Financial Conduct Authority

Policy Statement

PS16/24

Capping early exit pension charges:

Feedback on CP16/15 and final rules

November 2016

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In this Policy Statement, we report on the main issues arising from Consultation Paper CP16/15 Capping early exit pension charges and publish the final rules.

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We have carried out this work in the context of the existing UK and EU regulatory framework. We will keep it under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

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Abbreviations used in this document

CBA	Cost benefit analysis
CP	Consultation Paper
DWP	Department for Work and Pensions
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
MVA	Market value adjustments
PS	Policy Statement
RDR	Retail Distribution Review
SIPP	Self-invested personal pension

1. Overview

Introduction

1.1 We are publishing Handbook rules that discharge a new duty[1] placed on us by Parliament to cap early exit charges in existing and new personal[2] and stakeholder personal pension schemes (schemes).

1.2 In summary, with effect from 31 March 2017, early exit charges:

- will be capped at 1% of the value of a member's benefits being taken, converted or transferred from a scheme
- cannot be increased in existing schemes that currently have early exit charges set at less than 1% of the member's benefits under a scheme, and
- cannot apply in schemes entered into after the proposed new rules come into force

Who does this affect?

1.3 This Policy Statement (PS) will primarily be of interest to:

- consumers eligible to access the new pension freedoms by virtue of age who would currently incur an early exit charge for doing so, and
- providers of personal and stakeholder pensions, including operators of self-invested personal pensions

1.4 It may also be of interest to:

- individuals and firms providing advice and information in this area
- trade bodies representing financial services firms, and
- consumer bodies

1 The duty is contained in the new s.137FBB FSMA, which was introduced under the Bank of England and Financial Services Act 2016.
2 Including individual and group/workplace pensions, as well as self-invested personal pensions

Is this of interest to consumers?

1.5 Our rules are likely to be of most interest to those consumers with personal or stakeholder pensions who, after our rules come into effect, face early exit charges when they wish to access their pensions savings at or after normal minimum pension age (but before their expected retirement date). The statutory duty, and hence our rules, do not make any provision for consumers who have already taken, converted or transferred benefits from a scheme.

Context

1.6 The Government announced a series of reforms to the UK retirement market in the 2014 and 2015 Budgets. These reforms included the following 'pension freedoms', which came into effect in April 2015 and enable consumers at or after normal minimum pension age to:

- take their pension savings as cash (in one lump sum or in smaller amounts over time)
- buy an annuity (or other income generating guaranteed products that may emerge)
- use drawdown without any limits applied, or
- use a combination of the above

1.7 In July 2015, HM Treasury launched a consultation[3] concerning barriers that consumers may encounter when seeking to access their pension savings under the new freedoms – including early exit charges.

1.8 HM Treasury published its response to the consultation on 10 February 2016[4], concluding that significant numbers of individuals currently face early exit charges at a level that presents 'a real barrier to accessing' the freedoms, and that action needs to be taken to limit these charges.

The duty

1.9 Parliament has since placed a new duty on the FCA to cap early exit pension charges via recent amendments to the Financial Services and Markets Act (FSMA) (2000).[5] These amendments (the duty) oblige the FCA to make general rules prohibiting authorised persons from imposing (or including provision for the imposition of) specified early exit charges on members of 'relevant pension schemes'.

1.10 The duty to cap is narrowly focused on early exit charges. In summary, early exit charges, as defined by the duty, are charges borne by the members of personal or stakeholder pensions:

- when taking, converting or transferring pension benefits (these are the ways in which consumers can access the pension freedoms)
- on or after the age at which the member becomes eligible to access the pension freedoms but before the member's expected retirement date

3 www.gov.uk/government/uploads/system/uploads/attachment_data/file/449861/PU1847_Pensions_transfers_v4.pdf.

4 www.gov.uk/government/uploads/system/uploads/attachment_data/file/498871/pension_transfers_and_early_exit_charges_response.pdf.

5 The duty is contained in the new s.137FBB FSMA, which came into force on 6 July 2016.

- only imposed, or only imposed to that extent, if the member takes, converts or transfers benefits before their expected retirement date (in some contracts expressed as a vesting date)

1.11 The duty does not require or permit us to determine whether or not there should be a cap on early exit charges; this was determined by Parliament.[6] The specified objective of the duty is to make rules that secure appropriate protection against early exit charges deterring specified consumers from accessing the new pension freedoms. The duty gives the FCA discretion to determine the level and operation of the cap that satisfies that objective.

1.12 The duty also provides that HM Treasury may specify matters that are not to be treated as early exit charges for the purposes of the cap. HM Treasury laid regulations before Parliament[7] on 9 November 2016 to specify those matters. (See discussion of Operational issues at paragraph 2.43 onwards).

Our consultation

1.13 On 26 May 2016, we published our Consultation Paper (CP) 16/15: Capping early exit pension charges. In it, we set out our proposals and draft Handbook rules for the application and level of a cap that we believed appropriate to discharge the duty placed upon us. Our consultation closed on 18 August and we have carefully considered in detail all the comments and feedback received in finalising our rules.

1.14 The Department of Work and Pensions conducted a separate consultation on capping early exit charges in occupational pension schemes and has now published its formal response in which it sets out how it envisages a cap on early exit charges will work in occupational pension schemes.[8]

Summary of feedback and our response

1.15 We received 36 responses to our consultation from a variety of stakeholders, including consumer groups, trade bodies and firms. We are grateful for the feedback received and want to take this opportunity to thank all those who responded to our consultation.

1.16 We received a number of responses that related to the definitions and requirements contained in the duty, and other responses that contested the Government's rationale for putting forward the legislative proposals imposing the duty. These matters are outside the scope of the FCA consultation set out in CP16/15. This paper addresses only those responses that concern matters that were in the scope of FCA discretion when discharging our statutory duty in relation to early exit pension charges – i.e. the level and the operation of the cap.

6 'Fairness is not determined solely by reference to whether or not it was fair to include a term in a pension contract many decades ago, but also has to be looked at through the lens of these reforms, and the changes that have occurred over time. The Government believes that, in the context of these once-in-a-generation changes, it is important to ensure that consumers have fair access to their hard-earned pension savings. It is unfair, therefore, that some early exit charges are posing a barrier to individuals accessing their savings flexibly, and the Government has concluded that action needs to be taken in order to limit these charges' ('Pension transfers and early exit charges: response to the consultation', HM Treasury, February 2016).

7 The Financial Services and Markets Act 2000 (Early Exit Pension Charges) Regulations 2016.

8 The Pensions Schemes Act 2014 (as amended by clauses tabled in the current Pensions Scheme Bill) will allow the Government to introduce legislation to cap early exit charges in occupational schemes.

1.17 The majority of responses concerned one or more of the following issues:

- Factors included in, or alleged to be absent from, our methodology and cost benefit analysis (CBA).
- Our calculation of the costs for industry.
- Operational issues concerning the implementation of the cap.

1.18 For the reasons we set out in the next chapter, we consider our original analysis was appropriate and remain of the view that:

- A cap of 1% of the member's benefits in relation to existing contracts delivers the appropriate protection required by the duty. It strikes a proportionate balance between benefits, in terms of reducing the deterrent effect of early exit charges, and costs to firms of applying the cap.
- A cap of 0% for new contracts prevents the emergence of early exit charges in future, with little financial impact for most firms. The consultation responses support our findings that a) exit charges are no longer a feature of the majority of recent personal and stakeholder pension schemes; and b) the implementation of the Retail Distribution Review ('RDR') in effect removed any real justification for their inclusion in new contracts.

Next steps

What do you need to do next?

1.19 Firms affected by these changes will need to ensure compliance with the charge cap from 31 March 2017 onwards.

2. Capping early exit pension charges

2.1 In this chapter, we provide more detail on the feedback received concerning our proposals and the supporting cost benefit analysis (CBA).

Proposals

2.2 Drawing on existing information sources and data collected directly from a representative sample of provider firms[9], in CP16/15 we outlined the analysis we had undertaken to determine the deterrent effect of early exit charges on consumers accessing the freedoms and the anticipated effect on firms of a cap.

2.3 In light of this analysis, we made proposals concerning the level of early exit charges that can be imposed on members of personal and stakeholder personal pension schemes. We made separate proposals for charges imposed on those who entered into a pension contract or other arrangement before 31 March 2017 (existing contracts) and those who enter into a pension contract or other arrangement on or after 31 March 2017 (new contracts).

1% cap for existing personal and stakeholder personal pension contracts

2.4 Where the level of exit charge on an existing pension is currently greater than 1%, the proposed cap limits the charge to 1% of the value of that pension at the point of exit. Where the level of an early exit charge is currently less than 1%, our rules prevent the level being increased after the rules come into effect.

2.5 More than a third of respondents who commented on this proposal broadly agreed that 1% was the appropriate level for a cap on existing contracts. Views were mixed among the remaining respondents: two suggested that 0% would be more appropriate, three advocated a cap greater than 1%, and a further five proposed the introduction of a fixed monetary cap, either instead of, or in conjunction with the 1% cap (with some suggesting this fixed amount could be aligned to the administrative costs of processing transfers, and others proposing figures of £50 and £250 but without a specific explanation for these figures).

Cap level

Our response:

In order to determine the level at which a cap would ensure an appropriate degree of protection against the deterrent effects of early exit charges on consumers' decisions to access their pension savings at or beyond normal minimum pension age, our modelling approach specifically sought to understand the impact of an

9 We collected the number and value of:
- all pension policies as at 30 June 2015 (broken down into bands of policy values and bands of early exit charges), and
- policies held by customers who would reach age 55 between 1 July 2015 and 31 December 2020

early exit charge on consumers, firms and competition. We therefore considered the impacts of a range of possible cap levels and the CP outlined our analysis of a sample of these: 0%, 1%, 2% and 5%.[10]

The CP explained that, in comparison to a cap at 1%, a cap at 0% would not materially increase the benefit (the number of additional exits), but the impact on firms would be significantly greater, while a cap at 2% would offer significantly less protection from the deterrent effect of the charge.

After taking into account all the issues raised in the consultation responses (discussed in the remainder of this paper), we remain of the view that a 1% cap strikes a proportionate balance between the consumer benefits (in terms of reducing the deterrent effect of these charges), the impacts on directly affected pension providers, and any wider market implications.

Cap metric

Our response:

We recognise that a cap expressed as a monetary amount might be more easily understood by some consumers than one expressed as a percentage. However, we consider it would be difficult to satisfy the requirement to 'secure an appropriate degree of protection' from the deterrent effect of the charge with a monetary cap. This is because the data we collected from firms for the consultation revealed that, in the vast majority of cases, the early exit charges, the deterrent effect of which our rules seek to restrict, are not a fixed cost; they are calculated by reference to the value of the member's policy.

A monetary cap is therefore incapable of delivering consistent levels of protection to consumers and would be particularly disadvantageous for consumers with relatively small pots for whom the monetary cap could represent a significant proportion of their pot. For example, the £250 level suggested by one respondent would offer less protection than the 1% cap to consumers with pension pots of less than £25,000.

In addition, many industry respondents noted that a cap expressed in percentages would be easier and less expensive to administer than a monetary cap. This reinforces our view that we have proposed a proportionate approach.

We note that most suggestions for a monetary cap came from those respondents who consider the cap should cover reasonable transaction costs. However, when we collected data from firms for the consultation, they told us that early exit charges were not levied to cover these costs. They also confirmed that the same processing costs apply irrespective of when the consumer accesses their pension (expected retirement date or before). Fees levied to cover processing costs (imposed at expected retirement date or before) would not fall within the definition of an early exit charge.[11]

10 70% of responses to the specific question whether we had considered an appropriate range of cap levels agreed or had no further comment.

11 s. 137FBB(6)(b).

0% cap on new personal and stakeholder personal pension contracts

2.6 To protect consumers from the emergence of early exit charges that could act as a deterrent to accessing the freedoms, we proposed that early exit charges cannot apply to schemes entered into after the cap rules come into force.

2.7 The majority of respondents broadly agreed with the proposal, with many confirming our conclusion that there is no justification for early exit charges in the adviser and product landscape, post-RDR.

2.8 However, one respondent suggested that we should have considered a range of cap levels for future new contracts, and one individual suggested setting the cap at 0.5% initially, before reducing it to 0.25%, to allow firms time to adjust, but did not provide any further detail as to how or why these levels would be appropriate.

2.9 A further two responses suggested new contracts should not be treated differently to existing contracts in specific circumstances:

- if the product already exists and offers access to the freedoms, and
- if the exit charges are fully disclosed

2.10 One respondent queried why the 0% cap would not apply to contracts entered into after the implementation of the RDR.

2.11 Four industry respondents sought clarification about which cap level should apply to new increments on existing policies, three of whom indicated that there would be additional compliance costs (in the form of systems changes) for applying 0% to these increments.

Our response:

None of the responses we received contest that early exit charges (as defined in the legislation) were typically designed specifically to recover outstanding upfront sale and advice costs and are, as such, almost exclusively a feature of older policies.

We recognise that, in respect of a limited number of older products, certain providers cannot accept additional increments into the original policy for administrative reasons and, where this is the case, new policies can be set up according to the terms of the original contract.

To provide clarity in these cases, we have made minor clarification changes to the Handbook rules on which we consulted. They now more explicitly reflect our policy intention that any new contract or arrangement should be subject to a 0% cap on exit charges, whether or not the party to that contract is an existing member or a new joiner.[12]

To the extent that this clarification may require some firms to adapt to meet the needs of existing customers who wish to make additional contributions,

12 PS12/3 *Distribution of retail investments: RDR Adviser Charging – treatment of legacy assets feedback to CP11/26 and final guidance* confirmed that top-ups would be subject to the RDR adviser charging rules, in the same way as any other new investment.

we believe these changes can be achieved without incurring significant systems development costs.

We remain of the view that our original proposal secures an appropriate protection against early exit charges on new contracts. We continue to consider it appropriate to adopt a separate approach for policies already in force (where the 1% cap is designed to restrict the deterrent effect of early exit charges, at a proportionate cost for the affected firms).

Analysis

2.12 Our proposals were based on a three-pronged analysis of their impacts: the impacts for consumers, the impacts for firms, and the competition impacts. We also considered the equality and diversity implications of our proposals.

Consumer impacts

2.13 We measured the consumer benefits in terms of additional numbers of early exits from policies that we would expect as a result of the cap. To do this, we projected the numbers and values of policies for individuals reaching normal minimum pension age during the relevant period by applying certain assumptions to data provided by firms. We also considered data on early exit rates in the second half of 2015, according to the exit charge levied, which suggested that a reduction in exit charge would result in an increase in early exit rates for consumers. Combining these data, we estimated that a cap of 1% on existing policies could result in almost 25% more exits from policies that feature early exit charges[13] than in the absence of a cap.

2.14 We received a wide range of comments in relation to this analysis.

Assumptions about the impact of exit charges on consumer behaviour

2.15 The majority of respondents agreed that it was appropriate for us to take into account data from the first six months of the freedoms. However, one respondent queried whether the data were sufficiently granular to determine whether the point at which the early exit charge ceases to be a deterrent is actually closer to 0% than 1%.

2.16 A small number of respondents suggested that we should have, alternatively or additionally, conducted consumer research or sought data from consumer-focused sources.

2.17 One respondent claimed these data were of limited value on their own, as they take no account of other factors that influence a consumer's decision to access the freedoms. Three industry respondents suggest that the correlation we observed between lower exit charges and increased exit rates may be incidental. They assert that it is attributable instead to people being more likely to retire the closer they are to their expected retirement date.

2.18 In effect, these responses question whether we have overestimated the correlation between rates of exit and lower exit charges and, as a consequence, overestimated the expected benefits of our proposals.

13 Data published by the FCA in September 2015 indicated that, as at 30 June 2015, 84% of policies held by consumers eligible to access the freedoms would not attract early exit charges.

2.19 One respondent suggested that we should conduct further research and correlation analysis to determine the influence of how the charge is expressed (i.e. as a percentage level or cash amount) on consumer behaviour.

Assumptions about the impact of a cap on consumer behaviour

2.20 Some industry respondents expressed concern that the cap itself could, directly or indirectly, provide a significant incentive to customers of normal minimum pension age or older to exit their pension scheme[14], irrespective of whether or not they intend to exercise the freedoms. They contend, therefore, that we have underestimated the rate of exit in response to the cap.

Absent factors

2.21 We measured the consumer benefits in terms of additional exits. A small number of respondents claimed, however, that the cap could give rise to consumer detriment. They assert, variously, that we failed to take into account that:

- poor outcomes may result from consumers' decisions to access the freedoms (made possible by the cap)
- tax implications will limit the benefit to consumers who exit as a result of the cap
- enhanced accessibility could give rise to a greater risk of unsuitable sales of decumulation products and scams
- consumer confusion and misunderstanding will increase owing to the complex communications firms will need to produce, and
- the cap will not benefit inert consumers

Reliance on observed relationship between exit rates and charge levels

Our response:

We explicitly acknowledged in the CP that early exit charges are only one factor that consumers may take into account when deciding whether to access their pension freedoms. However, we concluded that it would not be possible or appropriate to model all the various factors that may influence a consumer's decision to access their pension savings.

The duty placed on us by Parliament to cap early exit charges was a direct response to findings by HM Treasury that significant numbers of individuals currently face early exit charges at a level that presents 'a real barrier to accessing' the freedoms. In effect, it requires us to minimise the impact of exit charges on decision-making. We considered it appropriate, therefore, to focus on the observed relationship between the level of the early exit charges and the rate of exits. The comprehensive and objective nature of these data made them preferable and more proportionate to (alternatively or additionally) undertaking consumer-focussed research

In terms of identifying the impact of early exit charges on consumer behaviour, the observed exit rate during the first six months of the freedoms revealed

14 For example, upon recommendation by an independent financial adviser or in response to communications from firms about the cap.

relatively little variation between consumers facing no charge and consumers facing charges up to 1%, such that we considered a more granular consideration between these two rates unnecessary. The change in exit rate for charges above 1% was significantly more material, as can be seen from Chart A1.2 in the CP.

Firms told us that the vast majority of early exit charges are calculated as a % of fund value. It was therefore appropriate to investigate the impact of early exit charges on consumer behaviour when expressed in percentages rather than any other metric.

The impact of an individual's proximity to retirement on their propensity to exit

Our response:

Early exit charges were generally designed to reduce over time, reducing to zero on or before expected retirement date. It is therefore true that the level of the exit charge declines with proximity to retirement.

However, the unsupported assertion that increased exits may correlate to proximity to retirement age rather than lower exit charges is not borne out by the information available to the FCA.[15] The retirement income data we have been collecting from firms on a quarterly basis show that take-up of the freedoms in the 55–59 age group is slightly stronger than among older consumers.[16] Consumers in this age group are more likely to be further from their expected retirement date, taking into account the likely distribution of expected retirement dates in personal pension contracts.[17] A 55-year-old consumer is likely to be between five and 10 years away from expected retirement date, whereas a 60 year old is likely to have reached expected retirement date or be only up to five years away from it.

This evidence lends further weight to our original conclusion that the level of early exit charges was a driver of the observed decline in exit rate according to the level of the exit charge during the first six months of the freedoms.

The incentive effect of the cap

Our response:

Access to the freedoms from normal minimum pension age was introduced by the freedoms in April 2015. The majority of consumers can access the freedoms without incurring an early exit charge.[18]

15 It would be disproportionate (and therefore not reasonably practicable) to gather further data at contract level in order to attempt to establish the relationship between exit and a member's remaining term until retirement. Furthermore, we do not think analysis of such data would reveal any bias that was not already allowed for within the tolerances incorporated in the current CBA.

16 Furthermore, the data suggest that the earliest exits are specifically to take advantage of the new/revised options for accessing pensions that were introduced by the freedoms in April 2015, rather than the traditional annuitisation option that was available before then.

17 Proxy data (annual ABI data in the period before pension freedoms were introduced concerning the age at which policyholders took out annuities and ONS data on the ages of personal pension holders with pensions in payment) indicate alignment with state pension age. Approximately 80% of policies had an expected retirement date of 60 or above, and it is likely that at least as many policies had an expected retirement date of age 65 as 60 (consistent with the gender factors for state pension).

18 Data published by the FCA in September 2015 indicated that, as at 30 June 2015, 84% of policies held by consumers eligible to access the freedoms would not attract early exit charges.

The new duty requires us to reduce the deterrent effect that early exit charges have on people wanting to take, convert or transfer pension benefits between normal minimum pension age and expected retirement date. The consumer's motive for wanting to exit[19] is not relevant for these purposes. The cap secures an appropriate degree of protection for those consumers who would exit but for the current level of early exit charge.

A reduction in exit charge may tip the balance in favour of early exit[20] for some consumers, but for many the decision will be dominated by other considerations. When forecasting future exit rates, we did not model all of the other factors that affect consumers' decisions to access the pension freedoms or make any assumptions about rational behaviour in response to the cap.

Where consumers seeking to access the freedoms do so with advice, we would expect advisers complying with our best interests rule (COBS 2.1.1R) and suitability requirements (COBS 9.2) to take into consideration more than just the level of exit charges.

Our CP did acknowledge that, as our estimates were subject to unavoidably wide error margins, the actual rate of exit post-cap could vary from our assumed rate of 6.3%. For this reason, we conducted a sensitivity analysis to examine the effect of varying the rate of early exit between 4.4% and 8.8% per year, i.e. a range of -30% to +40%.

Absent factors

We do not consider that consumers who access the freedoms as a result of the cap are exposed to any greater risk of not understanding the implications of their decisions than any other consumer eligible to access the freedoms. The availability of pensions guidance and the provision by firms of Retirement Risk Warnings seek to minimise this risk for all consumers seeking to access the freedoms.

We acknowledge that affected firms will need to consider how to communicate with their customers about capped early exit charges. However, it will be up to each firm to determine the most appropriate way of communicating with their customers and to ensure that those communications are fair, clear and not misleading.[21]

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19 Respondents claim that the cap itself would incentivise customers to exit either to:
- avoid ongoing charges they would incur if they remained in policy and /or
- take advantage of the opportunity to avoid paying in full for costs already incurred by their provider.

20 This may include transferring to a more competitive product offered by another provider, but we have not seen any evidence to demonstrate that consumers are primarily driven to access the freedoms in order to avoid ongoing charges. It would be disproportionate (and therefore not reasonably practicable) to attempt to establish the extent, if any, of an incentive effect. Furthermore, such transfers do not give rise to additional costs to industry; they represent a transfer of funds within the market.

21 Responses to our data collection indicated that some firms anticipated a need to amend existing communications and/or create new ones as a result of the cap. The extent and nature of these communication implications were not consistently described, however, and did not appear in all responses. Similarly, diverging approaches were intimated in some of the CP responses.

Firm impacts

2.22 Our consultation took into account three types of impacts on firms:

- the revenue loss to firms as a result of the cap
- solvency impacts, and
- compliance costs

Revenue loss

2.23 We conducted our analysis on the basis that the two principal drivers of potential revenue loss for those firms that will be affected by the cap are:

- the number of additional customers that exit early/earlier when a cap applies, and
- lower charges for those who would exit in the absence of a cap (this loss represents a transfer to customers who would exit early anyway)

2.24 We estimated the lost revenue as a result of both these factors over a four-year period immediately following the implementation of the cap, concluding that revenue loss could range from £46–89 million.

2.25 Six industry respondents explained that a number of policies affected by the cap will still be in force beyond 2020 and therefore claimed that we have significantly underestimated providers' revenue loss by limiting the CBA to four years.

2.26 By contrast, only one respondent argued that revenue loss should be disregarded, on the basis that policies affected by the cap had generated revenue for firms throughout the period when the early exit charges on them had been a barrier to accessing the freedoms

Solvency impacts

2.27 The CP noted that, on the basis of our analysis, we did not expect a cap of 1% to materially affect the financial status of affected firms or significantly compromise their solvency.[22]

2.28 However, three industry respondents claimed that our proposals will have a negative impact on firms' regulatory balance sheets as Solvency II requires providers to reserve against all future liabilities on a 'best estimate' basis. They asserted that firms will need to increase their technical provisions immediately in response to the rules coming into effect to reflect the increase in transfer value[23] that would arise in some cases.

2.29 Five industry respondents also asserted that there is potentially a significant accounting implication related to the cap, as companies will be required (in accordance with the applicable generally accepted accounting practice, usually IFRS) to report higher unit reserves, which will reduce their reported profitability to the market in the year of change. It is claimed that changes to expected profitability might impact on investor perceptions of the firm's ability to generate earnings and hence the value of the firm as a whole.

22 The CBA in the CP captures the costs at an industry level. To arrive at these figures, however, we first modelled the effects of the caps on individual firms, using firm-specific data. It was at this individual firm level that we considered the solvency impacts. Notwithstanding our above assessment, it remains open for any individual firm that considers that the introduction of the cap would be unduly burdensome on it to discuss the option of an application for a rule waiver or modification with its usual supervisory contacts.

23 In effect, this is what the cap protects for affected consumers.

2.30 A small number of industry respondents claimed that the proposal to prohibit increases to early exit charges on existing policies that are currently set below 1% creates the potential for additional reserving costs to reflect that the flexibility to increase an exit charge (as one of a potential suite of charges) is lost. They contend that these costs are not accounted for in our CBA.

Compliance costs

2.31 In the CP, we outlined our assessment that our proposals could give rise to compliance costs of £17.4 million for the industry. This industry-level assessment was based on the information provided to us by firms.

2.32 However, some industry respondents consider this an underestimate of the actual cost because, it is asserted that:

- updating legacy product systems is not simple and so would not generally be undertaken unless the changes would generate a return, and
- this figure does not take account of the costs of the customer communications that, the respondents contend, compliance with the principle of treating customers fairly will require them to provide

2.33 Some industry respondents commented that compliance with the rule by the intended implementation date may be challenging, complex and time-consuming.

Revenue loss

Four-year assessment

Our response:

Our analysis took into account the impacts of the proposed cap beyond 2020, acknowledging that revenue losses beyond this period have the potential to be significant for some firms given the long-term nature of pension contracts. We accept that the revenue loss we calculated in our CP is likely to be lower than the revenue loss over the entire remaining life of policies for some firms.

However, we consider our four-year CBA remains valid because it considers the costs and benefits of implementing the cap over a period of time in which the impacts are reasonably foreseeable. Furthermore, we remain of the view that the potential loss beyond 2020 will be increasingly non-material because:

- the number of existing personal and stakeholder pension schemes with early exit charges in excess of 1% is small[24]
- each year, the number of contracts that feature early exit charges at any level will decline; and
- each year, the level of charge applicable to in-scope policies that remain in force will decrease

24 Data published by the FCA in September 2015 indicated that, as at 30 June 2015, 84% of policies held by consumers eligible to access the freedoms would not attract early exit charges.

The respondents did not contest that there is a direct relationship between the numbers of additional exits and the costs to firms. The balance between the two is central to determining the level of the cap and we consider that the balance between the two would not materially change if they were evaluated over a longer time period.

Furthermore, as noted in our CBA, we provided monetary estimates only where we believed it was reasonably practicable to do so. It would not be possible to assess the loss over the entire remaining life of firms' existing policies from the data that we currently hold and we do not consider that there is other sufficiently reliable data that it would be proportionate for us to collect to facilitate that calculation.

Solvency impacts

Regulatory balance sheet and accounting implications

Our response:

We accept that the costs of our proposals will impact on firms' regulatory and financial reporting. However, the purpose of our CBA is to project the likely economic cost to firms of our proposals and we do not consider that reporting implications give rise to an additional economic cost that was not considered in the CBA.

Nevertheless, we recognise that, as a result of the CBA being limited to 2020, the potential lifetime impact of the exit charge cap in regulatory reporting for some firms may exceed the amounts shown in the CBA:

- Solvency II requires firms to take into account potentially higher transfer values, including for those products which will remain in force beyond 2020.
- IFRS profitability reported to the market may be impacted in 2017, when the rules take effect, but the impact will be lower in subsequent years.[25] That impact will ultimately partly correct itself.[26]

The extent to which the lifetime impact exceeds our CBA loss calculation will vary between firms and will depend on the profile of a firm's book and the current level of exit charges.[27]

We consider that any concerns around the initial presentation of the cap's impact on firms' solvency and profitability reporting can be managed by firms through appropriate disclosure and communications to investors and other stakeholders.

Reserving requirements for existing policies with early exit charges of

25 In each subsequent year, IFRS profitability will reflect releases in respect of, and to the extent that, the original provision for exit charges is not required.

26 Overall, the firm's profit should be lower only by the amount by which exit charges earned by the firm are actually reduced by the proposed cap.

27 For Solvency II purposes, expected lapse rates and terms to maturity will also be relevant.

less than 1%

We consider the value of the option to increase charges in future would be negligible for the population of potentially affected policies, particularly as the current level of these charges was, according to industry, designed to recover the costs that were incurred by the firm at the outset of the policy. None of the responses received indicated that increasing exit charges in response to expense overruns was more than a theoretical option. In view of this, it would be disproportionate (and therefore not reasonably practicable) to quantify the value of the option to increase charges in future.[28]

Nevertheless, to the extent that any additional reserving requirements may arise for some firms, how this is reported in regulatory and financial reporting is not an economic cost and, as noted above, does not impact the CBA of our proposals.

Compliance costs

We acknowledged in the CP that costs may arise in a variety of ways: when we collected data for the consultation, firms told us that they may need to update literature and communication documents, train operational and contact centre staff, and prepare questions and answers for client-facing departments. Other costs, firms told us, could include introducing changes to policy administration software systems, and updating internal model valuation and projections.

The types of value of compliance costs a firm may incur will depend on the nature of each firm's business and portfolio of affected policies. We recognise that compliance with our rules by 31 March 2017 may be resource-intensive and time-consuming for some firms. We do not consider that diverting resource to achieve compliance is a direct economic impact that should factored into our assessment of costs of our proposals.

Firms will, of course, need to consider how to communicate with customers about the revised exit charges that will apply. We consider that it is for firms to determine what and when it is appropriate to communicate with their customers, taking into account their responsibilities under Principle 6 (customers' interests)[29] and Principle 7 (communications with clients)[30] of the FCA Principles for Business.

Our calculation of the costs was based on the figures supplied to us by firms (firms told us these included the cost of updating literature where considered necessary), and the consultation responses we have since received provided no alternative figures on which to revise this calculation.

Competition impacts

2.34 Our analysis of the impacts of the proposals included a consideration of provider firms' possible reaction to a cap on early exit charges, as well as implications for innovation. We reached the view that:

28 Uncertainties as to the likelihood of expense overruns, what firms' management actions would have been in the absence of the cap and so on, make quantification of these costs inherently difficult with any degree of precision without requesting considerable amounts of data from firms concerning future probability and payoff distributions.

29 A firm must pay due regard to the interests of its customers and treat them fairly.

30 A firm must 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.

- rules imposing a cap on early exit charges are compatible with the strategic objective of ensuring that relevant markets function well, since they increase consumer choice and flexibility, supporting the legislative reforms that enable consumers to take their pension in different ways and at different times
- the likelihood of price rises to compensate for a cap on early exit charges in existing contracts is low given that the degree of the cap's impact will vary from provider to provider, and
- the scope for innovation in new products is unlikely to reduce, as most firms told us that early exit charges are not a feature of new policies in the current product and distribution landscape (and are rare in policies sold since we implemented the RDR)

2.35 We also noted that both caps could drive more effective competition in the market for decumulation products as firms seek to benefit from a potential redistribution of customers who access their pension savings following the cap (both within and between firms).

2.36 Ultimately, we concluded that we could not secure the same level of protection for consumers as will result from a cap on existing contracts at 1% and a cap on new contracts at 0% in a manner which is more pro-competitive.

2.37 A number of respondents to the CP, representing both consumers and the industry, expressed concern about potential unintended consequences of the proposals – in particular, if firms seek to preserve the revenue currently generated by early exit charges by:

- increasing other charges on existing policies, including on products not affected by the cap, and
- designing new products with less transparent charging or that otherwise game the rules

Our response:

We recognise that the caps are likely to lead to the creation of new market dynamics and we note respondents' concerns.

While we cannot predict how firms will change and adapt in response to our proposals, we currently remain of the view that general price rises to compensate for a cap are unlikely.

We explained in the CP that, because the impact of the cap on existing contracts will not be felt uniformly by firms, competitive pressures will make it difficult to recover losses through price rises (since, if they did so, other firms with lower costs may undercut and win business). We consider that many of the responses reinforce this conclusion – either through explicit agreement, or through their concern that the cap will incentivise consumers to exit.

We also believe that, when considering the charging structures that apply to their products, firms will be constrained by their responsibilities to act with integrity and treat customers fairly.

Equality and diversity considerations

2.38 In CP16/15, we explained that we considered that the most appropriate age group to benefit at this time is the age group in respect of whom Parliament has decided we must act – i.e. those who become eligible for the pension freedoms that were introduced in April 2015 when they reach normal minimum pension age. We concluded that our proposals did not present any other concerns with regard to equality and diversity issues.

2.39 Two-thirds of respondents who commented on this assessment either raised no additional issues or explicitly confirmed their support for our conclusions.

2.40 However, two respondents suggested that the cap introduces age discrimination because it restricts or penalises consumers under 55 from improving their retirement outcomes by transferring or consolidating their pensions.

2.41 Three respondents sought clarification as to whether or not the cap would or should apply in respect of consumers who exit before normal minimum pension age because their scheme permits them to do so on the grounds of ill health or a (occupation-specific) protected pension age.

2.42 Other respondents felt that the cap introduces unfairness between those who benefit from the cap and those who do not (i.e. customers in other policy charging structures or remaining policyholders with profits funds).

Our response:

Capping charges for the exclusive benefit of consumers over the normal minimum pension age (55) in line with the FCA's statutory duty benefits from a statutory exemption from the prohibition on age discrimination. However, the FCA remains under a duty to have due regard to enhancing equality when making rules, so we revisited our original equality impact assessment in light of some of the CP responses that asked us to extend the cap to include exit charges borne by consumers before normal minimum pension age (and/or by consumers who become eligible for the freedoms before normal minimum pension age on the grounds of ill health).

In respect of existing schemes, we remain of the view that the most appropriate group to benefit at this time is the group in respect of whom Parliament has decided we must act and given us express power to do so[31] – i.e. those who benefit from the newly introduced pension freedoms by virtue of having reached normal minimum pension age.

We are making some clarification amendments to the draft Handbook rules on which we consulted in order to make explicit that the duty to impose restrictions on 'early exit charges' includes charges imposed on a member who has reached either (a) normal minimum pension age of 55 or, in certain specific cases (b) protected pension age. This is because 'normal minimum pension age'[32] should

31 In particular, charges borne by consumers who are eligible to access the freedoms on the grounds of ill health are not caught within the legislative definition of early exit charges because they have will not have reached normal minimum pension age. In respect of existing contracts therefore, we do not have the duty or power to cap any such charges borne by these consumers.

32 As defined in s. 279(1) Finance Act 2004.

be read as referring to a member's protected pension age when the conditions for this[33] are met.

In respect of future contracts, where we have discretion to make rules that go beyond the scope of the duty, we do not consider it would be appropriate to bring into scope exit charges that are incurred by other groups of consumers, for the following reasons:

- Limiting access to pensions on age is a long-standing position which recognises that pensions are long-term savings products. The cap on early exit charges (as defined by the FCA's duty under the FSMA) applies at the point at which a consumer moves into decumulation (i.e. begins to access the pension savings they have been accumulating).

- It is our understanding that consumers who access the freedoms on the grounds of ill health are not commonly charged early exit charges, either because the provider does not apply early exit charges in these circumstances or because the provider waives them. Consequently, we do not think it is necessary to cap charges for these consumers (or any among them who satisfy the protected characteristic of disability) in new contracts. Should evidence emerge that our understanding is incorrect or that firms are changing their behaviour in respect of these consumers as a result of the cap, we would reconsider our approach.

We are, therefore, taking only the action that we believe creates appropriate protection for consumers and is consistent with our legal obligations and powers. However, as we explained in the CP, other policy initiatives may be appropriate in relation to other groups of consumers at a later stage.

We remain of the view that our proposals do not raise other concerns with regard to equality and diversity issues. We do not believe they will result in direct or indirect discrimination for any of the other groups with protected characteristics – i.e. sex, marriage and civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment.

Members of personal and stakeholder pension schemes who become eligible to access the freedoms will benefit from the proposals, regardless of whether they belong to any of the other protected diversity groups.

Operational

2.43 We received a number of responses concerning the application and operation of our proposed handbook rules in practice. Some were borne out of a misinterpretation of the policy intention articulated in the paper. Others highlighted potential ambiguity in the rule drafting. We have considered these responses carefully. In this paper, and through minor drafting amendments to the Handbook rules, we seek to provide greater certainty.

33 The conditions for these are set out in Schedule 36 of the Finance Act 2004, but broadly speaking, a member with a protected pension age is one who, before 6 April 2006, was among those professional people, mainly sportspersons and individuals in hazardous occupations, who had a normal retirement age below 50 approved by HMRC.

2.44 Some of the responses revealed a degree of confusion as to whether or not our proposed caps would apply to with-profits policies and, if so, to what extent. Some of these responses claimed or implied that the costs to firms of applying the cap to with-profits policies must be met by the remaining policyholders in the with-profits fund.

2.45 Three industry respondents queried how dilution adjustments by fund managers should be treated under the new rules.

2.46 A number of respondents asked us to clarify what would constitute 'accrued rights' for the purposes of COBS19.6A.5R (1)(a), as drafted in Annex B of the CP, as this is not a recognised industry term. Some of these respondents suggested that the term 'accrued rights' should exclude certain types of units and any enhanced allocation. Others queried whether the term 'accrued rights' applied at scheme level or at individual policy level.[34]

2.47 Five respondents, particularly those representing self-invested personal pension (SIPP) providers, proposed that firms should be able to retain the ability to charge for the administration or processing costs of transactions, with one respondent claiming that these were greater for firms administering more complex SIPPs. Some of these respondents, and a small number of others, were concerned that the rules might inadvertently capture charges on decumulation products.

2.48 Some firms asserted that, because there are two different cap levels and they benefit one group of consumers at the expense of others, our proposals have wider implications that will prompt firms to take additional actions to ensure the fair treatment of their customers.

With-profits policies

Our response:

The definition of early exit charges brings into scope personal and stakeholder personal pensions, without making any distinction by way of fund type. Therefore, with-profits policies are within the scope of the rules.

However, the data we collected from firms revealed that few apply early exit charges to with-profits policies, other than certain adjustments and reductions that HM Treasury has expressly excluded from the definition of an early exit charge.

For example, in its consultation on 'Pensions transfers and early exit charges' (July 2015) and subsequent response, the Government explained it did not intend 'market value adjustments' ('MVAs') to be captured as early exit charges, for the purposes of the FCA cap. The Government sought views on the approach to defining MVAs as part of the consultation on 'Capping early exit charges for members of occupational pension schemes'. Regulations were laid before Parliament on 9 November 2016[35] providing that adjustments made in the course of calculating the surrender value of a member's pension benefits[36] are not, subject to the conditions it specifies, early exit charges for the purposes of the cap.

34 It is asserted that this distinction could lead to different outcomes in the limited instances where there is policy segmentation.

35 The Financial Services and Markets Act 2000 (Early Exit Pension Charges) Regulations 2016: www.legislation.gov.uk/id/uksi/2016/1079.

36 Or adjustments to the means by which that value is calculated.

Where early exit charges apply to with-profits policies (that are not excluded by the regulations), the decision of how to address the impact on the estate is a commercial one for the firm to make, taking into account:

- COBS 20 rules concerning the amounts payable under with-profits policies, and
- its existing responsibilities to act with integrity and treat customers fairly

Dilution adjustments

Our response:

As explained above, the definition of early exit charges, and exclusions from that definition, have been set out in legislation.

Dilution adjustments are an anti-dilution measure applied by fund managers to protect existing investors from bearing the costs of buying or selling the underlying investments as a result of large inflows into or outflows from a fund.

Dilution adjustments are applied at unitholder level and so, as the unitholder[37] is typically the nominee of the scheme, they would not necessarily be passed down, in whole or in part, to scheme members. In many cases, the cost may be absorbed into the scheme. However, where dilution adjustments are passed on to members, we do not consider that they would be considered early exit charges for the purposes of the cap since they are not a charge which is only imposed if the member exits before the expected retirement date.[38]

COBS19.6A.5R (1)(a)

Our response:

To reflect the language of the duty, we have amended the language in COBS19.6A.5R (1)(a) so that the cap is set at 1% of the value of the member's benefits being taken, converted or transferred. We consider this amendment removes any uncertainty attached to the term 'accrued rights' and therefore more accurately reflects the original policy intent.

The revision makes clear that 1% applies to all or any part of the benefits being taken, converted or transferred by the member, irrespective of the type of units from which those benefits derive or whether the benefits have accrued under a single plan, or two or more segmented policies. As explained earlier in this paper, the duty requires us to protect against the deterrent effect of early exit charges. The type and original purpose of the units within a policy has no bearing on whether or not the early exit charge on a policy acts as a deterrent to the consumer. We have also clarified that the value of the member's benefits for the purposes of the 1% cap excludes the adjustments that are not to be treated as early exit charges under the Regulations.

37 In respect of pension funds.
38 s. 137FBB(6)(b) FSMA.

Processing costs

Our response:

We explained earlier that providers, including SIPP operators[39], told us that early exit charges are not levied to cover processing costs. They also confirmed that the same processing costs apply irrespective of when the consumer accesses their pension (expected retirement date or before). Fees levied to cover processing costs (imposed at expected retirement date or before) would not fall within the definition of an early exit charge[40].

Charges on decumulation products

Our response:

Fees to enter into decumulation, for example a new drawdown plan, are not early exit charges because they are not charges on taking, converting or transferring benefits. Entering a decumulation product is a means of using the benefits released from the scheme.

39 The data we collected for the consultation included responses from a representative sample of SIPP operators to a series of focused questions relevant to their product offerings.

40 s. 137FBB(6)(b).

Annex 1
List of non-confidential respondents

We received 36 responses to CP16/15. Five of the respondents requested confidentiality. The non-confidential respondents are listed below.

Association of British Insurers

Aegon

Alliance Trust Savings

Aquila Heywood

Fiona Armour

Association of Pensions Lawyers

AJ Bell

Graham Bowser

Capita Life & Pensions Regulated Services

Sam Caunt

Chesnara Plc (in respect of Countrywide)

Citizens Advice

Financial Services Consumer Panel

Jonathan Goodliffe

Richard Griffiths

Hargreaves Lansdown

Investment & Life Assurance Group

Institute and Faculty of Actuaries

Robert Isherwood

Richard J Knibbs

Legal & General

Roger Panting

S Pearson

The Pensions Advisory Service

Society of Pension Professionals

Matthew Speck

Standard Life

Sun Life Financial of Canada

Tax Incentivised Savings Association

Virgin Money

Zurich UK Life

Appendix 1
Made rules (legal instrument)

PENSION SCHEMES (RESTRICTIONS ON EARLY EXIT CHARGES) INSTRUMENT 2016

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137FBB (FCA general rules: early exit pension charges);
(3) section 137T (General supplementary powers); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 31 March 2017.

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Notes

F. In Annex A to this instrument, the "note" (indicated by "Note:") is included for the convenience of readers but does not form part of the legislative text.

Citation

G. This instrument may be cited as the Pension Schemes (Restrictions on Early Exit Charges) Instrument 2016.

By order of the Board
10 November 2016

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text unless otherwise stated.

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

early exit charge has the meaning given in section 137FBB(6) of the *Act*, which is, in summary:

(a) a charge imposed on a member of a *personal pension scheme* or *stakeholder pension scheme*:

(i) when that member, having reached normal minimum pension age, takes the action set out in (b); but

(ii) which is only imposed, or only imposed to that extent, if the member takes that action before the member's expected retirement date; and

(b) the action is the member taking benefits, converting benefits into different benefits or transferring benefits to another pension scheme; and

(c) in this definition:

(i) a reference to "benefits" includes all or any part of the member's benefits under the scheme;

(ii) "charge" includes a reduction in the value of the member's benefits under the scheme;

(iii) "expected retirement date" means the date determined by or in accordance with the scheme as the date on which the member's benefits under the scheme are expected to be taken; and

(iv) "normal minimum pension age" has the meaning given in section 279(1) of the Finance Act 2004.

[Note: the meaning of "normal minimum pension age" referred to in (c)(iv) above, is, in summary, in relation to dates on and after 6 April 2010, 55 and, in relation to dates before 6 April 2010, 50].

Amend the following definitions as shown.

personal pension scheme

(in accordance with article 3 of the *Regulated Activities Order*) a scheme or arrangement which is not an *occupational pension scheme* or *stakeholder pension scheme* and which is comprised in one or more instruments or agreements having or capable of having effect so as to provide benefits to or in respect of people:

(a) on retirement; or:

(b) on having reached a particular age; or

(c) on termination of service in an employment.

stakeholder pension scheme

(in accordance with article 3 of the *Regulated Activities Order*) a scheme that meets the conditions in section 1 of the Welfare Reform and Pensions Act 1999 or article 3 of the Welfare Reform and Pensions (Northern Ireland) Order 1999.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

After COBS 19.6 (Restriction on charges in qualifying schemes) insert the following new section. The text is not underlined.

19.6A Restrictions on early exit charges in personal pension schemes and stakeholder pension schemes

Application

19.6A.1 R This section applies to an *operator* of a *personal pension scheme* or a *stakeholder pension scheme*.

Purpose

19.6A.2 G The purpose of this section is to make *rules* prohibiting the imposition of, and provision for, certain *early exit charges* on members of *personal pension schemes* and *stakeholder pension schemes*. Section 137FBB of the *Act* requires the *FCA* to make such *rules*.

Exclusion

19.6A.3 R This section does not apply to any charge which is excluded from the scope of section 137FBB of the *Act* by the Financial Services and Markets Act 2000 (Early Exit Pensions Charges) Regulations 2016 (SI 2016/1079).

Prohibition on early exit charges on a member joining or incrementing benefits under a scheme on or after 31 March 2017

19.6A.4 R (1) A *firm* must not:

(a) impose; or

(b) include in the arrangements relating to a *personal pension scheme* or *stakeholder pension scheme* any provision for the imposition of:

an *early exit charge* on a member of the scheme.

(2) This *rule* applies in relation to a member who entered into a contract or other arrangement on or after 31 March 2017 providing for:

(a) a right to benefits resulting from contributions to the scheme; or

(b) an increment to benefits resulting from contributions to the scheme, but only in respect of the member's benefits under that

contract or other arrangement.

Restriction on early exit charges on a member who joined or incremented a scheme before 31 March 2017

19.6A.5 R (1) A *firm* must not impose an *early exit charge* on a member of a *personal pension scheme* or *stakeholder pension scheme* that exceeds the lower of:

(a) 1% of the value of the member's benefits being taken, converted or transferred; or

(b) such lower amount as was provided for under the scheme arrangements as at 31 March 2017; or

(c) where no such provision was made, no charge.

(2) A *firm* must not:

(a) include provision in such a scheme for an *early exit charge*, where such provision did not exist on 31 March 2017; or

(b) vary provision for an *early exit charge* in such a scheme to increase or potentially increase the charge.

(3) The value of the member's benefits in (1)(a):

(a) is calculated at the point when the *firm* receives confirmation from the member of the instruction to take the action giving rise to the *early exit charge*;

(b) excludes an increment to member's benefits resulting from contributions to a scheme under a contract or other arrangement entered into by the member on or after 31 March 2017;

(c) excludes adjustments referred to, and satisfying the conditions in Regulation 3 of the Financial Services and Markets Act 2000 (Early Exit Pensions Charges) Regulations 2016 (SI 2016/1079); and

(d) does not exclude adjustments referred to in Regulation 4 of the Financial Services and Markets Act 2000 (Early Exit Pensions Charges) Regulations 2016 (SI 2016/1079).

(4) This *rule* applies in relation to a member who entered into a contract or other arrangement (providing for a right to benefits resulting from contributions to the scheme) before 31 March 2017.

Amend the following as shown. Underlining indicates new text and striking through indicates deleted text.

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
…					
2.25	*COBS* 19.6A.5R	R	*COBS* 19.6A.5R does not apply where the instruction for the action giving rise to the *early exit charge* was received by the *firm* before 31 March 2017.	From 31 March 2017 indefinitely	31 March 2017

Financial Conduct Authority

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