front sheet or screen for a *key facts document*.

1. A4 Black and White
2. A4 Landscape
3. Square (210x210mm) Black and White
4. Internet screen

[Readers' note: Colour versions of these templates will be provided in the final version of the rules.]

The templates may only be edited by *firms* within the areas marked on the template. In addition, *firms* may apply their own colours to the template, with the exception of the FSA logo, which must appear as indicated, either in black and white or using the FSA's corporate colours. Further information on the use of the FSA logo can be found at *GEN 5* (The FSA logo).



keyfacts

Firms can edit this text

The ABC Personal Pension Plan

See inside for:

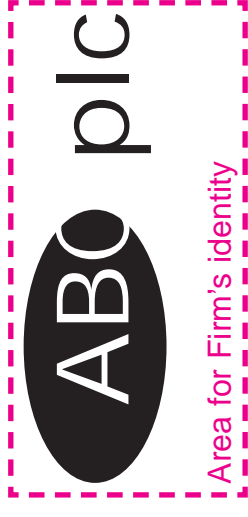
- A quick guide, and
- Some frequently asked questions



Financial Services Authority

The FSA is the independent watchdog that regulates financial services. It requires us to give you the **keyfacts**. But you must decide if this product is right for you.

keyfacts



Firms can edit this text

The ABC Personal Pension Plan

See inside for:

- A quick guide, and
- Some frequently asked questions



Financial Services Authority

The FSA is the independent watchdog that regulates financial services. It requires us to give you the **keyfacts**. But you must decide if this product is right for you.



keyfacts

Firms can edit this text

The ABC Personal Pension Plan

See inside for:

- A quick guide, and
- Some frequently asked questions



Financial Services Authority

The FSA is the independent watchdog that regulates financial services. It requires us to give you the **keyfacts**. But you must decide if this product is right for you.



keyfacts

Firms can edit this text

The ABC Personal Pension Plan

Select from the options below:

- [A quick guide](#), and
- [Some frequently asked questions](#)



FSA®

Financial Services Authority

The FSA is the independent watchdog that regulates financial services. It requires us to give you the **keyfacts**. But you must decide if this product is right for you.

COB 6 Ann 2 Projection of future value of a pension fund

What would a fund of [£u] give me if I retire at age [bb]?

- You must use your fund to buy an annuity to give you an income.
- If we make some assumptions, we can give you an idea of how much income you could get with a fund of [£u]

Let's assume:

- you choose [*Specify the customer choices which impact on the size of the annuity payment. Separate into a number of bullet points where necessary.*]
- inflation from now until you are [bb] averages at [ee%] a year (not guaranteed); and
- at age [bb], annuity rates are based on an interest rate of [dd%] [above inflation] (not guaranteed);

You could use this to get:

A tax-free lump sum of: [£]	A[n] [initial] yearly income of: [£] (before tax)	What this income would be worth in today's money: [£]
-----------------------------	--	---

OR

A tax-free lump sum of: £Nil	A[n] [initial] yearly income of: [£] (before tax)	What this income would be worth in today's money: [£]
------------------------------	--	---

What does this example tell me?

- It gives you an idea of the size of the tax-free lump sum and [initial] income, or [initial] income only, that you might be able to buy with a pension fund of [£u].
- You will only receive the amount shown if all the assumptions are met and you chose one of the pension options shown.

Please remember: these figures are not guaranteed. You could receive more or less than this.

Why tell me what the income would be worth in today's money?

- Over time, inflation reduces the buying power of money. We tell you what the [initial] income would be in today's money to give you an idea of what it will actually buy when you retire.

Your yearly statement

The Department for Work and Pensions requires us to send you a statement each year to estimate what your income might be when you retire. This is to help you keep track of how well your plan is doing.

The assumptions we must use are different from those used in the example above. They are:

- that you take no lump sum on retirement and use all of your fund to buy an annuity;
- that the annuity will also provide a spouse's pension payable on your death; and
- that the income from the annuity you buy will increase with prices.

On that basis, the yearly income you would receive would be worth [£] in today's money.

COB 6 Ann 3 Projection of future value of an income withdrawal plan

What would a fund of [£u] give me at age [bb]?

- You must use your fund to buy an annuity to give you an income.
- If we make some assumptions, we can give you an idea of how much income you could get with a fund of [£u]

Let's assume:

- you choose [*Specify the customer choices which impact on the size of the annuity payment. Separate into a number of bullet points where necessary*];
- inflation from now until you are [bb] averages at [ee%] a year (not guaranteed); and
- at age [bb], annuity rates are based on an interest rate of [dd%] above inflation (not guaranteed);

You could use this to get:

A[n] [initial] yearly [£]
income of:
(before tax)

What does this example tell me?

- It gives you an idea of how much income you would get if all the assumptions were met.
- You will only receive the amount shown if all the assumptions are met.
- You can compare this figure against the income you could get if you bought an annuity now.

Please remember: This figure is not guaranteed. You could receive more or less income than this.

How much would my fund need to grow each year to give me the same income at [bb] as I could get from an annuity now?

- If you bought an annuity today you could receive [£gg]. This would be paid [*include suitable wording to reflect the same specific customer choices used to calculate the figure under "You could use this to get:"*].(The annuity rate assumes an underlying interest rate of [%]).
- But if you invest in this plan and take withdrawals of [£gg] each year, your fund would need to grow by [ff%] each year to give you the same income from an annuity at [bb].
 - or by [ff%] each year to give you the same income at [cc]
 - or by [ff%] each year to give you the same income at [cc]

COB 6 Ann 4

[Note to CP readers: The current COB 6 Ann 1 (Decision trees for stakeholder pension schemes (as required in COB 6.5.8R): text, content and format (R)) will not be changed by these proposals and will be re-numbered as COB 6 Ann 4.

Amendments to COB 5.3 (Suitability letters) and consequential amendment to current COB 6.5.45

Chapter 5

5.3 Suitability

COB 5.3 is amended as follows:

5.3.16 R The *suitability letter* in COB 5.3.14R must:

- (1) ...
- (2) ...
- (3) ... ~~and~~
- (4) ... ~~;~~
- (5) if the *firm* is acting as a *broker fund adviser* for a *private customer*, contain the information in COB 5.3.20R(6); and
- (6) where relevant to any *packaged product* or *cash deposit ISA* being *personally recommended* provide the *customer* with a short description of any:
 - (a) *credit* provided to the *firm* by a *product provider* (other than *commission* due to the *firm* in accordance with an indemnity claw-back arrangement) or by any *undertaking* in the *immediate group* of the *product provider* where the amount of the *credit* exceeds five per cent of the share and loan capital of the *firm*; and
 - (b) (i) any direct or indirect holding of more than ten per cent in the capital or voting power of a *product provider* and which is held by the *firm* and specifying the amount of the holding; and
 - (ii) if less than (i), any direct or indirect holding in the capital of a *product provider* which in value is equivalent to five per cent or more of the *firm's* own capital, but the description need not specify the amount.

5.3.18 R The *firm* must provide the letter required by COB 5.3.14R to the *customer* as soon as possible after the *personal recommendation* has been made, and no later than:

- (1) ...
- (2) ...

5.3.20 R A *firm* acting as a *broker fund adviser* for a *private customer* must:

- (1) ...

Amendments to COB 5.3 (Suitability letters) and consequential amendment to current COB 6.5.45

- (2) ...
- (3) ...
- (4) ... and
- (5) ensure that any significant change in the *investment* strategy of the fund, where known to the *firm*, is notified to the *customer* in advance together with confirmation why the fund continues to be suitable for the *customer's* circumstances and the information in (6) or an alternative recommendation; and
- (6) inform the *private customer* of:
 - (a) the investment objectives, and the policies and strategies which are proposed to be followed to achieve those objectives;
 - (b) the relevant published index or other indicator with which comparison of the performance of the fund or scheme may fairly be made, which is, in the case of *life policies* or pension funds, the matters in (c) and in the case of *broker unit trusts*, the matters in (d);
 - (c)
 - (i) where the *long-term insurer* has its own managed unit-linked life or pension fund, the average performance of that managed fund; or
 - (ii) the average performance of one or more other funds, which are not *broker funds*, into which under the terms of the *policy* the *private customer* may switch, the objectives of which do not conflict with those of the *broker fund*; or
 - (iii) where there is no such fund, the sector average of *unit trusts* appropriate to the objectives and strategy of the *broker unit trust*;
 - (d) the sector average of *unit trusts* appropriate to the objectives and strategy of the *broker unit trust*;
 - (e) a published index or sector average which the *firm* must identify as appropriate to the investment objectives and strategy of the fund or *scheme* under comparison; and
 - (f) the name of any *person* providing *advice* under the arrangement.

Amendments to COB 5.3 (Suitability letters) and consequential amendment to current COB 6.5.45

Chapter 6

6.5 Content of key features and important information

COB 6.5.45 is amended as follows:

- 6.5.45 R ~~[deleted]~~ In relation to any fund or *scheme* of which the *firm* is a *broker fund adviser*, at the same time as providing a *private customer* with a *suitability letter* (in accordance with COB 5.3 Suitability) or before any change in investment objectives or strategies, the *firm* must inform the *private customer* in writing of:
- (1) ~~the investment objectives, and the policies and strategies which are proposed to be followed to achieve those objectives~~
 - (2) ~~the relevant published index or other indicator with which comparison of the performance of the fund or *scheme* may fairly be made, which is, in the case of:~~
 - (a) ~~*life policies* or pension funds:~~
 - (i) ~~where the *long term insurer* has its own managed unit-linked life or pension fund, the average performance of that managed fund; or~~
 - (ii) ~~the average performance of one or more other funds, which are not *broker funds*, into which under the terms of the *policy* the *private customer* may switch, the objectives of which do not conflict with those of the *broker fund*; or~~
 - (iii) ~~where there is no such fund, the sector average of *unit trusts* appropriate to the objectives and strategy of the *broker unit trust*;~~
 - (b) ~~*broker unit trusts*, the sector average of *unit trusts* appropriate to the objectives and strategy of the *broker unit trust*;~~
 - (3) ~~a published index or sector average which the *firm* must identify as appropriate to the investment objectives and strategy of the fund or *scheme* under comparison; and~~
 - (4) ~~the name of any *person* providing *advice* under the arrangement.~~

Amendments to the Glossary

Glossary of definitions

Glossary

<u><i>key facts document</i></u>	<u>a document containing information about a packaged product, cash deposit ISA, income withdrawals or other specified investment, which is produced in accordance with COB 6.6 to COB 6.10(Contents of key facts documents: general to Contents of the key facts document: the example);</u>
<u><i>example</i></u>	<u>an element of a key facts document containing financial and other information prepared and presented in accordance with COB 6.10 (Contents of the key facts document: the example);</u>
<u><i>personal example</i></u>	<u>an example where the financial information is calculated on the basis set out in COB 6.10.4R(1) (Personal and generic examples);</u>
<u><i>generic example</i></u>	<u>an example where the financial information is calculated on the basis set out in COB 6.10.4R(2) (Personal and generic examples);</u>

Consequential amendments

A Electronic Commerce Directive (ECO)

1.2 Provision of essential information to customers

...

Provision of essential information to consumers: UK requirements

1.2.6 E (1) In order to comply with *ECO* 1.2.1 R, before entering into a contract with a *UK ECA recipient* who is a *consumer*, an *incoming ECA provider* should comply with the following requirements:

- (a) in every case where ~~*COB 6.2 (Provision of key features)*~~ or ~~*COB 6.4 (Product disclosure: special situations)*~~, *COB 6.2 (Product information: general)* or *COB 6.4 (Provision of the key facts document)* would require the provision of *key features* a *key facts document*, provide the information identified in the *rules* listed at *ECO* 1.2.9 E;

...

1.2.9 R Table Provision of essential information to consumers: key features and *key facts documents*. This table belongs to *ECO* 1.2.6 E(1)(a)

COB rule	Description
<u><i>COB 6.6.16 R</i></u>	<u>Personal example</u>
<u><i>COB 6.4.29 R</i></u>	<u>Traded life policies</u>
<u><i>COB 6.7.2 R(2)</i></u>	<u>Further information about complaints and compensation</u>
<u><i>COB 6.8.2 R</i></u>	<u>Simplified prospectus</u>
<u><i>COB 6.8.4 R (1) - (7) and (9) - (16)</i></u>	<u>Investment trust savings schemes</u>
<u><i>COB 6.9.3 R (3) - (10) and (12) - (14)</i></u>	<u>Cash deposit ISAs</u>
<u><i>COB 6.9.5 R</i></u>	<u>Friendly Society tax exempt policies</u>
<u><i>COB 6.9.6 R (1), (2), (4) and (7)</i></u>	<u>ISAs (excluding cash deposit ISAs) and PEPs</u>
<i>COB 6.5.15 R</i>	Projections: an example
<i>COB 6.5.19 R (1)</i>	Projections: an example
<i>COB 6.5.19 R (3)</i>	Projections: an example

COB rule	Description
COB 6.5.19 R(1)(a) and (c)	Further information for life policies, schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
COB 6.5.40 R (3)	Further information for life policies, schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
COB 6.5.40 R (4)(a) – (g), (i) – (p)	Further information for life policies, schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
COB 6.5.40 R (5)(a) – (b), (d) – (g)	Further information for life policies, schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
COB 6.5.40 R (6)	Further information for life policies, schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
COB 6.5.42 R (3) – (10), (12) – (14)	Information requirements for cash deposit ISAs, friendly society tax exempt policies, traded life policies and broker funds
COB 6.5.43 R	Friendly society tax exempt policies
COB 6.5.44 R	Traded life policies

...

1.3 Provision of essential information to consumers: UK requirements

1.3.1 R *ECO ...*

1.3.2 G The 'insurance derogation' set out in the Annex to the *E-Commerce Directive* allows the *United Kingdom*, as a *Host State*, to continue to apply its own local rules to an insurer, where the latter is providing an *electronic commerce activity* to a *UK ECA recipient*, in circumstances where these *Host State* rules fall within the scope of any of the *Insurance Directives*. Against this background, the *FSA* believes it is appropriate that certain of the requirements of *COB 3* (Financial promotion) and ~~*COB 6* (Product disclosure and the customer's right to cancel or withdraw)~~ *COB 6* (Consumer information and disclosure for packaged products and cash deposit ISAs) should continue to apply to the provision of these services.

1.3.3 R Table Provision of insurance services. This table belongs to ECO 1.3.1 R

The following provisions of (COB):	Description

The following provisions of (COB):	Description
<u>COB 6 except:</u> <u>COB 6.2.4 – 6.2.7,</u> <u>COB 6.7.2(1) and</u> <u>COB 6.13.</u> COB 3 (entire chapter) COB 6.1 COB 6.2 COB 6.4 COB 6.5 (except COB 6.5.40 R (1)(b), COB 6.5.47 R, COB 6.5.48 G and COB 6.5.49 R) COB 6.6	<u>Consumer information and disclosure for packaged products and cash deposit ISAs</u> <u>Product information: general</u> <u>Contents of key facts documents: life products</u> <u>Cancellation and withdrawal</u> Financial promotion Packaged product and ISA disclosure Provision of key features Product disclosure: special situations Content of key features Projections

...

B Authorisation (AUTH)

3.16 Specific obligations: applications seeking to establish, operate or wind up a stakeholder pension scheme

...

- 3.16.2 G Establishment and operation of a *stakeholder pension scheme* may involve heavy investment in new systems or changes to existing systems which, in view of the limit on charges, might not be recovered for some time. So, the *FSA* will normally require an applicant wishing to *establish, operate or wind up a stakeholder pension scheme* to provide financial projections for the whole period up to the point at which the new business is expected to break even. The applicant must also be able to demonstrate to the *FSA* that it is ready, willing and organised to comply with the requirements (including those in *COB 5*, *COB 6* and *TC 2*) applicable to operation of a *stakeholder pension scheme*.

...

5 Qualifying for authorisation under the Act

Annex 3 G Application of the Handbook to Incoming EEA Firms

2 Table

(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
...		
<i>COB</i>	<i>COB</i> applies, except that <i>COB 9</i> (Customer assets) does not apply with respect to the <i>firm's passported activities</i> , (<i>COB 1.2.1R(1)</i>).	Where the activity: ... (f) <u><i>COB 6.6 – COB 6.12</i></u> , <u><i>COB 6.13</i></u> and <u><i>COB 6A.8</i></u> (<u>Contents of the key facts document, stakeholder pension schemes decision trees, Cancellation and withdrawal, Insurance contracts: life and general</u>)

(1) Module of Hand- book	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom)
<i>MAR</i>	...	<i>COB 6.5, COB 6.7 and COB 6.8 (Content of key features, Cancellation and withdrawal, Insurance contracts: life and general) but only in relation to long-term insurance business carried on with a customer habitually resident in the United Kingdom.</i>

C Supervision (SUP)

16.8 Persistency reports from insurers and data reports on stakeholder pensions

Life policies and stakeholder pension to be reported on the persistency or data reports

...

16.8.13 G A persistency or data report must not report on any of the following:

- (1) a *life policy* or stakeholder pension that was cancelled before inception whether or not this was as a result of service under *COB 6.713* (Cancellation and withdrawal);
- (2) an *appropriate personal pension scheme* to which contributions are made only by the Department of Social Security;

...

...

16.8.22 G (1) ...

...

- (3) In addition to the stakeholder data reports showing all contracts, *firms* are requested, where separate data is available, to submit additional reports showing just those contracts where decision trees were used in accordance with *COB 6.4.21R12.5R*.

...

D Dispute Resolution: Complaints (DISP)

1. Complaint handling procedures for firms

Publicising the procedures

...

- 1.2.11 G In order to comply with *DISP* 1.2.9R(1), a *firm* may include reference to its complaint handling procedures in contractual documentation, for example, (where the *firm* is subject to the requirements in *COB*) in a *terms of business* letter, ~~*key features document*~~ or *client agreement*; or in a *key facts document*.

...

E Collective Investment Schemes (CIS)

CIS11: Meetings of holders, amendments to the scheme and service of notices

Matters to be included in notices sent to unitholders when a manager proposes a change from dual to single pricing

11.4.5 G ...

(2) ...

- (c) The *FSA* has no objections to detailed issues being covered by reference to the *prospectus*, ~~*key features*~~ or *key facts document* for the *AUT* and other documents, where these documents accompany the notice sent to *unitholders* or *plan investors*.

...

...

F Special guide for small Friendly societies (FREN)

1.2 Parts of the Handbook applicable to small friendly societies

1.2.1 G ...

1.2.2 G Table: Parts of the Handbook applicable to small friendly societies.

	Part of Handbook	Applicability to small friendly societies
...
	Conduct of Business sourcebook (COB)	... <u>COB 6 (Consumer information and disclosure for packaged products and cash deposit ISAs)</u>

G Conduct of Business (COB)

1.4 General application: where?

...

1.4.3 R Table This table sets out the application of COB with reference to the location of the carrying on of an activity by a firm.

This table belongs to COB 1.4.1 R.

	Activity	Application of COB
(a)	...	
(b)	<p>An activity carried on:</p> <ul style="list-style-type: none"> • otherwise than in (a); and • with or for a <i>client</i> in the <i>United Kingdom</i> 	<p>Where, if the office from which the activity is carried on were a separate <i>person</i>, the activity:</p> <ul style="list-style-type: none"> • would fall within the <i>overseas persons</i> exclusions in article 72 of the <i>Regulated Activities Order</i>; or <p>would not be regarded as carried on in the <i>United Kingdom</i>;</p> <p>then only the following apply: <i>COB 5.5.7R</i> and <i>COB 5.5.8R</i> (Overseas business);</p> <p>in relation to <i>long term insurance business</i> carried on with a <i>customer habitually resident</i> in the <i>United Kingdom</i>, <u><i>COB 6</i> (Consumer information and disclosure for packaged products and cash deposit ISAs)</u> or, if applicable, <u><i>COB 6</i> (Product disclosure and the customer's right to cancel or withdraw)</u> except <u><i>COB 6.3</i> (Post-sale confirmation: life policies)</u> and <u><i>COB 6A.9</i> (With-profits guides)</u>; and</p> <p>...</p>

2.2 Inducements and soft commission

Restrictions in connection with the sale of packaged products

- 2.2.5 E *A firm should not enter, and should take reasonable steps to ensure that no person acting on its behalf enters, into any of the following commission arrangements with an independent intermediary another firm in relation to the sale of a packaged product if any commission is required to be disclosed to a customer under COB 6.2 (Provision of key features);*

...

[Note: includes amendments proposed in CP 166]

...

- 2.2.7 G Table Reasonable indirect benefits
This Table belongs to COB 2.2.6 G

Reasonable indirect benefits	
...	
3	<i>A provider firm product provider or its associate may supply product specific literature (for example, key features or a key facts document, minimum information, direct offer financial promotions) to an independent intermediary another firm if:</i>
...	

[Note: includes amendments proposed in CP 166]

3.8 Form and content of financial promotions

...

Specific non-real time financial promotions: projections for EIS shares

- 3.8.17 R *A specific non-real time financial promotion relating to a life policy, or a scheme, and which includes a projection must comply with the detailed projection rules in COB 6.6 13 (Projections).*

...

3.9 Direct offer financial promotions

Cash deposit ISAs

- 3.9.8 R (1) *A direct offer financial promotion relating to a cash deposit ISA must contain the information required by COB 6.4.28 R
~~COB 6.5.42 R.~~*

...

Packaged products

- 3.9.10 R A *direct offer financial promotion* relating to a *packaged product* must contain the information required by COB 6.6 – 6.10 (Contents of the key facts document), COB 6.12 (Stakeholder pension scheme decision trees) and COB 6.14 (Variations to existing life policies). ~~COB 6.5 (Contents of key features)~~.
- 3.9.11 G The information should follow, where possible, the same order as the ~~key features~~ key facts document. But adjustments may be made to the order where this would assist design and understanding of the material. However, if a firm is providing key facts documents in respect of packaged products then COB 6.4.2 G is applicable.

...

Cancellation rights

- 3.9.21 R ...
- (2) A *direct offer financial promotion* which relates to an *EIS* or *non-packaged product*, *ISA* or *PEP* for which no right to withdraw is given under case 8 of column 2, COB 6.13.17R ~~COB 6.7.17R~~ must include the statement required by that provision.

...

Enterprise Investment Schemes

- 3.9.26 R ...
- (4) a prominent explanation of any right to withdraw (under COB 6.13 ~~COB 6.7~~) or, where it is the case, that such rights will not apply.

3.14 The internet and other electronic media

Specific guidance

- 3.14.5 G (1) ...
- (b) It is important that recipients should have the opportunity to view the full text of the relevant ~~key features~~ key facts document, initial disclosure information and terms and conditions, customer agreement and any other applicable risk information required by the *rules*.

[Note: includes amendments proposed in CP 166]

...

- (2) (a) It is not necessary for access to an application form to be denied until the recipient has read ~~key features~~ the key facts document and other contractual terms, but *firms* should ensure that on the application form, or in the preceding text, they draw attention to the existence of this material and the importance of reading it, as

relevant business will be conducted on the basis of the ~~key features~~ key facts document and written contractual terms.

...

...

4.1 Client classification

...

4.1.3 G ...

- (2) Some of the *rules* in *COB* relating to activities other than *designated investment business* are disapplied if the activity is carried on with or for a *market counterparty* rather than a *customer*, for example rules in *COB* 6A.8 (Insurance contracts: life and general). For *guidance* on how a *firm* carrying on these other activities may approach *client* classification, see *PRIN* 1.2.4 G (Classification: other activities).

...

4.1.11 E ...

...

...

- (iv) *COB* 6.1 (Consumer information and disclosure for packaged products and cash deposit ISAs)
~~*COB* 6.1: (Packaged product and ISA disclosure);~~

...

...

4.2 Terms of business and client agreements with customers

...

4.2.15 E Table Content of terms of business provided to a customer: general requirements
This Table belongs to *COB* 4.2.11 E

General requirements	
...	
(10)	Right to withdraw In the case of a <i>non-packaged product</i> , <i>ISA</i> or <i>PEP</i> , an explanation of any right to withdraw (see <u><i>COB</i> 6.13</u> <i>COB</i> 6.7 (Cancellation and withdrawal)), or if it is the case, a statement that such rights will not apply.
...	

...

5.3 Suitability

...

- 5.3.22 R (1) A *firm* must ensure that a *transfer value analysis* is carried out in accordance with ~~COB 6.6.87 R~~ ~~COB 6.6.93 R~~ COB 6.11.87 R – COB 6.11.93 R (Projections) before it makes any recommendation to a *customer* to transfer out of a *defined benefits pension scheme*.
- (2) A copy of the analysis must be delivered with the ~~key features~~ key facts document or otherwise provided to the *customer* before he gives consent to the application to transfer.

...

...

- 5.3.29 G Table Guidance on matters which should be taken into account when assessing the suitability of various personal recommendations. This Table belongs to COB 5.3.13 G (4).

Suitability guidance

...

B.

...

- (7) *Firms* are reminded that ~~key features documents~~ key facts documents for *personal pension schemes* should signpost the availability of *stakeholder pension*, as set out in ~~COB 65.21G(5)~~, and COB 6.7.3R(5).

...

...

5.7 Disclosure of charges, remuneration and commission

...

- 5.7.4 G A *firm* may make the disclosures required by COB 5.7.3 R in its *terms of business*, in a *client agreement*, or in a separate written statement. Disclosure should include any product-related *charges* that are deducted from the *private customer's* investment. ~~If the product is a packaged product, product-related charges and expenses will be disclosed in the key features document or in the minimum information that the firm is required to provide to the private customer in accordance with COB 6.2 (Provision of key features) and COB 6.4 (Product disclosure: special situations).~~ When a *firm* is a *broker fund adviser*, disclosure should include any *fees* payable to the *firm* or its *associate* in connection with that activity by a *provider firm*.

...

5.7.10 R ~~The requirement in COB 5.7.5 R to disclose to a private customer the amount or value, in cash terms, of remuneration or commission does not apply if the firm provides the private customer with example key features, in accordance with COB 6.2.7 R (Life policies) and COB 6.2.22 R (Schemes), provided that the firm discloses to the private customer the actual amount or value of remuneration or commission within five business days of effecting the transaction.~~[Deleted.]

...

5.7.16 E Table Calculating remuneration.
This table forms part of COB 5.7.8E.

Remuneration and commission disclosure statements: content and wording	
...	
8.	The following costs should be excluded
...	
(e)	costs of developing and maintaining computer systems for the provision of projections of benefits, customer-specific key features <u>key facts</u> documents or other product information;
...	
...	

...

5.7.17 G Table Remuneration and commission disclosure statements: content and wording.
This table forms part of COB 5.7.13G.

Remuneration and commission disclosure statements: content and wording	
...	
(3)	...
...	
(c)	fund related basis:
(i)	using the same rate of growth and the same periods as those in the key features, the example will normally show the commission or remuneration in the first year in which it is paid and the tenth year, or
...	
...	

...

12.1 **Application**

...

Restrictions in connection with the sale of packaged products

12.1.13 R When a *firm* is carrying on activities to which this chapter applies, any reference in *COB* to the term *customer* is to be taken to refer to a *member* or potential *member* except in the case of *COB* 6.713 (Cancellation and withdrawal) ~~to~~ and *COB* 6A.8 (Insurance Contracts: life and general) where it refers to a *policyholder* or potential *policyholder*.

...

...

12.1.14 R Table This table disapplies parts of *COB* to a firm when carrying on the activities to which *COB* 12.1.7 R (1) relates.

Chapter	Description	Disapplication
...		
6	Product disclosure and the customer's right to cancel or withdraw	<i>COB</i> 6 is disapplied.
...		

...

12.1.20 R Table Location of rules of particular relevance to a firm managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's.
This table forms part of *COB* 12.1.16G

Chapter	Description
<i>COB</i> 6.713	Cancellation and withdrawal
<i>COB</i> 6A.8	Insurance contracts – life and general

...

...

Conduct of Business

Schedule 1

Record keeping requirements

...

3 Table

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
<u>COB 6.15.4</u> <u>R COB</u> <u>6.5.52 R</u>
<u>COB 6.11.19</u> <u>R COB</u> <u>6.6.19 R</u>
<u>COB 6.11.19</u> <u>R COB</u> <u>6.6.19 R</u>
<u>COB 6.11.19</u> <u>R COB</u> <u>6.6.19 R</u>
<u>COB 6.13.47</u> <u>R COB</u> <u>6.7.47 R</u>
<u>COB 6.13.47</u> <u>R COB</u> <u>6.7.47 R</u>
<u>COB 6.13.47</u> <u>R COB</u> <u>6.7.47 R</u>
<u>COB 6A.8.18</u> R(1)
<u>COB 6A.8.18</u> R (2)
...				

...

Transitional provisions

Conduct of Business

COB TR 1 Transitional Rules for pre-N2 and ex-Section 43 firms

...

2 Table COB TR 1

(1)	(2) Material to which the transitional provision applies: The COB provisions in Table COB TR2 with the labels indicated	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.0	Extra time provisions				
1.1	ETP1	R	<p>Transitional Relief</p> <p><i>A pre-N2 firm will not contravene any of the provisions labelled ETP1 in Table COB TR 2 to the extent that, on or after commencement, it is able to demonstrate that it has complied with the corresponding rule of its previous regulator or, where applicable, the relevant former statutory requirement, subject to any modification, wherever appropriate, to take account of the passing of the Act.</i></p>	<p>(1) <i>commencement</i> to 30 June 2002, except as specified in (2) and (3) below;</p> <p>(2) [deleted] for COB 9.3.10SR from commencement to 31 December 2002.</p> <p>(3) for COB 9.3.10R, COB 4.2.15E (7), COB 5.3, COB 5.7, and COB 6.4 to 6A.8, until a date yet to be specified.</p>	<p><i>commencement</i></p>

(1)	(2) Material to which the transitional provision applies: The COB provisions in Table COB TR2 with the labels indicated	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
	<i>ETPI (for COB 6.1-6.8)</i>	G	<p>(1) The FSA is extending transitional relief for COB 6.1—6.8 and various other rules in COB, pending the outcome of the review of product disclosure and polarisation. As each of these <u>the</u> reviews are <u>is</u> completed, the transitional provisions will be revoked or modified to provide an appropriate transition into the new regime. <i>Firms</i> will be given notice of any revocation or modification as part of consultation on the new regime.</p> <p>(2) Interim changes to these rules may not benefit from this transitional relief.</p>	<i>commencement</i> until a date yet to be specified	

ISBN: 0117045357

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7676 1000 Fax: +44 (0)20 7676 1099
Website: <http://www.fsa.gov.uk>

Registered as a Limited Company in England and Wales No. 1920623. Registered Office as above.