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The
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Regulator

Consultation Paper

CP26/1**

The Value for Money Framework:
Response to consultation, further
consultation and discussion paper

January 2026

How to respond

We are asking for comments by **8 March 2026**.

You can send them to us using the form on our [website](#).

Your responses will be shared with the FCA, TPR and the DWP (the group). We are asking respondents to reply to the FCA and TPR, who will collate responses on behalf of the group:

Email:

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Chapter 1

Summary

1.1 Around sixteen million people in the UK save into a Defined Contribution (DC) pension. Ensuring these arrangements deliver value to savers helps maximise their retirement income and can help support wider economic growth. However, savers in workplace default arrangements rely on others to make decisions on their behalf. Historically, regulatory intervention focused on reducing costs to savers. Yet the cheapest arrangement will not necessarily deliver the best long-term performance.

1.2 The new Value for Money (VFM) Framework is intended to deliver better retirement outcomes. It will be used by pension providers, and those making decisions on behalf of savers invested in workplace DC arrangements, to provide greater transparency over how arrangements are performing. Arrangements will be compared on transparent metrics that demonstrate value – not just costs and charges, but also investment performance and service quality. Arrangements will be publicly rated, with poor performing arrangements required to improve or ultimately protect savers by transferring them elsewhere. Employers will have the information to select arrangements that deliver long-term value. This should lead to better value pensions, without savers themselves having to take action.

1.3 We are proposing this Framework at a time when public markets, in particular in the United States, have delivered sustained growth over a significant period which will be reflected in any backward-looking metrics (BLMs). At the same time, we also know that firms and trustees are evolving their investment approach in a way which may mean, in the short term at least, an increase in cost in the pursuit of better diversification and long-term returns. Through the assessment process we propose, we want to drive a genuine focus on long-term value generation which will require nuanced judgments from Independent Governance Committees (IGCs) and trustees, based on open, transparent, comparative data.

About this paper

The VFM Framework is intended to support a significant shift in the way the workplace pensions industry operates and competes – and we want to get it right. This document contains our updated proposals, taking account of feedback we received from the previous FCA consultation ([CP24/16](#)). It is a fairly technical consultation.

The document serves 3 purposes:

- The FCA's response to its consultation CP24/16.
- Proposed detailed rules and guidance for contract-based arrangements (implemented through the FCA Handbook).
- For trust-based arrangements, which are implemented through legislation drafted by DWP, it is a discussion paper, inviting input which can be used in developing the regulations enabled by the Pension Schemes Bill currently before Parliament.

The FCA, DWP and TPR are working closely to develop a framework that is consistent across both trust-based and contract-based workplace pensions but takes account of the different regimes that apply. Where we refer to 'we' in this document, unless stated otherwise we refer to the FCA proposing policy and draft rules through which it intends to introduce the Framework, and to TPR and DWP inviting feedback over policy proposals to inform development of draft DWP secondary legislation. The FCA, TPR and DWP are working closely together but in accordance with its statutory responsibilities, the FCA has independently formed its views on policy and rules and has, in this consultation, set out a draft set of rules which would then be introduced by the FCA in its Handbook.

What we want to change

1.4 We are proposing revisions to make the way arrangements are assessed and compared more objective and robust. We are also responding to feedback and refining the data required. We are grateful for the responses we received.

The main changes proposed since consultation CP24/16 are:

- **Proposed assessments made against backward looking investment performance metrics.** We now propose to introduce forward-looking metrics, to be considered alongside backward-looking metrics as part of the VFM assessment.
- **Proposed maximalist set of data** to assess costs and backward-looking investment performance metrics. We now propose to reduce this set of requirements.
- **Proposed assessment of service quality through administrative and engagement metrics** including a standardised member survey. We believe that further engagement with industry is required to ensure engagement metrics work as intended so have not included them in this consultation.
- **Proposed that IGCs and trustees compare their arrangements against 3 other arrangements.** We now propose that arrangements be compared against a much wider commercial comparator group. This would be enabled by a central VFM database into which all arrangement data would be entered for the purpose of data quality, comparison and publication.
- **Proposed that assessments would culminate in the assignment of one of three ratings (Red, Amber or Green).** In response to industry feedback, and to allow top performers to be identified, we now propose a four-point rating system.

Next steps

- 1.5** Through the Pension Schemes Bill 2025, the Government is introducing new legislation to create the Framework for certain types of occupational trust-based schemes that provide DC benefits and meet certain criteria ("trust-based arrangements"). Subject to the legislative process, DWP intend to consult on draft regulations implementing the VFM Framework for trust-based schemes. TPR will also consult, as appropriate, on any necessary Codes of Practice or Guidance.
- 1.6** In parallel with the legislative process, the FCA is developing rules to create the Framework for the contract-based market. The FCA is likely to undertake a further consultation alongside those of DWP and TPR. This won't affect the announced timetable for introduction of the new Framework.
- 1.7** We welcome feedback on this document by 8 March using the details on page 2.
- 1.8** The FCA, TPR and DWP will use responses to help develop and implement the VFM Framework. For trust-based schemes, responses will inform development of the regulations and guidance under the Pensions Schemes Bill 2025. For contract-based arrangements, responses will inform refinements or changes to proposals to the FCA draft Handbook rules and guidance.
- 1.9** We plan to offer roundtables and stakeholder events to discuss practical aspects as we develop the Framework. As set out in the previous consultation, and subject to the legislative process for the Pension Schemes Bill 2025 and underlying regulations, we intend that both contract and trust-based arrangements will come into force at the same time. We are currently working towards 2028 for the first VFM assessments to be required.

Chapter 2

Scope and thresholds

2.1 We propose to initially introduce the VFM Framework for arrangements where savers are most likely to be disengaged and therefore at greater risk of receiving poor value. As set out in CP24/16, we continue to propose that the VFM Framework requirements initially apply to workplace pension savers invested in default and quasi-default arrangements in accumulation.

2.2 We want the number and nature of arrangements brought into scope to be proportionate for both the contract and trust-based markets, balancing the benefits to savers with the administrative burden on providers. We also want any added requirements to remain proportionate, with each component of the Framework serving a distinct and meaningful purpose. We have made some adjustments to the scope proposals set out in CP24/16 to reflect feedback.

2.3 Depending on context, terms like scheme and arrangement can have slightly different meanings. For clarity, Annex 2 sets out how we use key terms in this document.

CP24/16 proposed applying the Framework to auto-enrolment 'default arrangements' and 'quasi-default' arrangements and suggested exemptions and thresholds.

Summary of feedback

Most respondents supported the scope consulted on. Many respondents stressed the importance of aligning introduction of the Framework concurrently for both trust- and contract-based arrangements. The FCA and Government confirm that this is our intention. As with this consultation, DWP, TPR and FCA are working closely together to ensure, so far as possible, equivalent provisions across workplace DC pensions.

Some respondents suggested expanding the scope of the Framework to include a wider range of products including non-workplace pensions or to decumulation products. Some raised concerns that by not including an expanded scope some savers, or savers at different points of their pension journey, could continue to receive poor value. The FCA and Government consider the scope currently balances benefits for savers and operational burden for providers. However, we recognise the concerns raised and we intend to review the Framework's scope in due course and expect to extend it.

Some respondents asked for a phased introduction, noting data collection challenges and unique characteristics particularly for legacy arrangements. We considered this but we are not in this paper proposing a phased introduction as it could delay the benefits for savers in arrangements (such as those in smaller trust-based schemes) which would most benefit from the Framework.

Some respondents suggested that the Framework not apply to arrangements less than three years old, as that data will be limited. We have considered this but felt that arrangements will have some evidence to demonstrate whether they represent value or not from the point that 1 year's data becomes available.

Current provision in the Pension Schemes Bill

2.4 The Bill provides the Government with the power to make regulations to set out the scope for trust-based arrangements. The intention is that provisions in secondary legislation will specify the criteria for schemes and arrangements to which the VFM requirements will apply ("regulated VFM schemes" and "regulated VFM arrangements").

Updated proposals

2.5 We propose to largely retain the scope consulted on in CP24/16 with some changes for contract-based arrangements with members who cannot be linked to an employer and for transfers, which will be a particular interest given the expected consolidation in the market.

2.6 In relation to trust based arrangements, we are proposing the same requirements. However, we are aware that the trust-based market is very different to contract based and would welcome views on whether additional/differing exemptions or scope would be appropriate.

Scope of the proposed requirements

2.7 As set out in CP24/16, we continue to propose the following scope. The VFM Framework will apply to the following arrangements which contain assets in accumulation where they have been operating for at least 1 calendar year (1 January to 31 December):

- 'Default arrangements' – where contributions to an automatic enrolment (AE) scheme are invested without the employee having made an active choice.
- 'Quasi-default' arrangements – where a pre-AE arrangement of a workplace pension scheme is treated as akin to an AE default arrangement. This is an arrangement which:
 - May be open or closed to new savers, and
 - Is used by at least 80% of employees and ex-employees (active and deferred members), of at least 1 employer.

2.8 Firms' determination of whether an arrangement is a quasi-default arrangement will be a one-off decision made on 31 December after the Framework comes into force. However, FCA rules also allow for a review of that determination periodically to determine whether the arrangement is still considered to be an in-scope legacy arrangement.

2.9 Executive Pension Plans (EPPs) will be excluded as they are typically tailored to the needs of senior executives. Similarly, Small Self-Administered Schemes (SSAS) will be excluded from the VFM Framework.

2.10 Default or quasi-default arrangement will be in scope of the VFM rules where it meets at least 1 of 3 tests:

- At least 1,000 members; or
- Fewer than 1,000 members but is the sole default or quasi-default arrangement provided by a scheme; or
- Fewer than 1,000 members and is not the sole default or quasi-default arrangement provided by a scheme but is the largest.

In CP24/16, the FCA proposed that arrangements with under 1,000 members would be exempt from the Framework with only the main default arrangement and any additional default arrangements with at least 1000 members in scope. Some responses argued that reducing the size threshold to less than 1000 would benefit more savers. At the present time, we consider this to represent an appropriate balance between benefits to members and the additional burden placed on firms at this time. It is also noted that further consolidation of smaller arrangements in the near to medium future is likely.

For trust-based schemes this proposal would likely mean that the majority of single employer DC schemes that are not an EPP or SSAS are in scope, regardless of size. However, this is yet to be finalised through the regulations from the Pension Schemes Bill and we would welcome feedback on industry views of the appropriate scope for trust-based schemes.

Different packages of services

2.11 As proposed in CP24/16, we continue to propose that where a firm or trustees offer commercially different propositions in which service levels differ (other than minor changes), but the same default fund is used, they would need to treat the arrangements as separate sub-arrangements. This would require separate disclosures for all Framework metrics and a VFM assessment for each.

Bespoke arrangements

2.12 As in CP24/16, we continue to propose that bespoke arrangements be treated as in-scope arrangements, but will not require asset allocation disclosures and will require less detail about their assessments in IGC Chair annual reports. We expect bespoke arrangement to also be in scope for trust-based schemes.

Question 1: Do you have any comments on the proposed scope? Do you believe any further exemptions should be considered?

'Unlinked' Members

CP24/16 proposed an 80% threshold for the proportion of employees or ex-employees using an arrangement for it to be treated as a quasi-default arrangement. A number of responses were concerned that providers may not always be able to link members back to their employers. We recognise that while this will not be common, it is possible and propose below how this should be handled.

2.13 Some contract-based schemes may have members for whom they are unable to confirm a link to a particular employer (or confirm there is no such link). We do not expect this to be a material concern for trust-based schemes. The inclusion of these 'unlinked members' makes it difficult for them to assess the arrangement for 'quasi-default' status. The FCA believes that where the balance of probability suggests these arrangements were akin to a default they should be in scope of the VFM assessment.

2.14 The FCA has identified 2 potential methods of achieving this.

- a.** The FCA proposes that consideration be given to where unlinked members are invested. Any arrangement with a higher-than-average (for the scheme) proportion of unlinked members should be considered as if it were a quasi-default fund and assessed for the other criteria (i.e. 1000 members, largest or only default).

Example

Arrangement within scheme	Number of unlinked members	Treated as quasi-default
A	30	Yes
B	50	Yes
C	5	No
D	25	No
Total	110	

In this example there are 110 unlinked members in total spread across 4 arrangements. The average number of unlinked members in an arrangement $[(30+50+5+25)/4]$ is 27.5. Therefore in this case arrangements A and B should be considered quasi-default funds and assessed as such against the other relevant criteria. In addition, if an arrangement has savers which the firm cannot link to an employer, and there are no other arrangements within the relevant scheme this should be treated as being a quasi default.

b. An alternative approach, which FCA is not currently proposing but would welcome feedback on, would be for the scheme to consider where un-linked members are invested across all available arrangements and classify the arrangement with the largest number of such members as a quasi-default arrangement.

In this case only fund B in the above example would be considered a quasi-default arrangement and be assessed as such.

Question 2: **Do you have any comments on our proposals in relation to unlinked members? Do you have any preference with regard to the options suggested? Are there alternative options you would like to suggest?**

Question 3: **We do not think this situation would arise for trust-based schemes. Do you agree with this understanding?**

Transfer of members without requiring their explicit consent – treatment of receiving and closing/transferring arrangements (contract-based schemes)

2.15 We propose that in order to ensure savers are in arrangements that deliver value for money, arrangements that are found not to be doing so must either improve or move savers to arrangements which offer value. Trustees already have the ability to transfer members without consent where conditions in legislation are satisfied and this is in accordance with their legal duties. The Pension Schemes Bill currently making its way through Parliament is seeking to introduce the ability for providers of contractual pension arrangements to transfer members to a different arrangement, make a change which would otherwise require consent, or vary the terms of members' contracts unilaterally. We are making proposals based on the assumption that these powers will be in force.

Treatment of receiving contractual arrangements

2.16 We expect most transfers without member consent to be to default arrangements, and thus in scope of VFM. However, in order to prevent workplace savers being moved without their consent into arrangements which are out of scope of VFM, we propose that receiving arrangements should automatically be considered as a default arrangement for the purposes of VFM where they have at least 1 such member. This requirement aims to cover situations where at least 1 member of an arrangement has been transferred to a new arrangement without their consent. This is because those members are effectively defaulted into that arrangement.

2.17 To assist with this proposal the FCA is proposing a new definition of 'in scope transferred member arrangement' members to cover these scenarios. These newly defined arrangements would be added to the list of those that are in-scope for the purposes of VFM. This will include all workplace pension savers who are transferred, without their explicit agreement, to an arrangement which would not otherwise count as a default or quasi-default (legacy) in-scope arrangement.

**Question 4: Do you agree with this proposal for transferred members?
Why or why not?**

Exemptions from assessment requirement for contractual arrangements that will close/transfer all members

2.18 To reduce administrative burden, we propose to exempt arrangements which are undergoing a full transfer of all members from VFM assessment requirements in 2 scenarios.

2.19 In the first scenario, FCA regulated contract-based arrangements would be fully exempted from the VFM requirements:

- Where they are undertaking a Part VII transfer under the Financial Services and Markets Act (FSMA), the exemption will apply from the point at which the firm has applied to the Court for an order sanctioning the scheme; or
- Where they are using the contractual override power in Chapter 5 of Part II of the Pension Schemes Bill, currently going through Parliament, they will be exempted from the point at which:
 - the receiving scheme has been identified;
 - any necessary best interests test carried out and certified; and
 - employers and members have been notified.

2.20 The second scenario is where there is an intention for the arrangement to fully transfer and FCA has been informed of this, but the process hasn't yet started, or is not as far progressed as set out above. In such cases FCA regulated in-scope firms would still be required to collect and disclose VFM data but would not have to undertake a VFM assessment.

2.21 This will help in undertaking the best interests test and having it assessed by an independent person as part of the contractual override process as proposed under the Pension Schemes Bill. The FCA will consult on rules for contractual overrides in due course, including what information should be taken into account for the best interests test. The FCA notes that the Government expects the consistent and comparable data disclosed as part of VFM to play a vital part for the provider being able to carry out the best interests test and therefore ensure a key consumer safeguard is in place when utilising the contractual override power being legislated for in the Pension Schemes Bill.

2.22 In both scenarios the arrangement being transferred must be closed to new employers.

2.23 If the proposal to transfer is withdrawn, or if no progress is made by the next yearly cycle, the exemption no longer applies and the arrangement will be required to submit an assessment.

2.24 Additionally, if VFM data is required for the purposes of chain-linking (see Chapter 3) arrangements will still need to gather that data and make it available to the receiving arrangement.

Question 5: Do you agree with our proposed exemptions for contract-based arrangements? Why or why not?

Trust-based (TPR regulated) arrangements

2.25 For trust-based schemes, the proposal is that trustees who have decided to wind up the entire scheme would be exempt from the need to produce a VFM assessment if they have notified TPR under section 62(4) or (5) of the Pensions Act 2004 that the winding up of the scheme in question has commenced. Where a decision is made to transfer members out of a default arrangement but not to wind up the scheme, trustees will be exempt from the need to produce a VFM assessment where TPR has been provided with evidence that an agreement has been made (in principle) with an alternative provider to accept the transfer of those members to a new arrangement.

Chapter 3

Investment performance – backward-looking metrics

3.1 In this chapter, we set out updated proposals for the backward-looking metrics (BLMs) previously consulted on. Following feedback from CP24/16, we have introduced forward-looking investment performance metrics (FLM) to be disclosed alongside the BLMs. The FLM proposals are contained in chapter 4 of this consultation.

CP24/16 proposed requiring disclosure of the investment performance metrics over various reporting periods.

Summary of feedback

About half the respondents gave feedback on the questions relating to investment performance; most generally supported the paper's proposals. Some respondents suggested an alternative approach to calculation methodology.

The consultation asked for feedback on streamlining the number of data points, and some of the suggestions put forward have been taken on board such as removing the requirement for 15-year investment data and reducing the scenarios in which costs and charges are broken down between investment and service, the latter of which is covered in more detail in the costs and charges chapter (Chapter 6).

Some respondents raised concerns about legacy arrangements, regarding the assessment of notional values instead of actual amounts received by savers, as well as some concerns about chain-linking and unbundling proposals. These issues are addressed below.

Current provision in the Pension Schemes Bill

3.2 The Bill does not specify the scope of investment metrics for trust-based arrangements. However, it includes provisions for secondary legislation to outline the data metrics that trustees will be required to report under the Framework and our aim is to have common metrics across trust and contract-based arrangements to enable meaningful comparison.

Updated proposals

3.3 As in CP24/16, we continue to propose to require disclosure of past investment performance at 3 levels:

- Gross investment performance (net only of transaction costs). This is consistent with risk metrics which are also calculated on a gross basis.
- Gross investment performance net of investment charges. This shows investment returns in a direct relationship with their charges and highlights the subsequent impact of service costs on outcomes for pension savers. However, we have made changes to the points at which this metric is disclosed and we will now only require disclosure of performance net of investment charges for the most recent year.
- Gross investment performance net of all costs and charges.

Reporting periods and retirement age cohorts

Several respondents suggested removing the 1-year and 15-year reporting requirement, arguing that 1 year was too short-term to assess longer term products, and that 15 years adds little to the assessment as well as not being consistently available.

We have considered this feedback. Our view is there are situations where 1-year data is helpful, including new arrangements for which waiting 3 years to assess them may not be appropriate. One-year data may also provide insight into recent trends which may otherwise be masked, particularly where there have been investment or market condition changes and it may also be useful for cohorts close to retirement where investments may be drawn in the short term.

We also considered the data burden, where 1-year data is likely to be readily available so inclusion should not be a significant burden.

We agree there is a strong argument for not requiring 15-year data and propose to remove this requirement.

3.4 We now propose to require disclosure of backwards looking investment performance data based on periods of 1 year, 3 years and 5 years where available, and 10 years where reasonably practicable to obtain.

3.5 As in CP24/16, we continue to propose that data metrics be disclosed for cohorts at 3 different stages, reflecting the typically different asset mix at each stage. These are 30, 5 and 0 years to retirement (YTR) under the saver's target retirement date, reflecting growth, de-risking and at retirement respectively.

Calculation methodology

CP24/16 proposed that the calculation of backwards looking investment metrics be based on the annual performance of multiple cohorts as they each pass through a given point in the retirement journey, aggregating those performances into a geometric average.

The use of geometric averaging focuses on the long-term performance of a portfolio at a given YTR point. In other words, it answers the question 'what would be the long-term average experience if an individual was to hold this portfolio over time?'. However, portfolios at any given point are not necessarily intended to be held in such a manner, making this focus potentially inappropriate in assessing VFM from the perspective of long-term saver outcomes.

We continue to consider that geometric averaging works well in some circumstances (for example where the underlying investment portfolio is static and members hold it for the long term) but acknowledge feedback highlighting other instances where it does not produce an insightful outcome (for example where the underlying investment portfolio is variable and members do not hold it for the long term).

One alternative approach would be to measure the actual long-term performance experienced by a specific cohort of members. However, while this would produce insightful metrics, we believe that it would place a significant data burden on firms.

The approach that balances data availability and the relevance of the calculation is to consider the average experience of multiple cohorts of members as they pass through specific year to retirement points (i.e. arithmetic averaging). Arithmetic averaging is therefore our proposed solution.

3.6 We believe that using arithmetic averaging will provide a more realistic picture of the typical annual member experience without materially changing the overall preferred outcome previously consulted on. Firms and trustees must calculate a return figure for each of the reporting periods for each retirement age cohort. However, to arrive at this figure, we now propose to require calculation of the arithmetic average of the annual performances, with each annual performance having been calculated using monthly return figures. All calculations will be made for the period ending 31 December for the prior calendar year. The arithmetic average of annual performance and volatility figures reflects the average experience of members as they pass through each of the YTR points over the previous 3, 5, and 10 years.

3.7 The updated example below illustrates this for investment returns over the past 5 years for the 30 YTR cohort based on 2023 returns. Those returns would then be annualised for the arithmetic mean over 5 years.

Illustration: Lookback period for investment performance

30 YTR investment portfolio	2023	2022	2021	2020	2019
Annual investment return	17%	-6%	10%	4%	13%
Age cohort considered	Aged 36 in 2023	Aged 36 in 2022	Aged 36 in 2021	Aged 36 in 2020	Aged 36 in 2019
Arithmetic average of annual performance in each year			$\frac{17\% - 6\% + 10\% + 4\% + 13\%}{5} = 7.6\%$		

Question 6: Do you agree with the proposal to use arithmetic averaging instead of geometric averaging? Why or why not?

Multi-employer arrangements with variable charges

3.8 For multi-employer arrangements with variable charges, we propose to require disclosure of the maximum and minimum value in the range and the median for the relevant metrics, across all in-scope savers, to show how costs and charges vary. This includes investment performance net of all costs and charges, to support comparison between arrangements. This is a clarification of the proposal in CP24/16, where we asked for the range and median (meaning the range to be the max and min), as the maximum and minimum value are the more useful figures when carrying out comparisons in the assessment process.

3.9 Disclosing the maximum and minimum value in the range and the median will also be required for investment performance net of investment charges over the 1-year reporting period, where investment costs and charges vary by individual employer.

3.10 As we are proposing that the maximum, minimum and median be disclosed for all relevant metrics which will have a variable costs and charges element, and these metrics will be used in the assessment process, we are interested in feedback in whether this is the right way to capture variable charging. For example, we are interested in feedback on whether the median should be the median saver (as proposed) rather than median employer, or whether the mean should be disclosed instead.

Question 7: Do you agree with our proposed disclosures to facilitate comparisons between multi-employer arrangements with variable charges? Why or why not?

Calculation methodology for different investment allocation

Static allocation

3.11 Where all members are invested in a single fund over time (e.g. a multi-asset fund), calculating average performance will involve the simple addition of annual returns over the relevant period (the preceding 3, 5 or 10 years) and their division by the number of years being averaged.

Variable allocation (e.g. lifestyling)

3.12 An arrangement which uses a lifestyling approach may invest in multiple funds, the allocations to which vary over time – perhaps on a monthly basis.

3.13 The fundamental process for calculating monthly returns remains the same as previously consulted on.

3.14 The monthly returns on each fund are considered, weighted as appropriate to obtain the overall monthly return of each cohort. The relevant 12 monthly returns are aggregated to provide an annual return, and – where relevant – those annual returns are then averaged arithmetically as described above.

Target date funds (TDFs)

3.15 We know several TDF arrangements do not offer individual TDFs for each cohort. For example, they might provide TDFs that target retiring ages every 5 years, such that members with retirement dates ranging from X-2 to X+2 (inclusive) are all members of the TDF targeting retirement date X. If that is the case, in certain years there may not be a specific TDF that is targeting the exact retirement date at 30, 5, or 0 YTR.

3.16 To account for this, for each given year, the performance data that pertains to the 30, 5 and 0 YTR cohorts should simply be that of the TDFs which contain each of these cohorts.

3.17 For example, for the 5YTR cohort, the following table maps the relevant TDF from which to take the performance data under 2 scenarios:

- Dedicated TDFs containing savers who will all retire in the same year X
- TDFs containing savers who will retire within a 5 year range from X-2 to X+2

Performance in	Lifestyle equivalent	TDF containing 1 year range of savers	TDF containing 5 year range of savers
2024	Annual performance experienced by the cohort of members which were at 5YTR in 2024	Annual performance in 2024 of the TDF targeting 2029 retirement date	Annual performance in 2024 of the TDF targeting 2030 retirement date
2023	Annual performance experienced by the cohort of members which were at 5YTR in 2023	Annual performance in 2023 of the TDF targeting 2028 retirement date	Annual performance in 2023 of the TDF targeting 2030 retirement date
2022	Annual performance experienced by the cohort of members which were at 5YTR in 2022	Annual performance in 2022 of the TDF targeting 2027 retirement date	Annual performance in 2022 of the TDF targeting 2025 retirement date
...
2015	Annual performance experienced by the cohort of members which were at 5YTR in 2015	Annual performance in 2015 of the TDF targeting 2020 retirement date	Annual performance in 2015 of the TDF targeting 2020 retirement date

Question 8: Do you agree with our suggested approach for mapping the performance of TDFs with multi-year cohorts for the purposes of deriving the relevant performance data?

Risk metrics

CP24/16 proposed the disclosure of maximum drawdown (MDD) and annualised standard deviation (ASD) of returns. However, as we are now proposing arithmetic mean calculation rather than geometric mean as outlined above, the need to show both ASD and MDD has changed.

MDD was intended to complement ASD by showing the magnitude of possible negative performance, providing insight into the variability of outcomes. Our proposed arithmetic averaging revisions include disclosure of the range of annual returns (difference between highest and lowest). We believe this sufficiently captures the volatility of outcomes, which MDD was originally looking to do in its own way. Given the additional disclosure burden that MDD places on firms and trustees, and that a simpler metric provides an equivalent insight into outcome variability, we propose removing the requirement to show it.

In addition, the calculation of ASD for multi-year periods has been amended, as outlined below, to reflect the shift to arithmetic averaging of annual performances.

Annualised standard deviation (ASD)

3.18 As in CP24/16, the proposal remains that ASD over a single year is calculated for the monthly gross returns across each reporting period, using the same monthly data points used to calculate the gross investment return.

3.19 We now propose an adjustment to the calculation of ASD over multi-year periods. Each annual performance – calculated using 12 monthly returns – will have a 1-year ASD associated with it calculated using those 12 monthly returns. Instead of requesting a multi-year ASD, we instead intend to require an average ASD to be calculated by averaging the relevant variances, in accordance with standard statistical practice.

3.20 In addition to disclosing the average ASD over a period, arrangements will also need to show the maximum ASD over that period to demonstrate the upper level of volatility experienced over the timeframe.

3.21 For example, in order to calculate the average ASD over 5 years at 2024, trustees/IGCs would need to calculate the ASD for each calendar year from 2020 to 2024 (i.e., ASD_{Year}), calculate the variances by squaring the ASDs (ie, ASD_{Year}^2), averaging the variances and then taking the square root:

$$\text{Average ASD over 5 years at 2024} = \sqrt{\left(\frac{ASD_{24}^2 + ASD_{23}^2 + ASD_{22}^2 + ASD_{21}^2 + ASD_{20}^2}{5}\right)}$$

Maximum drawdown (MDD) and investment performance dispersion

CP24/16 proposed requiring an additional risk metric – maximum drawdown (MDD). Given the shift to arithmetic averaging to address the issue of non-static asset mixes, we considered revising the calculation approach of the MDD. However, we considered the resulting metrics would not be especially insightful, compared to the burden of calculating them.

3.22 We have made further amendments in light of the proposed change of averaging methodology for multi-year periods, from geometric to arithmetic. The aim of this is to capture the volatility and range of outcomes over the period as well as the overall returns.

3.23 The revised proposal requires firms and trustees to disclose the gross investment performance dispersion of outcomes, calculated by subtracting the worst (lowest) annual gross investment performance within the period from the best (highest) annual gross investment performance.

3.24 As this new dispersion metric provides similar insight on variability of outcomes as MDD, but in a simplified way, we no longer propose to require arrangements to provide an MDD figure.

Question 9: Do you agree with our proposed risk metrics? Why or why not?

Illustration: Proposed investment performance metrics, to be provided for each YTR cohort 0, 5 and 30 years

Performance metrics – 30 YTR	1 year	3 years	5 years	10 years (if available)
Gross investment performance				
Investment performance net of investment charges				
Investment performance net all costs and charges [For multi-employer arrangements with variable charges: max, min and median]				
Risk Metrics				
Gross investment performance dispersion				
Annualised standard deviation of returns – Average over the period				
Annualised standard deviation of returns – Maximum over the period				

Chain-Linking

CP24/16 proposed requiring arrangements to apply a chain-linking methodology so they could not disguise poor past performance.

Most respondents supported this approach but there was concern it could potentially discourage consolidation into better performing arrangements by diluting reported performance. We are therefore proposing widening the exemptions to chain-linking.

3.25 As in CP24/16, we continue to require arrangements to apply a chain-linking methodology when calculating investment performance metrics over time, to account for where savers have been moved into a new arrangement within the same firm.

3.26 To account for the shift to arithmetic averaging, we are proposing that where an arrangement is fully transferred into another (and exemptions don't apply), the weighted average of the monthly returns of the merged arrangements is used for the purposes of gross performance and ASD calculations.

3.27 Example: Arrangement A is merged into Arrangement B on 1 January 2025. Arrangement B commenced on July 2023. At 30YTR the three annual calendar performances required to calculate the 3y average performance are:

	Calendar Year 2025	Calendar Year 2024	Calendar Year 2023
Relevant performance	12 monthly returns from Arrangement B	<p>12 weighted average monthly returns from Arrangement A and Arrangement B, weighted as follows:</p> $WAMR^{Month} = W_A^{Month} P_A^{Month} + W_B^{Month} P_B^{Month}$ <p>Where P stands for Performance and W stands for Weighting</p>	<p>6 monthly returns from Arrangement A (from January to June, until Arrangement B is incepted) followed by 6 weighted average monthly returns from Arrangement A and Arrangement B, weighted as follows:</p> $WAMR^{Month} = W_A^{Month} P_A^{Month} + W_B^{Month} P_B^{Month}$

3.28 There are two scenarios for weighting:

- Scenario 1: if the transfer of all members from A into B occurs in a single step, then the weights should be set by the relative size of the two arrangements at the time of the merger:

$$W_A^{Every\ month} = \frac{Size\ (AuM)_A^{Time\ of\ merger}}{Size\ (AuM)_A^{Time\ of\ merger} + Size\ (AuM)_B^{Time\ of\ merger}}$$

- Scenario 2: if the transfer of members occurs in many steps, transferring them gradually we would expect every month from the merger commencing to be weighted with individual monthly weights set by the relative size of the two arrangements at the end of the month.

$$W_A^{Month} = \frac{Size\ (AuM)_A^{Month}}{Size\ (AuM)_A^{Month} + Size\ (AuM)_B^{Month}}$$

3.29 It was previously proposed that total costs and charges need not be chain-linked. However, we have a concern that where a lower cost arrangement is merged into a higher cost one, using the latter's costs to net off from the merged gross performance of both could understate the net performance.

Question 10: **In light of the role that total costs and charges play in the calculation of net performance, we would be interested in views on whether chain-linking should be applied to costs and charges or if there are alternative suggestions that achieve more accurate reporting of net performance?**

Exceptions to chain-linking

3.30 As in CP24/16, we continue to propose that chain-linking will not be required where arrangements from 2 different firms are to be merged.

3.31 We now propose an additional exclusion to the need for chain-linking. Where members in an in-scope arrangement are to be transferred to a different, but existing, in-scope arrangement, we propose that chain-linking not apply where the receiving arrangement has:

- At least 3 years history as an arrangement either in-scope of the VFM framework or would have been in scope pre-2028 had the Framework been in place.
- Been able to accept contributions by or on behalf of individuals.
- At least 5% of scheme members who have invested contributions in each of the last 3 years. This requirement is to prevent the risk of empty arrangements being set up. The FCA have proposed a transitional provision in their proposed handbook text to deal with this issue.

3.32 The 3 year figure and 5% figure have been proposed to balance the aim of preventing firms and trustees from creating new 'empty' arrangements for transfer from poor value arrangements while not wanting to discourage good consolidation of arrangements.

Question 11: Do you agree with our proposals for chain-linking? Why or why not?

Legacy arrangement features

3.33 In-scope arrangements in legacy arrangements with valuable guarantees will be required to disclose all VFM metrics but the in-scope arrangement features table should draw attention to these features.

3.34 We continue to propose the following:

- **With-profits funds** – Where there is an in-scope arrangement invested in a with-profits fund, the provider may already have the historical gross investment performance of the underlying investments. Where it does not, and gross investment performance is calculated starting with asset shares, all deductions from the fund and other adjustments of the asset shares must be reversed. An estimate of investment performance net of investment charges must only be made using the proposed approach for calculating charges.
- **Smoothed returns (with-profits and unit-linked)** – Where an arrangement offers smoothed investment returns, there should be a look-through approach for disclosure of the actual underlying investment returns. For with-profits funds, these would be the investment returns used in the calculation of (unsmoothed) asset shares.

- **Guaranteed investment returns** – Where an arrangement guarantees a minimum investment performance outcome, this should be disclosed in the features table but not taken into account in past reporting periods where performance is beneath the guarantee. The guarantee should also not be taken into account when calculating risk metrics.

3.35 We know there are some product structures which offer some less common benefits or methods of investment. Many of these arrangements are no longer actively available to new members, while others are.

3.36 We consider that trying to offer amendments, exclusions and adaptations to the VFM Framework to account for these variations risks making the Framework too complex and less suitable for comparison. We therefore propose that additional features offered which are not specifically covered above should be included as part of the rationalisation step of the VFM assessment.

Question 12: Do you agree with our proposals relating to legacy arrangements? Why or why not?

Chapter 4

Investment performance – forward-looking metrics

4.1 This chapter outlines our proposals for disclosing forward-looking metrics (FLMs) as part of the metrics to be included in the Framework. Chapter 8 sets out our proposals for how FLMs should be used in the assessment process.

CP24/16 did not consult on FLMs due to gaming risks and complexities still to be worked through. The consultation acknowledged projections of expected future risk-adjusted performance could add value to the Framework, and proposed to look at FLMs in the future.

Summary of feedback

Overall, a greater number of respondents were supportive of including FLMs in the Framework than against, although almost all respondents acknowledged the challenges involved. Some respondents proposed mandatory use of FLMs as an important projection of expected future performance. Others argued that FLMs are too unreliable, encourage gaming and are too complex.

Updated proposals

4.2 This chapter outlines our proposals for FLM disclosures as part of VFM metrics. Pensions investments must provide good long-term outcomes. We expect those governing default arrangements to always have this forward-focus in mind. Including FLMs is helpful in enabling comparisons of strategy and expected outcomes for savers across arrangements. This will be useful both for enabling competition in the market and for a wider view of expected saver outcomes from the DC system. It is also important given the wider policy direction announced in the Government's Pensions Investment Review and the Pension Schemes Bill. We want to ensure that the VFM Framework avoids disincentivising arrangements from investing in the full range of assets that support member returns and diversification, including private markets where short-term performance may not reflect the trustees' or firms' expectations of long-term returns.

4.3 In developing our proposal, we have tried to balance usability, comparability and gaming risk against herding risks, complexity and the cost of developing FLMs. We welcome feedback on these proposals, and acknowledge the potential risks from relying on projections. These include the potential for adverse incentives and undermining the effectiveness of the wider VFM Framework in holding poorly performing arrangements to account if FLMs are considered inappropriately as part of the assessment process. To manage these risks, we have considered guardrails for the use of FLMs in the VFM assessment process, which we outline below.

Forward-looking projections and risk disclosures

4.4 We propose that firms and trustees would be required to report the expected net investment returns and expected ASD over the next 10 years, across the entire asset portfolio for each YTR cohort for each of their in-scope arrangements.

4.5 For multi-employer arrangements with variable charging, firms and trustees would need to disclose the expected median, maximum and minimum value of investment returns net of total costs and charges over 10 years, to be consistent with BLMs and to enable the calculation of the composite metrics discussed in chapter 8. This could be done by estimating the median, maximum and minimum total costs and charges, or by holding the latest actualised variable charging constant when doing this projection, if those are likely to be an accurate projection of future costs and charges.

4.6 For each arrangement, firms and trustees would be expected to decide their methodology and assumptions to develop the returns in accordance with their investment strategy. The FLM should be calculated based on the arrangement's strategic asset allocation (SAA) and must reflect the assumptions used in determining, or in later monitoring, the ongoing suitability of the SAA. This allows for ongoing updates to the set of assumptions, provided they are made with a consistent methodology. The use of firm's and trustee's own assumptions allows for them to account for an arrangement's specific factors such as fees and investment management approach.

4.7 Expected ASD would be calculated based on the trustees' or firms' chosen modelling approach for projecting future returns (be it stochastic, deterministic or other), based on the same long-term capital market assumptions used to calculate the expected investment return net of all costs.

4.8 We considered requiring the disclosure of FLMs based on standardised assumptions, such as Statutory Money Purchase Illustration (SMPI) or a prescribed methodology, as this would result in more comparable projections and lessen the risk of gaming. However, these approaches could also lead to flawed results and the risk of herding could be too high. It would also be costly to implement, particularly given the difficulty in developing standardised assumptions for some types of private investment. It would also be challenging to present the FLM figure on a net basis if standardised assumptions were used as these are often presented on a gross basis meaning a blanket assumption on fees/management styles may need to be applied.

4.9 For FCA regulated, contract-based arrangements, we propose to exclude FLM disclosures under the VFM Framework from the requirements in COBS13.5 which require projections to be done in a certain way.

Question 13: Do you agree with the proposed FLM disclosures and the use of own assumptions? Why or why not?

Proposed FLM disclosures

YTR cohort	Expected annualised net returns over 10 years	Expected ASD over 10 years
30 YTR		
5 YTR		
At retirement		

Guardrails

A number of responses to CP24/16 noted that including FLMs, particularly if based on own assumptions, could create significant gaming risks. We acknowledge this and propose guardrails for disclosure and how the metrics are used in chapter 8.

4.10 We propose a number of guardrails to manage the risks of inflated or unrealistic FLM disclosures.

Disclosure

4.11 Firms and trustees having to disclose FLMs will allow for comparisons between arrangements and their approaches. We consider that arrangements are likely to have a long-term interest in making sure that their projections are reasonable given unrealistically high projected returns would be identified when compared to the comparator group average. Over time backward looking metrics can also be used to assess the accuracy of an arrangement's FLMs and would be useful in supervisory engagement.

4.12 Firms and trustees would not be required to disclose the assumptions behind their projections, but we propose that they would be required to keep a record of the assumptions for at least 6 years for auditing purposes.

Firms and trustees to obtain external advice

4.13 We propose that firms and trustees must obtain and consider advice from an appropriate third-party on the reasonableness of the assumptions used for the FLMs. This would not limit firms and trustees from selecting bespoke assumptions where they have cause to believe their specific asset class allocations warrants it. For example, a narrow and specific set of infrastructure assets, different from the more generic mix on which their investment advisor would normally base their capital market assumptions. However, third party advice must be sought to help ensure that any bespoke assumptions are reasonable.

4.14 This external third party must have appropriate skills and experience. When submitting VFM data, firms and trustees must confirm that they have received external advice, and must disclose who provided it in the features table.

4.15 We are interested in feedback on this proposed requirement, which will help us continue to evolve the proposed guardrails. We know that a requirement to obtain advice is less stringent than requiring independent validation or certification of assumptions used, which would be a more robust, but costly, guardrail to ensure that FLMs disclosed are reasonable. We are interested in whether getting advice from external experts for FLMs is already common practice, how much it would likely cost, whether it adds value and whether it should be more robust.

4.16 A requirement to obtain and consider advice is consistent with other requirements for workplace pensions, for example for trustees to obtain and consider appropriate investment advice as set out in section 36 of the Pensions Act 1995.

Question 14: Do you agree with the proposed requirement to obtain and consider external advice? Why or why not?

Question 15: Are the proposed guardrails sufficient to reduce the risk of gaming and ensure the FLMs disclosed are credible for use in the assessment process? If not, what alternatives/ additions would you propose?

Chapter 5

Asset allocation disclosures

5.1 Asset allocation is important to get deeper insights and context for historical performance outcomes. It enables comparison between various portfolio structures and helps in projecting potential future performance.

CP24/16 set out the expectation that firms and IGCs should use asset allocation disclosures to support a focus on long-term value rather than short-term costs.

Summary of feedback

Many respondents agreed with the proposals, but some questioned the need to include asset allocation data in the VFM Framework.

Most respondents supported limiting asset allocation disclosure to firm-designed, in-scope arrangements and not including bespoke arrangements. Some suggested that disclosing overall asset allocation for an entire arrangement may not be needed.

Most respondents had no concerns about the definition of UK assets.

Among those who commented, the majority did not support breaking out 'Quoted, not listed assets' into a separate category.

Current provision in the Pension Schemes Bill

5.2 The Bill does not set out the Government's intended scope for asset allocation disclosure by trust-based arrangements. However, it includes provisions for the secondary legislation to require publication of specific classes of assets arrangements are invested in.

Updated Proposals

5.3 Disclosing asset allocation information can give important context to help those assessing and operating arrangements to look beyond investment performance outcomes to see what might be helping to drive that performance.

5.4 At this stage, we are not proposing changes to the asset allocation disclosure requirements consulted on in CP24/16.

5.5 However, we would like to refine the requirements once we better understand how providers and trustees consider this data internally and can review potential output from the data collection. The FCA will be carrying out a voluntary data collection exercise for some contract-based providers, with TPR also seeking to draw comparisons from data collected as part of a separate, complimentary, regulatory exercise.

5.6 DWP have also recently completed their [Pension Provider Survey](#), which asked a variety of provider types and sizes from across the DC market to provide asset allocation data in the same way as proposed in CP24/16, alongside other VFM-related metrics. Response rates suggest schemes are well placed to provide this. The further engagement aims to ensure our requirements ask for data in a cost-efficient way.

5.7 We have contacted the providers we are seeking data from separately with further detail. If a provider has not been contacted but would like to participate, they are welcome to contact us using the methods for responding to this consultation.

Question 16: Do you foresee any difficulties in reporting this data? If yes, what specifically?

Chapter 6

Costs and charges

6.1 Cost and charges metrics will allow consideration of how costs affect an arrangement's overall value. This chapter sets out our updated approach.

CP24/16 proposed the disclosure of costs and charges metrics that complemented the investment performance metrics.

Summary of feedback

Many respondents emphasised the importance of costs and charges data to overall member value. However, some respondents questioned the usefulness of historic cost & charge data. They recommended limiting the requirement to 1 year's data to ease the burden of data collection.

Some respondents advocated eliminating the division between investment charges and service costs, arguing there is no impact on overall value. However, others stressed the importance of this split for the purposes of transparency and accountability.

Current provision in the Pension Schemes Bill

6.2 The Bill does not set out the Government's intended scope for costs and charges. However, it includes provisions for the secondary legislation to specify the statutory definitions and requirements.

Updated proposals

6.3 We now propose that the Framework will require the reporting of total costs and charges data over 1 year, 3 years and 5 years where available, and 10 years where reasonably practicable to obtain. As with reporting investment returns as set out in Chapter 3, we no longer propose the disclosure of costs and charges data for the 15-year period.

6.4 For the 3, 5 and 10-year reporting periods, we propose that data only be required for total costs and charges. These will already be used to calculate performance net of all costs and charges over these time periods and so be available for disclosure. We no longer propose the requirement to provide a split between service costs and investment charges for these time periods.

6.5 However, for the 1-year reporting period, we propose to require the split between service costs and investment charges as well as the total costs and charges figure, as set out in CP16/24.

6.6 We also propose that from the second year, the change in costs and charges from the previous year be shown, to demonstrate the trend in costs and charges over time.

Illustration of revised costs and charges proposal

	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

6.7 For multi-employer arrangements where total costs and charges vary, a maximum, minimum and median must be disclosed for all time periods. This clarifies the proposal in CP24/16, where we asked for the range and median (meaning the range to be the max and min), as the maximum and minimum value are the more useful figures when carrying out comparisons in the assessment process.

6.8 Similarly, where service costs vary, the maximum, minimum and median of these should be shown for the 1-year time period to provide an indication of the range of costs charged for services. The investment charges are less likely to vary, however where it does, the maximum, minimum and median should also be disclosed.

6.9 We do not plan to make any changes to our definitions of investment charges or service costs proposed in CP24/16:

- Investment charges – fees and charges in relation to the investments of an in-scope arrangement, including any performance-based fees but excluding transaction costs.
- Service costs – total costs and charges less investment charges (and excluding transaction costs). This proposed definition therefore includes the cost of member administration, communications, governance costs etc.

6.10 In line with CP24/16, we do not propose including transaction costs in our definition of investment charges.

Calculation methodology

6.11 CP24/16 proposed that all costs and charges data be consistently calculated as a percentage of relevant assets and that this calculation be geometric to mirror the proposed approach for calculating investment performance.

6.12 For the 1-year reporting period, we continue to propose that firms calculate the total annualised costs and charges figure for that calendar year. However, we now propose to move from geometric to arithmetic average for investment performance calculations. Therefore, we propose that for 3-, 5-, and 10-year periods, trustees and firms will calculate the arithmetic average of the annual costs and charges for each of these reporting periods for each retirement age cohort. Total costs and charges for each year will be expressed as a percentage of the average of beginning and end year assets. For investment charges, where appropriate, each annual figure will be calculated by averaging monthly charge figures.

Employer subsidies

In CP24/16, we proposed that firms should disclose the total costs and charges paid by both members and their employers. Responses recognised the importance of existing employer subsidies but suggested these may be hard to apportion. They also noted that not everything an employer provides for employees – such as subsidised access to advice – can easily be broken down and assigned a specific cost.

6.13 We want to achieve a straightforward but fair and accurate representation of the employer's commitment.

6.14 As in CP24/16, we continue to propose that firms should disclose the total costs and charges paid by both members and their employers. As well as disclosure alongside other metrics, employer subsidies should be disclosed in the features table and may be explained in the Assessment Report. This is because the employer subsidy can still form an important part of the overall narrative of the arrangement and may not be available elsewhere. However, they will not form part of the assessment outcome itself.

6.15 We believe that, at its most basic, an employer subsidy consists of the employer paying a part of the charge that would otherwise be charged to the member. However, we recognise there may be other variations of these subsidies and believe that the narrative approach will help with this.

Question 17: Do you agree with our proposals for disclosing employer subsidies? Why or why not?

Mutuals profit sharing

6.16 As in CP24/16, we continue to propose that where policyholders of mutual organisations receive profit shares, the costs and charges used for Framework calculations and disclosures should be net of profit share. In line with this, for multi-employer default arrangements a maximum, minimum and median (by member number) should be disclosed having taken into account profit share.

With-profits distributions

6.17 We would also clarify the intention that a firm that makes a distribution from a with-profits fund to with-profits policyholders may calculate its total costs and charges net of that distribution.

Question 18: **We are aware that profit share and with-profits distribution can follow some time after the performance to which they relate. We have considered whether there would be benefit in apportionment, linking the share/distribution to the period to which it relates. We would be interested in views on this.**

Combination charging structures

6.18 We continue to propose that where savers invested in an arrangement pay a combination charge, all firms and trustees follow the above calculation methodology which focuses on what has actually been paid to the firm for products and services. A firm/trustee may also choose to disclose an estimate of total costs and charges, expressed as a percentage as above, for savers in a particular retirement age cohort once the arrangement is in balance.

Unbundling

In CP24/16, we proposed that firms which vertically integrate investment and other services would need to unbundle the costs to the arrangements involved with these. Some respondents were concerned that the complexity involved in doing this would mean inconsistencies of approach resulting in comparisons based on figures that are unrealistic or unachievable.

We recognise that a precise accounting of costs may not always be possible, but consider that a reasonable estimation of how these are split is both possible and helpful if considering the components contributing to member value.

As a result of feedback we have revised our approach to unbundling.

6.19 As in CP24/16, we continue to propose that firms and trustees providing vertically integrated in-scope arrangements will be required to show a split between their investment costs and service charges.

6.20 We continue to propose requiring reporting for the most recent calendar year for vertically integrated arrangements. But as we have changed our approach to the disclosure of investment costs/services charges overall (to only showing the year 1 figure) we no longer propose to expand out unbundling disclosure requirements over time. However, in a change from the proposal laid out in CP24/16 we are not prescribing how the split should be calculated but instead stating that it should be estimated on a reasonable basis, and supported by a short narrative explanation in the Assessment Report of how these figures have been calculated and the assumptions applied. We believe this is a pragmatic proposal given some stakeholders' concerns but we will revisit this area over the medium term.

Multi-employer in-scope arrangement cohorts

6.21 As in CP24/16, we continue to propose that for multi-employer in-scope arrangements, where total costs and charges (usually the service cost element) vary by employer due to factors such as employer size and average contributions, additional disclosures be required through cohort tables. These will provide greater transparency and will allow IGCs, trustees and other decision makers to assess whether the charges for their arrangement are reasonable compared to others in the market.

6.22 Firms and trustees will be required to disclose total costs and charges for the past year for the 30 YTR retirement age cohort, in line with the below tables. Where charges do not vary between employers, we continue to propose the cohort tables need to be completed to show arrangement demographics by employer cohort. This will help make effective comparisons. The maximum, minimum and median for in-scope savers within each employer cohort should be disclosed as illustrated below.

Multi-employer in-scope tables

30 years to retirement

Employer size by invested assets bands	< £100k	£100k- £1m	£1m- £5m	£5m- £25m	£25m- £50m	£50m- £100m	£100m- £250m	>£250m
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)								
Average contribution per saver (active and deferred) £								
Distribution of employers across the in-scope arrangement (%)								

30 years to retirement

Employer size by number of members	Under 100	100- 499	500- 999	1,000- 4,999	5,000- 9,999	10,000- 24,999	25,000- 49,999	50,000- 99,999	>100,000
Min, max and median of charges (e.g. 0.22%- 0.41%, 0.31%)									
Average contribution per saver (active and deferred) £									
Distribution of employers across the in-scope arrangement (%)									

Chapter 7

Quality of services

7.1 This chapter sets out our revised proposals for quality of service metrics. Poor service quality can harm savers and may ultimately lead to worse outcomes, so we consider it important that this forms part of the overall VFM assessment.

CP24/16 proposed 5 indicators that a scheme may be generating additional value through the quality of its service and proposed metrics.

Summary of feedback

Most of those who responded agreed with the proposals relating to the level at which data is collected. Most respondents agreed with the 5 proposed indicators of service quality, but there was very little overall agreement around the metrics that could be used for each indicator.

There was overall agreement that the proposed member engagement survey would be useful. However, there were concerns around the nature of the proposed questions, the triggers for such surveys and that some members would be asked to comment on multiple occasions. There were mixed views on our proposal to remove the Net Promoter Score, and some calls for it to be reinstated, whilst others were content with its removal.

Some respondents felt the proposed member engagement trigger points could lead to surveys being sent to members too often. There were a few calls for an annual survey that was sent to all members or a random sample of those who had contacted the scheme.

Current provision in the Pension Schemes Bill

7.2 The Bill does not set out the Government's intended scope for the metrics related to the quality of services provided. However, it includes provisions for the secondary legislation to specify the requirements.

Updated proposals

7.3 In the future there will be extensive change to the way savers engage with their pensions, for example the proposals for Guided Retirement and the Targeted Support Regime. We intend to work with industry to introduce and continue to develop appropriate VFM metrics as this develops.

7.4 Following feedback, we have made minor changes to our proposals on administrative metrics in relation to the following:

- Savers can be confident that transactions are secure, prompt, and accurate.
- Savers are satisfied with the service they receive.

7.5 Metrics on how savers engage with their pensions are more challenging to develop. We have decided to develop these metrics over the medium term, taking account of the upcoming wider changes, including to how people take their pensions. We therefore do not propose to require metrics for the following at launch, but intend to develop these in consultation with industry:

- Savers are supported to make plans and decisions for their retirement.
- Savers can easily amend their pension.
- Savers are supported to engage with their pension.

7.6 However, the proposal is to require information about nomination of beneficiaries, as there is agreement on the ease and usefulness of including this metric.

1) Savers can be confident that transactions are secure, prompt and accurate

Accurate record keeping

CP24/16 proposed to require metrics on the accuracy of holding common data already set out in TPR guidance. We proposed to supplement the common data set with contact details for savers who had moved employer. We still consider it important that arrangements keep in touch with their savers. However, following substantial feedback on how we would mandate this and consideration of GDPR and PECR regulations, we no longer propose to supplement the common data set in this way.

7.7 As in CP24/16, we continue to propose that the collection of the following metrics measuring access of holding common data and scheme specific data:

Common data

How frequently is common data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct common data?	More than annually	Annually	Less than annually
When was the common data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate common data?			
At the last review date, what was the number (#) of savers with incomplete/inaccurate common data?			

Scheme-specific data

How frequently is scheme-specific data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct scheme-specific data?	More than annually	Annually	Less than annually
When was the scheme-specific data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate scheme-specific data?			
At the last review date, what was the number (#) of savers with incomplete/inaccurate scheme-specific data?			

Promptness and accuracy of core financial transactions

In CP24/16, we proposed to focus on promptness of 4 key financial transactions. Following feedback, we propose to adjust the definitions for these financial transactions to reflect that providers and trustees only have control over their own arrangements.

We also propose to split the payment to beneficiaries transaction out into payments on death and payments taken as retirement income as we understand different processes and therefore timescales apply. For payments on death, we have made it clear that the measure commences from notification of death which may be several months after the death has occurred.

Our revised definitions are:

Payments in and investment of contributions: from the point of payment of monies into the scheme to the point at which the monies are invested in the appropriate investment fund. This changes from 'received by' the appropriate investment fund.

Transfer between schemes: from the point of a formal request for a transfer to the point at which the saver's details and benefit have been successfully sent to the receiving scheme. This changes from 'received by' the receiving scheme.

Transfers and switches between investments: from the point of a formal request for a transfer to an alternative investment to the point at which the transfer is successfully received by the alternative investment **within the same employer arrangement**.

Payments out to beneficiaries on death: from the point of which the providers/trustees are notified of death, to the point at which the payment is received by the beneficiary's receiving account. This changes from the point of a request for payment to be issued.

Payments out as retirement income: from the point at which a request is made for immediate payment to be issued, to the point at which the payment is sent to the receiving account. This changes from the point at which the payment is received by the receiving account.

We have streamlined the number of metrics required for key financial transactions to focus on measuring outcomes obtained, and required the percentage rather than number of requests completed outside the SLA to ensure comparability between large schemes. We consulted over requiring the range of end-to-end time periods to complete each key financial transaction in the previous calendar year. We have split the calendar year into smaller time periods to allow greater insight rather than focus on potential outliers. Some responses suggested that payment of a pension commencement lump sum (PCLS or 'tax free cash') should be an additional transaction included in the key transaction data, this would be the time taken from request for a PCLS to the point it is paid to the member. We would be interested in views on whether this transaction should be included.

Question 19: We would like to include 'Payments out as retirement income' as a key transaction. We are aware that some individuals approaching retirement may request payment at a future date, hence our request for data based on requests for immediate payment. We would be interested in views on whether our proposed measure above would provide a reasonable measure.

Question 20: We would be interested in views on whether the payment of Pension Commencement Lump Sum should be a transaction included in this section.

7.8 We now propose to require the following data metrics:

Processing financial transactions	Payments in and investment of contributions	Transfer between schemes	Switches between investments	Payments out to beneficiaries on death	Payments out to member/ policyholder as retirement income
The percentage of requests that took longer to complete than the time period specified in the firm's scheme service level agreement or internal policy in the previous calendar year					
The mean end-to-end time period to complete each key financial transaction in the previous calendar year					

Range of End-to-End Time Taken

Time taken (days)	Payments in and investment of contributions	Transfer between schemes	Transfer and switches between investments	Payments out to beneficiaries on death	Payments out to member/ policyholder as retirement income
1-3					
4-6					
7-10					
11-20					
21-30					
31 - 50					
>50					

2) Savers are satisfied with the service they receive

Negative perception metrics

In CP24/16, the FCA consulted over a set of negative perception metrics to be provided at scheme level. Consultation responses suggested that complaints data at registered scheme level, rather than platform or arrangement level, will include complaints associated with products that are out of scope.

We considered a change to arrangement or platform level and propose that complaint data be provided for in-scope arrangements at a level where the same service is experienced (often referred to as platform level). We believe this will avoid the potential for including out-of-scope products within the same scheme, while simplifying data collection.

As with the key financial transaction data we are collecting some data as percentages rather than absolute numbers to ensure comparability.

We are proposing a definition of platform of 'the single administration system used to manage and access investments, including the in-scope arrangement for which data is being disclosed'. We would be grateful for comments as to whether this is the most appropriate definition.

Question 21: Do you have any comments about our proposal to collect complaints data at the level at which the same service is experienced? Do you agree with our proposed definition of a platform?

7.9 We now propose the revised data requirements.

What was the number (#) of complaints received in the previous calendar year?	
What percentage (%) of members raised at least one complaint in the previous calendar year?	
What was the average end-to-end time taken to close a complaint during the previous calendar year?	
What was the range of end-to-end times taken to close a complaint in the previous calendar year?	
What is the time period stated in the service level agreement (SLA) for the closure of a complaint?	
What was the percentage of complaints within the previous calendar year that were not closed within this time period?	

What was the percentage of complaints escalated to the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints determined by the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints fully upheld by the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints partly upheld by the Pensions Ombudsman in the previous calendar year?	
<p>Note: Decisions made by the Financial Ombudsman Service are either upheld or not upheld, so we do not ask for partly upheld decisions here.</p>	

Question 22: We would be interested in views on whether our proposed approach to negative perception metrics will provide relevant data to indicate saver concerns.

Customer satisfaction survey

In CP24/16, the FCA consulted over developing a standard member survey for use after specific engagement events. After reviewing feedback and consulting trade bodies, we believe more work is needed to create a practical, cost-effective customer satisfaction survey. We are not proposing to include a survey at launch but will continue working with the industry over the medium term.

Question 23: Does our revised approach to engagement metrics seem appropriate? Additionally, we would be grateful if you could provide us with an explanation of what surveys/data gathering exercises you currently undertake for member engagement. If you would be willing to share a copy of your member engagement survey(s) with us, please tell us.

Metrics on saver engagement

In CP24/16, the FCA suggested further metrics on supporting savers to make plans and decisions, ease of amending pensions, and saver engagement. Feedback suggested a number of concerns with these data points, including that the data received may not offer a comparable base. We have not been able to arrive at a consolidated view with industry on engagement metrics. As with the rest of the VFM framework we want to ensure we only include metrics that are useful, and reflect the value being delivered.

7.10 At launch, we propose to require firms to report solely on the new metric – the percentage of savers who have nominated a beneficiary. This reflects the importance of this metric, while recognising that savers in stable situations do not necessarily review their decisions regularly.

Question 24: **We welcome feedback on our revised proposals for engagement metrics and how that engagement generates specific outcomes.**

Chapter 8

Assessment process

8.1 This chapter sets out the proposed process for VFM assessments. It builds on and adapts the process in CP24/16, in response to consultation feedback and the emergence of a central VFM database.

CP24/16 proposed a comparative assessment process against at least 3 other in-scope arrangements selected by the IGC, which had to meet specified criteria. IGCs would then be required to follow a 4-step process to determine value, which ended in their assigning a RAG rating.

Summary of feedback

Overall, respondents supported the proposals in the consultation. On comparators, there was some concern about the scale criteria, with respondents commenting that scale does not always correlate to better value. Some suggested a database to help select appropriate comparators and clear guidance to ensure consistency. Others challenged the 3 comparator approach, which would only assess relative value.

On the assessment process, many respondents felt that the RAG rating should have more detail. Others felt the lack of FLMs would restrict the ability to demonstrate recent improvements.

Concerns were also raised about the amount of subjectivity in the process, and the risk of gaming.

There were mixed responses on the proposal for multi-employer cohorts, with concerns about the impact an amber rating would have on an arrangement.

Similarly, views were mixed on the question of scale. On ESG, views again were mixed, with most agreeing that it was an important consideration but that it should not duplicate work done elsewhere (e.g. Taskforce on Climate-related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosures (TNFD)).

Current provision in the Pension Schemes Bill

8.2 The Bill includes a number of provisions for VFM assessments. It sets out that regulations may require:

- Comparison of metric data with other arrangements or relevant benchmarks;
- Factors, criteria and use of evidence in the evaluation
- How comparisons should be taken into account in determining a rating

8.3 In relation to ratings, the Bill introduces a bottom and a top rating – ‘fully delivering’ and ‘not delivering’; and also provides for one or more ‘intermediate’ ratings to be introduced and defined by Regulations.

8.4 The Bill defines a ‘not delivering’ rating as applicable broadly if the trustees or manager determine that the scheme or arrangement is not delivering value for money and either:

- There is no realistic prospect of the scheme or arrangement delivering value for money within a reasonable period.
- The responsible trustees or managers have assigned an intermediate rating to the scheme or arrangement in each of a prescribed number of VFM periods immediately preceding the relevant period, or
- TPR notifies the responsible trustees or managers that they consider that the responsible trustees or managers have a non-minor failure to comply with an improvement plan or an action plan.

Updated proposals

8.5 We propose several changes to the assessment process consulted on in CP24/16. These include comparisons against metrics taken from a commercial market comparator group, the introduction of FLMs in the assessment process and additional detail for value ratings (either light or dark green).

8.6 These changes have been largely driven by feedback, the introduction of the central data repository and the introduction of FLM disclosures. We have tried to introduce a more consistent assessment process, taking into account a wider range of market data and with an expanded range of ratings. Trustees and IGCs would continue to exercise a degree of judgement when assessing an arrangement for holistic value.

8.7 As noted in Chapter 1, the proposed assessment process seeks to drive a genuine focus on long-term value generation by balancing past performance shown through BLMs, and enabling firms and trustees to evolve their future investment strategy through consideration of FLMs.

Commercial market comparator group

8.8 In Chapter 10, we propose that an online central data repository would be used to disclose VFM data from all in-scope arrangements. We propose that the repository would provide comparative data (the mean, the median, maximum and minimum) for all investment performance, cost and charges, and relevant quality of services metrics relating to the commercial comparator group arrangements. This would allow a more objective and consistent approach to measuring value in the assessment process. IGCs and trustees will be expected to compare their own arrangements against the comparative data.

8.9 The commercial comparator group will consist of contract- and trust-based arrangements which meet the following criteria (identified by the repository using information provided in the features table):

- Open to new employers, and
- Firm/scheme designed multi-employer arrangements (i.e. no bespoke arrangements or SETs).

8.10 From year 2 of the VFM Framework being implemented, arrangements in the comparator group would also have been rated as value the previously year (as not value arrangements would not be open to new business). These criteria mean that comparisons would be against arrangements assessed as offering value that other arrangements could be consolidated or transferred into.

Question 25: **Do you agree with our proposal for comparisons against a commercial market comparator group and the criteria for it? Why or why not?**

Approach to comparisons for different arrangement types

8.11 We propose that all in-scope arrangements of different types would compare against the commercial market comparator group, which will be made up of multi-employer arrangements. Some of these will have varying charges for employers, which would be displayed through a maximum, minimum and median for the investment performance net of all costs and charges metrics, as well as through the multi-employer cohort costs and charges tables for the 30 YTR cohort (see above).

8.12 The investment performance net of all costs and the charge metrics of the comparator group calculated by the data repository would themselves be split into median, maximum and minimum based on the variable charges. In general, each of these will be calculated by averaging the corresponding (median, maximum or minimum) metric from each of the commercial comparator group members.

8.13 However, some multi-employer arrangements do not have variable charges. For these arrangements we propose treating their net performance and charge metrics as in effect acting as the maximum, minimum and median for the purposes of the calculation of average comparator group metrics. This is because multi-employer arrangements with fixed fees effectively make that product available to all employer cohorts by offering a single fee structure to all members. This means the flat fee product is available as a comparator to all cohorts, regardless of their size and fee arrangement experienced elsewhere.

8.14 We propose that IGCs and trustees would need to assess arrangements in slightly different ways depending on their characteristics, as set out in the table below.

Arrangement assessed	Approach to comparison against the commercial market comparator group
Multi-employer with charges that vary	<p>For investment performance net of total costs and charges, comparisons across the averages of maximum, minimum and median of the commercial market comparator group.</p> <p>Must also compare against comparator group averages in total costs and charges multi-employer cohort tables.</p> <p>A multi-employer arrangement with varying charges may offer value to some but not all savers. However, savers charged more may still receive VFM. For example, a small employer may not always be able to obtain better value for its employees. Comparisons at the level of employers grouped by size should take this into account.</p>
Multi-employer with charges that do not vary	<p>For investment performance net of total costs and charges, comparisons across the averages of maximum, minimum and median of the commercial market comparator group.</p> <p>Must also compare against comparator group averages in total costs and charges multi-employer cohort tables.</p> <p>Even though the arrangement being assessed will not have variable charges, it should test whether employers in its different cohort bands are getting worse value based on size and Assets Under Management (AUM).</p>
Single employer (bespoke or SET)	<p>For investment performance net of total costs and charges, comparisons against the averages of maximum, minimum and median of the commercial market comparator group.</p> <p>Comparison then of total costs and charges with the average of the comparable cohort of employers (based on size and AUM) in the multi-employer cohort tables.</p>

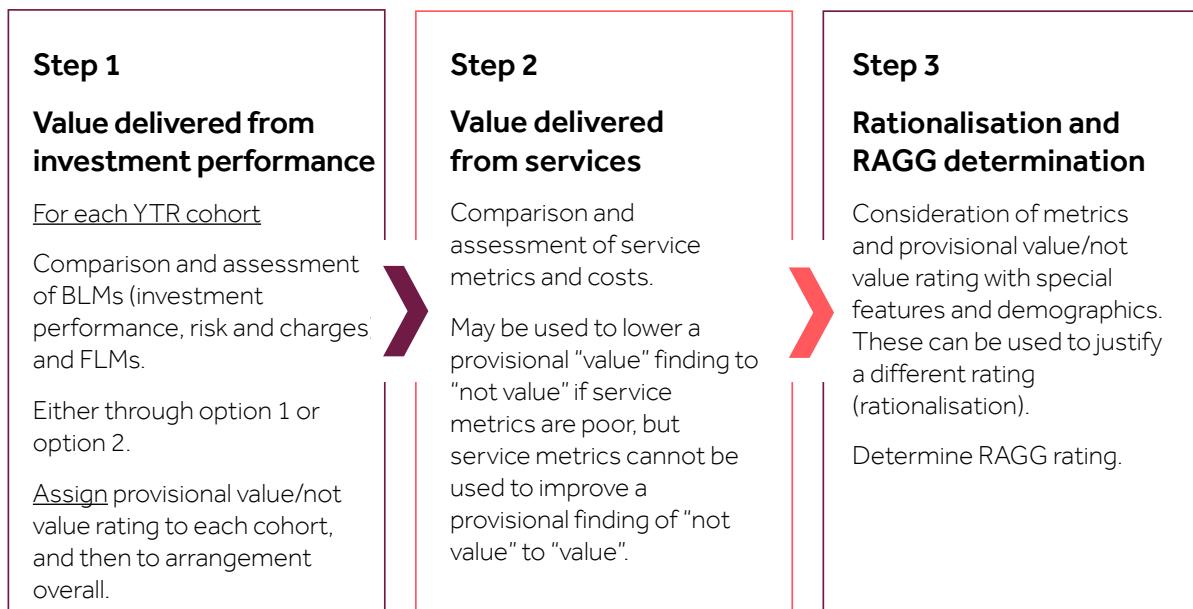
Question 26: Do you agree with our proposed approach to comparisons for different types of arrangements? Why or why not?

The assessment process

CP24/16 proposed a 4-step process when assessing VFM of an in-scope arrangement, leading to one of 3 ratings (red, amber or green). Feedback encouraged increased levels of objectivity, which has been incorporated into the updated proposals.

8.15 We now propose assessments are conducted through a 3-step process leading to a determination of value against one of 4 ratings (red, amber, light green, dark green). We propose to introduce a rebuttable presumption of 'not value' for the arrangement as a whole where it is identified that any one YTR cohort is deemed not value, and to ensure determination of value in step 1 is informed by consideration of FLMs. We are consulting on 2 alternative options for the consideration of how to build FLMs into the assessment process – and we welcome feedback and ideas for further options.

8.16 The first 2 steps would use Framework data to consider value demonstrated by investment performance and services, compared to the market and to costs and charges. The third step allows for consideration of specific arrangement features (rationalisation) and requires determination of an overall RAGG (red, amber, light green, dark green) rating. See diagram below for a summary:



Step 1 – Investment Performance

8.17 We propose that under step 1, trustees/IGCs now assess:

- Backwards looking investment performance metrics (BLMs) – factual, historical data demonstrating past performance delivered by arrangements that can be compared directly to the performance of other arrangements.
- Forward looking investment performance metrics (FLMs) – projections that allow trustees and IGCs to take into account the potential future performance of arrangements. This will be particularly relevant where short-term performance may not reflect trustees' or firms' expectations of long-term returns.
- Investment charges and multi-employer cohort tables.

8.18 We want firms and trustees to take a holistic approach to investment to deliver the best possible long-term outcomes, and to make sure the assessment process accommodates that. BLMs may favour certain investment approaches at a given point in time, even where firms and trustees may think this is not going to deliver the best value going forward. Taking account of both backward and forward-looking metrics allows for a more considered approach. As part of this, using FLMs in comparisons will help make sure the VFM Framework does not discourage investment in private assets where this is in the savers' best interest. This is in line with the Government's Pension Schemes Bill and the voluntary industry Mansion House Accord announced in May 2025.

8.19 In proposing to incorporate FLMs, we are aware of the need to ensure the VFM Framework ultimately holds trustees and firms to account for delivery of net investment returns and that they benefit members fairly.

8.20 For example, we do not want to discourage trustees and firms from finding ways to manage the potential 'lag' in returns from assets with a projected J curve shaped return. We have seen trustees and firms manage this risk effectively through strategies which ensure that all members, regardless of when they join or leave an arrangement, get fair outcomes. Expanding the assessment ratings to include a dark green rating should also help encourage this behaviour, as top performers with the strongest BLMs and FLMs among value arrangements can be rated dark green.

8.21 BLMs and FLMs would be assessed for each YTR cohort. IGCs and trustees would consider the full range of available BLMs and FLMs to reach a preliminary finding of value/not value at YTR cohort level. Value would then be considered at arrangement level as set out below, to reach a preliminary finding of value or not value based on investment performance and cost metrics by the end of step 1.

8.22 We are consulting on 2 options for how FLMs could be considered in step 1, both which are set out in the FCA draft Handbook rules. We know the inclusion of FLMs in the VFM Framework is new and complex, so we are interested in views on both options and further ideas on how best to appropriately incorporate FLMs into the Framework. Option 1 considers BLMs and FLMs metrics together, to come to an overall judgement of value. Option 2 introduces a composite metric derived from a subset of BLMs and FLMs to help inform that comparison at an early stage before a deeper analysis of metrics.

Option 1 – consideration of BLMs and FLMs together

8.23 This option would consider both BLMs and FLMs, comparing these to the commercial market comparator group and against each other and following guidance to reach a preliminary finding of value for each cohort.

Consideration of BLMs

8.24 For BLMs, comparisons would primarily be against the averages (including average of the maximum, minimum and median) from the commercial market comparator group. However, IGCs and trustees should also look to see how they compare to the arrangements in the comparator group more broadly, such as where they sit in the range and distribution. The full range of investment performance metrics would be considered here, including risk, as well as investment charges and the multi-employer cohort costs and charges tables (as set out in paragraph 8.11 above).

8.25 When comparing the metrics to those of the comparator group, trustees and IGCs should determine if a difference is sufficiently material to indicate poor value backward looking investment performance. See further considerations and guidance below.

Consideration of FLMs

8.26 We propose that IGCs and trustees would also consider the YTR cohort's FLMs and use these to inform their view of the overall value of the cohort. FLMs would be considered against an arrangements BLMs, and also against the comparator group average. We know the comparison against the comparator group average for FLMs may not necessarily be meaningful in terms of value, as FLM's would be based on different assumptions. However, it would allow IGCs and trustees to see how their projections compare to the comparator group and if they believe they are targeting good outcomes for their savers compared to others. When considering FLMs, we propose that IGCs and trustees would assign different weight depending on how accurate they expect their BLMs to be as an indicator of good governance and saver outcomes. FLMs should never be given more weight than BLMs. Conversely, FLMs should always be part of the consideration of investment performance as an indicator of expected future value.

8.27 We propose that IGCs and trustees follow the below table when determining how much weight to place on BLMs and FLMs, to create more consistency and objectivity in approach. We have proposed factors we think are relevant but are interested in feedback on whether these are helpful, or if we should also consider others. Arrangements may 'move across' these scenarios over time as well, as their strategy changes or matures.

How weight would be assigned between BLMs and FLMs

Weightings	Near equal	Moderate weight to FLMs	Little weight to FLMs
Rationale for weighting	BLMs may not be good indication of future performance	Some reason to give moderate weight to FLMs	Very little reason to give weight to FLMs
Factors to consider	<ul style="list-style-type: none">Recent significant changes to investment strategyANDInvestments where the actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class	<ul style="list-style-type: none">Recent significant changes to investment strategyORInvestments where the actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class	No recent significant changes to investment strategy and no assets where actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable.

8.28 For example, IGCs and trustees should put more weight on FLMs where they have recently made significant changes to their investment strategy, making their BLMs less indicative of the potential future performance of their current strategy. More weight should also be put on FLMs where there have been recent investments in assets where the actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class. Nonetheless, any impacts of such investments on intergenerational fairness and cross-member subsidies must be appropriately addressed and managed.

Question 27: Do you agree with the approach for weighting of BLMs and FLMs? Why or why not?

Consideration of overall cohort value

8.29 Taking into account both BLMs and FLMs, and following the guidance set out in the table below, IGCs and trustees must then consider whether the cohort should be rated provisionally value or not value.

Guidance and considerations

Trustees and IGCs should broadly take into account what is known about the arrangements and the savers invested in them.

Material difference: When comparing investment performance and risk metrics to the average metrics from the comparator group, trustees and IGCs will have to determine if a difference is materially worse to indicate a not value investment performance. We expect trustees and IGCs to take a data led approach to this where appropriate. For example, where the majority of metrics are below the comparator group average, or where one or two are well below the average, e.g., 30% below, then it may be reasonable to conclude that cohort is not value.

Risk metrics alongside returns: IGCs and trustees should consider investment returns in the context of risk taken. For the at retirement age cohort (and to an extent for the 5YTR cohort, where members are known to start withdrawals before their target retirement age), volatile performance may affect retirement outcomes although de-risking too much too early may reduce income in retirement.

Reporting periods: Particular weight should be given to metrics over 5 and 10 years (where available) as more robust statistical time frames to understand whether an investment strategy is delivering for members. An exception to this may be where an arrangement has recently made significant changes to its investment strategy.

Investment charges: Investment charges will now only be disclosed for 1 year, although these will build over time. As they do, we expect IGCs and trustees to consider these, alongside the investment performance net investment charges figure. For example, extremely low investment budgets may limit the available investment choices with a potential corresponding impact on how value is generated. Anecdotally, we have heard that investment budgets can be as low as 0.1% (10 basis points) of assets.

Legacy or quasi-default arrangements: IGCs and trustees should start with the underlying investment performance relative to the comparator group. As they will be comparing against more modern products, any valuable legacy features such as guaranteed investment returns will need to be considered in step 3.

With-profits arrangements: Comparisons of arrangements invested in with-profits funds should focus on the performance of the underlying investments net of the cost of those investments. Smoothing and other features may be taken into account in step 3.

Asset allocations: We propose that asset allocation comparisons should not be used directly in determining a RAGG rating. However, asset allocation disclosures will provide important context which can help those assessing arrangements see what might be helping to drive historic performance, and also future projections.

8.30 For example, an arrangement that has poor investment performance over 5 years (well below the comparator group average). Its investment strategy has not recently been changed, and the investment performance metrics over the 1- and 3-year reporting periods are also lacklustre compared to the comparator group average metrics. It has not made any recent investments in assets where the actual returns in recent periods do not reflect the beliefs on the long-term returns achievable. Projected FLMs based on own assumptions may look positive, however minimal weight is given to these. On balance, the trustees/IGC are likely to conclude that the arrangement is not delivering value at the 30 YTR cohort.

8.31 In another example, an arrangement may have poor investment performance over 5- and 3- year periods compared to comparator group averages. However, it was near equal to the comparator group over 1- year reporting periods with positive FLM projections. It has recently updated its investment strategy. Its projected FLMs are high, and more than the market average. Trustees/IGCs may conclude that the changes to the investment strategy 1 year before are yielding positively for members. In that case, they may choose to apply more weight to FLMs on the grounds that the more recent performance shows value being increased and future favourable projections, and decide the cohort is delivering value based on investment performance metrics.

Question 28: Do you have any feedback on the proposed approach in option 1? What improvements or changes would you suggest?

Option 2 – Composite metric starting point

8.32 Option 2 starts with composite BLM:FLM metrics as set out below. Multi-employer arrangements with variable charges would have 3 composite metrics for each YTR cohort (maximum, minimum and median).

8.33 We propose that for each YTR cohort, this figure or figures are then compared against the composite market average figure, to give an initial indication of whether the arrangement is providing value in its investment performance. From this starting point, the process in option 1 would then be followed to consider all investment performance metrics, plus costs and charges, to reach a preliminary finding of value for each YTR cohort.

8.34 A composite metric is arguably more objective but also has the risk of being formulaic, and combining metrics that are not immediately comparable.

8.35 Including a composite test at the start of step 1 provides an initial indication of overall value by combining BLM and FLM, before undergoing a deeper analysis of the arrangement's value delivery. As such, the FLMs would be used in a quantifiable way and contribute directly to a consideration of value. Giving FLM equal weight under in the calculation of the composite metric would help ensure a balanced, holistic view that captures past effectiveness and future potential. This would help to ensure the long-term value focus on the VFM Framework and enable it to support wider Government objectives.

Composite BLM and FLM metric

8.36 The intention of this proposed composite metric would be to ensure joint consideration of both backward returns and forward-looking projections right at the start of the process. It would be used as a starting point, after which other metrics would be considered. This takes into account stakeholders' concerns that if FLMs are not sufficiently incorporated into the measurement of value alongside past metrics, arrangements may be penalised for investing in asset types with longer expected return windows or discouraged from making strategy changes likely to improve on their past performance metrics.

8.37 For each YTR cohort, the composite metrics should be disclosed alongside the other FLM metrics. These composite metrics would be made up of the expected annualised net returns over 10 years (the FLM) and average investment performance net of all costs and charges over 5 years (the BLM). The BLM and FLM would be given equal weighting, using the following formula: composite metric = (BLM + FLM)/2. Arrangements with less than 5 years of data would not be able to disclose this figure.

8.38 For example, if an arrangement's 30 YTR cohort had net investment performance over 5 years of 6.4% and a FLM over 10 years of 7.1%, its composite figure would be $(6.4+7.1)/2 = 6.75\%$.

8.39 As an alternative, we could consider basing the BLM portion of the composite metric on the 10 years average (where available), rather than 5. A further alternative would be to use risk-adjusted returns, for both BLMs and FLMs, to calculate the composite metric. Using risk adjusted returns would better incentivise trustees and firms to seek to maximise the returns to savers for the level of risk being taken rather than focussing on the net return in isolation. This would recognise the diversification role that many alternative asset classes (such as private markets) play when they are introduced in investment strategies. We welcome feedback on this.

Composite metric disclosures for multi-employer arrangements with variable charges

8.40 Firms and trustees of multi-employer arrangements with variable charges are required to disclose the maximum, minimum and median for each YTR cohort for investment performance net of all costs and charges over the time periods and for the FLMs.

We propose that 3 composite metrics be disclosed for each YTR cohort, using the median, maximum and minimum figures. This would allow variable charging to be taken into account at the start of the assessment process using the composite figures.

Question 29: Do you agree with the proposal for the composite metric in option 2? Why or why not? Is it helpful for considering value? If so, is equal weighting appropriate for the composite metric or what alternatives would you suggest?

The composite comparison figure

8.41 The proposed composite figure would be made up of backward-looking and forward-looking metrics: the comparator group averages for both the median investment performance net of all costs and charges over 5 years and the expected annualised net returns over 10 years, with equal weighting. The central VFM database would calculate this based on the following formula: $(BLM + FLM)/2 = \text{composite comparison figure}$.

8.42 We recognise there will be some limitations in directly comparing FLMs, as they would be based on firms and trustees own assumptions, rather than applying standardised assumptions. However, we believe that comparing to the comparator group average would still be useful and help show how an arrangement's expected returns and projections for their savers compare to the market average.

8.43 We have also considered whether the FLM element in the composite comparison figure could be derived from a simple reference portfolio or the average from a range of long-term capital market assumptions (LTCMAs) on the arrangement's investment portfolio. A simple reference portfolio (e.g. a 60/40 equity/bond portfolio) could be a way for arrangements to show the 'value add' of their FLM over this simple strategy. However, it may create challenges in setting the right reference portfolio and tailoring this for different YTR points. It could also encourage 'herding behaviours' as trustees and firms may be incentivised to devise their strategic asset allocation to deliver a FLM that 'matches or betters' the reference portfolio.

8.44 Using a range of LTCMAs would allow for a comparison of assumptions and be more in line with the actual arrangement's allocation. However, it is unclear if a comparison of assumptions is a good indicator of value. This approach also creates challenges in selecting the basket of assumptions (as differing LTCMAs will not have the same definitions for some asset groups, particularly in the private markets area). It also risks gaming if trustees/firms become aware of the assumptions against which they will be compared. There is also a risk that LTCMAs are 'general' and not individualised enough for the specific investments schemes might make, particularly in the private markets space.

8.45 We are interested in stakeholder views on this.

Question 30: Do you agree with the proposed composite comparison figure in option 2? If not, what do you think the composite metric or the FLMs should be compared against?

Consideration of composite metric against composite comparison figure

8.46 Under this option, we propose that for each YTR cohort, trustees and IGCs would compare a cohort's composite metric(s) against the composite comparison figure as a starting basis for the assessment of value. Where the metric(s) is above the composite comparison figure, this may give an initial indication that the cohort is value. Where it is materially below, this may give an initial indication that it is not value. We think this is particularly the case where the metric is far below the comparison figure, for example, 30% below. For multi-employer arrangements with charges that vary, comparing its 3 composite metrics against the single composite comparison figure will give an initial indication/start point of value for it across its range of employers with variable charges.

8.47 All other investment performance and other relevant metrics must then be considered, as per the process set out in option 1 above. IGCs and trustees would then determine the provisional value/not value for that cohort.

8.48 Arrangements which are new, and which have less than 5 years of investment performance data, would not be able to calculate the composite metric for the YTR cohorts. They would instead determine value in step 1 as set out in option 1, taking into account the available data in comparison to the comparator group.

8.49 An example of the composite metric and comparator figure is set out below.

Cohort's BLM	Cohort's FLM	Comparator group BLM	Comparator group FLM
6.5%	7%	7%	6.2%
$(6.5+7)/2= 6.75\%$ composite metric		$(7+6.2)/2= 6.6\%$ composite comparison figure	

8.50 The cohort's composite metric (6.75%) is above the composite comparator figure (6.6%), helped by its positive future value prospects. IGCs and trustees could take this as an initial starting point that the cohort could be value, before going on to consider fully all other investment performance metrics and coming to a preliminary finding.

Question 31: Do you have any feedback on the proposed approach in option 2? What improvements or changes would you suggest?

Additional guardrails for both options

We acknowledge the concerns from industry and stakeholders in CP24/16 that FLMs can be gamed or overinflated to hide or excuse poor past performance. We have tried to balance this against the aim of avoiding an assessment process that disincentivises investment in certain asset types, noting both government aims and saver's interests in greater diversification. To try tackle the risk of gaming, we proposed the above prescribed options for how FLMs must be taken into account in the assessment process, a requirement for third party advice on the assumptions as set out in Chapter 4 and the additional guardrails below.

8.51 We propose the following guardrails to prevent FLMs being used to hide poor past performance indefinitely:

- IGCs and trustees must explain in the assessment report how they have used FLMs to reach preliminary outcomes for each cohort, and the reasons and appropriateness for this – including with reference to their BLMs.
- Decreasing weight is to be given to FLMs over time, when IGCs and trustees consider BLMs and FLMs together, where performance should be substantiated in BLMs over time.

8.52 We also intend to keep the assessment process, particularly the use of FLMs, under review as the Framework is implemented to determine whether the proposed approach is working as intended.

Question 32: Do you agree with the proposed guardrails? Do you believe other guardrails would be appropriate?

Provisional rating for each YTR cohort and arrangement overall

8.53 After either the proposed option 1 or 2 above, each YTR cohort would have a provisional value/not value rating. We propose that IGCs and trustees would then need to reach an overall provisional rating for the whole arrangement at the end of step 1.

8.54 We proposed this would be done by applying a rebuttable presumption: Where one YTR cohort is found to be provisionally not value, there would be a presumption that the arrangement overall is not value. This presumption can be rebutted by the IGCs or trustees if the number of members in the not value YTR cohort is not material, and/or if the impact to member outcomes would not be significant. This would place the onus on IGCs and trustees to justify why a whole arrangement can be provisionally value where 1 YTR cohort is not and encourages them to consider value equally across all YTR cohorts.

8.55 For example, an arrangement appears not to deliver value for the at retirement YTR cohort. However, the trustees/IGC note their membership is overwhelmingly skewed towards younger members, and they have functionally no (or a negligible number of) members at the at retirement point. As such, they may conclude that the arrangement overall is delivering value for step 1. However, we would expect actions to be put in place to bring that YTR cohort up to value.

Approach for multi-employer cohorts

8.56 IGCs and trustees assessing a multi-employer arrangement where charges vary would need to consider whether value has been delivered at different levels of employer cohorts. Earlier in this chapter we explained how cohorts of employers should be considered in comparisons, across the maximum, minimum, median and multi-employer cohort tables. The disclosure of the maximum, minimum and median of investment performance net of all costs and charges, for past reporting periods will enable broad

comparisons between arrangements, even though the range may be large. IGCs and trustees would then need to compare arrangements at the level of employer cohorts.

8.57 We propose that where a multi-employer arrangement fails to deliver value for a material number of in-scope savers in the YTR cohort, looking across comparisons at the level of cohorts of employers, the overall YTR cohort would need to be assessed as not delivering value.

Question 33: What is your preferred proposed approach to step 1: option 1 or 2? Why?

Question 34: Do you agree with the proposed use of FLMs in step 1, alongside BLMs? Or should FLMs be considered in a different way in the assessment process?

Step 2 – Services

8.58 We are consulting on more streamlined service metrics, although we propose to continue to consider these with industry and how they could be made more complete and robust. Due to this, we propose that the way service metrics are used in the assessment process is also streamlined. We propose that services and service costs metrics may now only be used to downgrade a provisional finding of value following step 1. Namely, given the more limited approach to the service metrics, performing well on them would not be sufficient justification for an arrangement rated as not value on investments to improve their provisional outcome to a value rating in step 2.

8.59 IGCs and trustees would need to consider the services provided by their schemes and service costs, and whether these represent value or if there is material difference between their services and those provided by the comparator group, to the extent that the services provided do not represent value for money.

8.60 Where IGCs and trustees find that services represent value, then the provisional rating given to the arrangement at the end of step 1 remains the same.

8.61 Where there is a finding that services do not represent value, then the rating in most cases should be downgraded. For example, if an arrangement is provisionally value after assessing investment performance metrics in step 1, but has particularly poor service metrics which put saver outcomes at risk, it should be downgraded to not value.

Guidance and considerations

In assessing service value, the disclosed 1-year service costs will need to be considered relative to service quality, as indicated by the service quality metrics.

A materially lower performance on service quality metrics overall for comparable service costs indicates poor service value, as may materially higher service costs for comparable service quality metrics.

IGCs and trustees may have concerns about a material shortfall in service quality even where service costs appear reasonable. IGCs and trustees should consider services poor value if they do not meet the needs of savers and put good outcomes in jeopardy. We do not propose to define minimum acceptable levels of service quality. It will be for trustees and IGCs to consider, but a substantial shortfall on a particular metric is likely to be a cause for concern.

Question 35: Do you agree with the proposed approach to considering service value in step 2? Why or why not?

Step 3 – Rationalisation and rating

8.62 In step 3, IGCs and trustees will need to take the provisional rating reached in steps 1 and 2 and come to an overall value or not value determination. They will need to determine whether rationalisation can justify a change in a value/not value finding, and then attribute an overall RAGG rating.

Rationalisation

8.63 We propose that IGCs and trustees should take into account disclosed arrangement features and characteristics, such as member demographics and special features/safeguarded benefits. They should then determine whether a credible reason can be applied to rationalise a different value/not value rating. For consistency, for rationalisation we propose that IGCs and trustees may only use saver and employer demographics (such as number of savers, turnover rate, saver protected characteristics e.g., religion), and any special features or characteristics of the arrangement that may affect value delivered for savers (such as guarantees for some legacy arrangements like life insurance lump sums, guaranteed annuity rates or dependent pensions upon death).

8.64 For example, an arrangement may appear to be underperforming compared to the market averages over various metrics. However, it may be a legacy arrangement with various valuable safeguarded benefits and special features which add significant value to savers. It may therefore be appropriate for an IGC or trustee to conclude that the arrangement overall represents value.

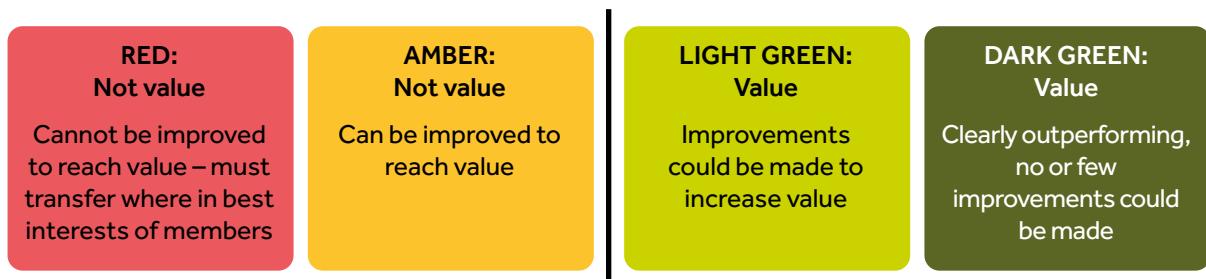
8.65 In step 3 of the assessment, IGCs and trustees may also refer to other contextual information which they believe has affected their VFM metrics and influenced the value outcome (e.g. external market impacts), but these cannot be used to change a rating.

Question 36: Do you agree with the proposed approach to considering overall value in step 3 and rationalisation? Why or why not?

Attributing a RAGG rating

8.66 IGCs and trustees must next attribute a RAGG rating to each in-scope arrangement. Where an arrangement is not value, it should be rated either Amber or Red. Where it is value, it should be rated either Light Green or Dark Green. This change from the proposals in CP24/16, which only had three ratings (Red, Amber or Green), is in response to industry feedback to allow more granularity in the rating system.

8.67 The proposed new RAGG rating is as set out below:



- **Dark Green:** The arrangement is clearly outperforming most in the comparator group and there are minimal areas where improvements could be made. We expect few arrangements would reach this standard.
- **Light Green:** The arrangement is delivering value, but there are areas that could/ should be improved. We would expect this would be a more common value rating than Dark Green.
- **Amber:** The IGC or trustees must believe improvements are possible within 3 years to make the arrangement value for money. Despite this, the firm or trustees may still decide that a bulk transfer is the best course of action for members.
- **Red:** A bulk transfer must follow where this is in the best interests of members. A transfer may not always be possible (i.e. would not be in best interests). In those cases, the firm and trustees must still take action to improve value where possible.

8.68 The proposed RAGG model aligns with the legislative categories described in the Pension Schemes Bill (clause 15). A Red rating corresponds to the 'Not Delivering' category, both Amber and Light Green are ranges within the 'Intermediate' category and Dark Green corresponds to the 'Fully Delivering' category.

Distinguishing between Amber and Red

8.69 For arrangements assessed as not value, IGCs and trustees will need to decide between an amber and a red rating. For IGCs, this means engaging with the firm on what actions it proposes to take to address the shortfall in value. Trustees and IGCs can only give an amber rating if they are content that the proposed improvements can be reasonably expected to deliver VFM within a reasonable period of time – within 3 years (see diagram at paragraph 9.20 below).

8.70 For contract-based arrangements, some iteration between the firm and the IGC may be needed before the IGC can decide between amber and red. This will need to happen before the IGC Chair's annual report is published.

8.71 If an amber rated arrangement continues to be assessed as not providing value, we propose that at the fourth-year assessment, its IGC or trustees would be expected to rate it as red, unless the firm can demonstrate to the IGC or the trustees decide that an extension of amber is in the best financial interest of savers.

**Question 37: Do you agree with the proposed updated RAGG ratings?
Why or why not?**

IGCs – Disagreement on a rating

8.72 Where a firm disagrees with its IGC's assessment of poor value, the firm will need to explain why, following the same assessment process proposed for IGCs. This is consistent with existing requirements under the Consumer Duty, where a firm must use its IGC's assessment of VFM in assessing fair value and there is provision for disagreement.

8.73 Given the need for engagement between the IGC and the firm, we do not expect continued disagreement to be common before a rating is finalised. If disagreement remains, the firm will need to raise this with the FCA, and the IGC is free to raise with the FCA directly. If the FCA agrees with the firm's conclusion, there would be no requirement on the firm to take action.

ESG considerations

8.74 Pensions are long-term investments, so ESG factors and the inherent systemic risks that are financially material to DC pension schemes may affect members' long-term returns. We know data and practice in this area are rapidly evolving, and that existing metrics may have limited value without accompanying qualitative assessments and narratives. The application of UK Sustainability Reporting Standards for occupational pension schemes is still under consideration. The DWP are also currently undertaking a review of the 2021 Taskforce on Climate-related Financial Disclosures-related requirements. We are therefore not proposing specific sustainability-related metrics as part of the VFM Framework or assessment process in this consultation. We will work with Government and industry to encourage and monitor evolution of the use of data, metrics, and practice to ensure the VFM Framework keeps pace.

8.75 It is widely acknowledged that forward-looking modelling that does not take account of climate and nature-related risks overestimates returns. Climate Scenario Analysis is one of the few available tools that addresses this. As the market, climate scenario analysis practice and sustainability related metrics continue to evolve, we will consider the benefits of, and the best approach to, incorporating sustainability-related metrics into the Framework.

8.76 While not mandatory – and not featuring in the decision on a RAGG rating – trustees and IGCs should consider how ESG considerations have been taken into account across a firm's firm-designed in-scope arrangements and how this may have shaped their strategies. Under FCA existing requirements, IGCs must already provide an independent consideration of a firm's policies on financial ESG considerations and non-financial matters, and on stewardship. Trustees are required to ensure that financially material

sustainability-related considerations – including, but not limited to, climate change and nature dependency – are incorporated into the design of each default strategy in a manner appropriate for delivering long-term value to members.

Bespoke arrangements

8.77 We propose a simpler assessment process for contract-based bespoke arrangements which are designed by a particular employer. We recognise the potential burden of more detailed assessments when in some cases a firm may operate more than 100 bespoke arrangements. Our aim is not to weaken an IGC's duty to identify poor value, but to keep the proposed requirements proportionate and allow more room for the IGC to exercise judgment.

8.78 We propose that at a minimum IGCs will need to conduct a quantitative screen of bespoke arrangements, using data readily available to the firm including Framework data. Any special features should also be taken into account. This screen is intended to identify potentially poor value bespoke arrangements.

8.79 An IGC should then use its judgement, acting on behalf of savers, on what further information it needs from the firm to reach a conclusion. If a firm is unable to provide further information on a particular bespoke arrangement, that itself may be a cause for concern. Without further information, a potentially poor value bespoke arrangement should be rated either amber or red. An IGC may of course also choose to conduct more in-depth assessments of any or all bespoke arrangements.

8.80 Given the requirements of fiduciary duty, we would expect bespoke, employer-defined arrangements within trust-based schemes to be subject to a different level of assessment to contract-based arrangements.

Question 38: **Overall, do you agree with the assessment process we have outlined above? Why or why not? What changes would you propose?**

Chapter 9

Actions for arrangements offering poor value

9.1 Where they identify poor value, firms, trustees and IGCs are expected to take action. These include notifying regulators and employers, closing to new business, submitting action and improvement plans and transferring savers to value arrangements where this is in savers' best interests.

CP24/16 proposed a series of actions expected as a minimum where an assessment identifies poor value.

Summary of feedback

Most respondents agreed that red rated arrangements should be closed to new business, but many felt that it was less appropriate for amber, as it would make it harder for them to improve value. Some suggested instead that there should be a different RAG system, or different consequences for amber.

Most respondents agreed that employers should be notified of amber and red ratings and most also agreed that red rated arrangements should be required to transfer members where possible and in members' best interests.

Current provision in the Pension Schemes Bill

9.2 The Bill sets out the following actions required following an assessment that has identified an arrangement as not providing value:

- An action plan must be prepared and a copy provided to TPR which
 - Must set out whether transferring members' benefits could reasonably be expected to result in the generality of those members receiving improved long-term value for money.
 - Proposes measures (or options for measures) for improving the VFM for the arrangement's members or subsets of members.
- Trustees must give notice to all participating employers of the VFM rating and any actions they consider appropriate for the employer to take
- Ensure that, with effect from the date of publication of the assessment report, no new employers join the arrangement

9.3 The Bill also allows for details to be set out in regulations to specify required actions following the assignment of any grade of intermediate rating. These may include one or more of the following:

- Preparing an improvement plan or action plan and providing the plan to TPR.
- Giving notice to all participating employers of the VFM rating, any actions specified in an improvement plan and any actions the trustees consider it appropriate for the employer to take.
- Ensuring that no new employers join while the arrangement continues to have an intermediate rating.

Updated proposals

We propose few changes to what was consulted on in CP24/16. Transfer requirements for red rated arrangements will be strengthened for contract-based arrangements, with the expected introduction of contractual override/unilateral changes in the Pension Schemes Bill. To align with the Pension Schemes Bill, the type of plan that amber rated arrangements must submit will be called an improvement plan, rather than an action plan. Amber rated multi-employer arrangements with variable charges will need to notify all employers, not just those in cohorts affected by higher costs that cause poor value.

9.4 Consistent with CP24/16, actions under the VFM Framework are intended to supplement the actions required under the Consumer Duty for FCA-authorised firms where they have identified poor value.

Mandatory communication to employers

9.5 Consistent with CP24/16, we propose that trustees and firms responsible for an amber or red rated arrangement be required to communicate the rating each year to any employer currently paying contributions. This communication must be within 1 calendar month of the firm receiving the IGC Chair's annual report for publication (for contract-based arrangements) or publication of the assessment (for trust-based arrangements), and typically by 30 November each year.

9.6 The communication will state the arrangement's RAGG rating and set out next steps that the trustees or firm intends to take to address the poor value. This includes progress against the previous year's planned improvements where applicable, including any outstanding actions or changes. The communication will also contain any recommendations to the employer, if appropriate.

Multi-employer arrangements rated not value due to higher costs and charges for some employers

9.7 All active employers within a red or amber rated multi-employer arrangement must be sent an employer notification, regardless of whether or not they are in a multi-employer cohort which, when assessed, was receiving value. However, firms and trustees may inform these employers they are in a cohort which may otherwise have been rated value.

Closing to new business

As in CP24/16, we continue to propose that firms and trustees of commercial multi-employer arrangements must not accept business from new employers into an arrangement rated amber or red. Although we recognise it may be difficult for amber rated arrangements to improve value, it would be inconsistent with both the Consumer Duty and inappropriate for trustees to accept workplace pension business from new employers on terms that do not provide value for savers.

9.8 Firms and trustees may continue to receive contributions from employers currently using the arrangement and from savers currently invested in it. They may also continue to take on new employees within existing employers to avoid conflicts with Automatic-Enrolment requirements.

9.9 We continue to propose that trustees and IGCs can re-assess an amber rated arrangement outside of the annual cycle so that it can be reopened to new business as soon as possible, but improvements must be evidenced in Framework data comparisons.

Notification to relevant regulator

9.10 As in CP24/16, we continue to propose that for each amber or red rated arrangement, firms and trustees will need to notify the relevant regulator of the rating. For FCA-regulated firms, this must be no later than 5 business days after receiving the IGC Chair's annual report, which must be provided by 31 October each year. We propose that trust-based arrangements must notify TPR within 5 business days of publishing the assessment report, which must be published by 31 October each year.

Transfer requirements for red rated arrangements

9.11 We propose that all red rated arrangements would be required to transfer members into a value rated arrangement, where this is in the members' best interests. This is stronger than the requirement in CP24/16 to consider a transfer, due to the expected introduction of contractual overrides which will enable bulk transfer for contract-based arrangements without the consent of the member (see below).

9.12 A transfer may not always be in the best interests of members, for example due to them having safeguarded benefits which cannot be replicated or special features suited to a specific demographic. In these cases, firms and trustees would continue to seek to improve the arrangement's value and put in place mitigations to protect savers from foreseeable harm. This is required for firms under the Consumer Duty and in keeping with the general duties owed by trustees to the members of their trust.

9.13 Under the proposed provisions in the Pension Schemes Bill, firms and trustees of amber rated arrangements may also transfer members to a better value arrangement, rather than trying to make improvements, if this would be in the members' best interests.

Transfers for contract-based arrangements

9.14 The Pension Schemes Bill contains provisions for contractual overrides/unilateral changes. These will enable firms to transfer members from red rated contract-based arrangements to contract or trust-based arrangements without their consent where the legislative and regulatory requirements such as the best interest test are met. Transfers can either be for every member within that arrangement, or a subset of members. This is to allow flexibility for instances where it is in the collective best interests of some members to be transferred to a different arrangement from the majority.

Transfers for trust-based arrangements

9.15 Existing legislative provisions allow trustees to bulk transfer members from trust-based arrangements without consent, subject to meeting certain conditions. Additionally, under clause 17 of the Pension Schemes Bill, before an action plan can include a proposal to transfer, the trustees must determine this would be reasonably expected to result in the members receiving better value for money. It is proposed that this assessment should be based on the VFM assessments and data of the red rated arrangement and potential destination arrangement. TPR may intervene to direct a transfer under certain conditions.

Question 39: Do you agree with the proposed transfer requirements for red rated arrangements? Why or why not?

Action and improvement plans

9.16 We are not proposing many changes from those consulted on in CP24/16. We continue to propose that firms and trustees must submit either an action plan for red rated arrangements or an improvement plan for amber rated arrangements (new terminology consistent with the Pension Schemes Bill) to the relevant regulator within one calendar month of receipt of the IGC Chair's annual report (contract-based) or assessment publication (trust-based), typically by 30 November each year.

9.17 For contract-based arrangements, improvement and action plans will need to be agreed with the IGC and then submitted to the FCA. Where the plan cannot be agreed within 1 month, an unagreed plan must be submitted. In these cases, an updated agreed plan must be provided to the FCA as soon as practicable after it has been agreed.

Improvement plans for amber rated arrangements

9.18 It is proposed that trustees and firms must prepare and submit an improvement plan for all amber rated arrangements. It must either set out sufficient improvements to achieve a green rating or set out other actions such as transferring affected savers to a better value arrangement.

9.19 The improvement plan will need to explain the specific areas of improvement to be made and the intended outcome. This includes a timeline and when improvements are expected to be reflected in the arrangement's performance on Framework metrics.

9.20 If an amber rated arrangement continues to be assessed as not value for a second or third year, the improvement plan submitted for that year must provide an update on the actions underway and any emerging results. At the fourth-year assessment, if an arrangement continues to be assessed as not providing value, its IGC or trustees will be expected to rate it as red, unless the firm can demonstrate to the IGC, or the trustees decide that, an extension is in the best financial interest of savers. The FCA's and TPR's supervisory approach will be informed by the improvement plans submitted over these periods and progress made to implement planned improvements.

Year 1	Year 2	Year 3	Year 4
<p>31/03 Data metrics disclosed or published (data metrics recorded 31/12 of previous year)</p> <p>Assessment conducted Rating outcome (31/10):</p> <p>AMBER Arrangement not to be used by new employers</p> <p>30/11 Improvement plan submitted to regulator</p> <p>31/12 Data metrics recorded</p>	<p>31/03 Data metrics disclosed or published</p> <p>Assessment conducted Rating outcome (31/10):</p> <p>AMBER</p> <p>30/11 Updated improvement plan submitted to regulator that confirms actions taken, emerging results and any additional actions to be taken</p> <p>31/12 Data metrics recorded</p>	<p>31/03 Data metrics disclosed or published</p> <p>Assessment conducted Rating outcome (31/10):</p> <p>AMBER</p> <p>30/11 Updated improvement plan submitted to regulator that confirms actions taken, emerging results and any additional actions to be taken</p> <p>31/12 Data metrics recorded</p>	<p>31/03 Data metrics disclosed or published</p> <p>Assessment conducted Rating outcome (31/10):</p> <p>AMBER</p> <p>Arrangement now available for use by new employers</p> <p>OR</p> <p>Unable to demonstrate value, so now expected to rate as:</p> <p>RED Firm/trustees to transfer affected savers if in best interests</p>

Action plans for red rated arrangements

9.21 We propose that trustees and firms must prepare and submit an action plan for all red rated arrangements. A red rating means that the IGC or trustees consider that the arrangement is unable to be improved sufficiently to deliver value within a reasonable period of time.

9.22 An action plan must therefore outline a high-level plan setting out how a firm/trustees intend to transfer members out of the red rated arrangement into an arrangement(s) that are providing value. If the trustees or IGC's determine a transfer is not in members' best interests, the action plan must explain why and set out how it intends to improve value for those members that remain in the arrangement.

Question 40: Do you agree with the actions proposed for not value arrangements? Why or why not?

Chapter 10

Disclosure requirements

10.1 Disclosing the VFM metrics is necessary for comparing arrangements, while disclosing the assessment outcome is an important factor in the VFM framework's functioning. Disclosure also provides transparency, promotes scrutiny and demonstrates how assessment outcomes were reached. This chapter sets out our updated proposals.

CP24/16 proposed how VFM data and assessment outcomes should be disclosed.

Summary of feedback

There was strong support for expanding the Chair's statement and for including a narrative explanation of the RAG rating.

Respondents also supported the plain language summary and the features table.

However, some respondents were concerned the requirement to publish data before publishing the assessment report could lead to unintended consequences.

Current provision in the Pension Schemes Bill

10.2 The Bill contains provisions on the publication of data metrics, value assessments and outcomes. It includes a provision for the creation and operation of a central VFM database. It also sets out the high-level principles for disclosure, including enabling secondary legislation, but does not include the detail.

Updated proposals

CP24/16 proposed that firms would be required to publish all appropriate VFM data in a method which allows value to be compared and assessed. Firms would also be required to publish an assessment rating and an assessment report. We are maintaining this principle.

However, new proposals for a central VFM database into which all VFM data would be entered has led to further thinking about the timing and disclosure of data. In particular, we are considering at which point in the cycle data would be made available publicly and not just to those who need access to the data for comparisons.

A central VFM database solution

In CP24/16, the FCA proposed that framework data be published on a freely accessible website, in both a user-friendly manner and in a machine-readable 'flat file' format.

We have considered further and taken on board feedback about the impracticality of important VFM data being housed on individual websites and the difficulties this could create in making comparisons. We now propose an approach based on VFM data being entered into a central VFM database for calculation of data for comparison and potentially publication. This approach will also allow for easier access to VFM data and enable wider comparisons.

- 10.3** In a progression of our thinking since CP24/16, we propose the creation of a central VFM database into which all relevant VFM data would be entered.
- 10.4** Comparator data would be calculated and made available to those carrying out VFM assessments. The comparator data would be from the relevant commercial market comparator group set out in the assessment chapter.
- 10.5** The proposed central VFM database will allow VFM data to be published in a user-friendly format. Instead of being required to provide VFM data on websites as was proposed in CP24/16 we now propose that firms and trustees would be required to provide a link to the central VFM database on their websites for public transparency and accessibility.
- 10.6** We are still considering whether this would be facilitated by searchable public access (where anyone could look up a firm's data) or whether access should initially be restricted to those undertaking VFM assessments, regulators, and Government. The latter option would avoid data being taken out of context before assessment reports are published. Further discussion and consideration of the proposals for this central VFM database will follow in due course.
- 10.7** We are considering whether the central VFM database should include information on the assessment outcome and if it should also include a link to the relevant assessment report. We will undertake further consideration on this in due course.
- 10.8** Creating a central VFM database will be a significant undertaking. Further work is needed to confirm the implications for VFM and regulatory policy more generally including areas such as data access, data retention and the ability to amend incorrect data. Further detail on this will follow. In the meantime, we are working on the assumption that a central VFM database will be available for VFM data to be entered from the launch of the Value for Money framework.

Question 41: How should firms and trustees provide data to the central VFM database? E.g machine-readable flat file, file transfer, webform, direct API etc.

Question 42: Do you agree with our proposals for the central VFM database? Why or why not?

What firms will be required to publish

10.9 As in CP24/16, we continue to propose that firms and trustees be required to enable the Framework data for each of their in-scope arrangements to be published annually, setting out the metrics detailed in this consultation. We propose this data should be disclosed to and published by the proposed central VFM database.

Features table

10.10 As in CP24/16, we propose that firms be required to provide to the centralised VFM data repository features information for each in-scope arrangement. This would give key facts about the provider, arrangement and savers, together with any additional benefits or legacy features that have an impact on value.

10.11 To reflect our proposal to include FLM data disclosures and the accompanying guardrails, we have added a new section to the features. This confirms firms and trustees have obtained external advice on their FLM assumptions and the name of who has provided this advice. Chapter 4 provides further details on FLMs and the requirement to obtain and consider external advice.

10.12 We now propose that the features will include as a minimum:

Provider details	
Name of provider	
FCA Firm Reference Number (FRN) or Scheme Reference Number (PSR)	
Total number of active savers	
Total number of deferred savers	
Total assets in accumulation	
In-scope arrangement summary	
Identification of in-scope arrangement	
Confirmation and name of the external FLM advisor	
Firm designed (contract-based)	Yes/No
AE or legacy	
Open for use by new employers	
Total number of active savers	
Total number of deferred savers	
Total invested assets in accumulation	
Vertically integrated/estimated investment charges	Yes/No
Any employer subsidies	Yes/No
The following relate to the demographics of the in-scope arrangement	

Number of employers	
Average number of savers per employer (active and deferred)	
Average contribution of savers (active only)	
Average pot size of savers (active and deferred)	
Average turnover rate of savers (active and deferred)	
Description of any features not reflected in disclosed metrics that should be considered in assessing value	<p>Features may include guarantees associated with some legacy arrangements such as life insurance lump sums, guaranteed annuity rates and dependent pensions upon death. Descriptions should draw reference to the proportion to the members that currently hold the benefit or feature.</p> <p>For multi-employer arrangements with a single charge, the characteristics of employers using the arrangement should be disclosed, for example if skewed towards large or small employers.</p>

Contract-based arrangements: IGC Chair's annual report

10.13 Currently, the IGC Chair's report must include an explanation of how the IGC assessed the VFM of the schemes it oversaw. As in CP24/16, we continue to propose expanding on these existing requirements to produce an annual report with the IGC's assessment of the VFM delivered by a firm's in-scope arrangements and also:

- A cross-arrangement review of the key themes, and
- While not mandatory, how ESG considerations have been taken into account across firm-designed in-scope arrangements.

10.14 However, with the proposed move to a relevant market-wide comparison via a central VFM database we no longer see any need for an explanation of the choice of comparator arrangements set out in CP24/16.

When firms/trustees will be required to disclose and publish – annual cycle

10.15 As in CP24/16, we continue to propose:

- A reporting cycle based on the calendar year, with a reporting end date of 31 December.
- Each metric calculated to be a snapshot as of 31 December (performance, asset allocation and cost metrics) cumulative data for the preceding calendar year (most quality of service data) or reflect other current data (other quality of service data).
- Trustees and firms will be required to disclose to the central VFM database, by 31 March, their collated framework data up to 31 December of the previous year.
- IGCs and trustees will be required to produce their annual report no later than 5 business days after 31 October.

CP24/16 proposed that for the first year following implementation, transitional provisions could be introduced, recognising that it may not be possible to publish a full set of service quality data. However, given our proposed changes to service metrics, we no longer believe this is necessary.

How firms/trustees will be required to disclose and publish

10.16 The way in which VFM data and assessment outcomes are published is a vital part of the VFM framework, allowing for transparency and comparability. Our current proposals are set out below but one key development has been the consideration of a central VFM database.

Assessment reports: contract-based arrangements

10.17 As in CP24/16, the FCA continues to propose that IGCs be required to include their annual VFM assessment outcome in the IGC Chair's annual report. Firms will need to make available the 5 (rather than the current 3) most recent reports available. They should do this in the way they best assess to bring them to the attention of relevant pension savers and their employers. Firms will be required to retain reports for a minimum of 6 years. IGCs will also need to retain copies of any evidence used in their assessments for a minimum of 6 years. This is consistent with the existing retention requirement.

10.18 The IGC Chair's report must currently include an explanation of how the IGC assessed the VFM of the schemes it oversaw.

10.19 CP24/16 proposed a third area of expansion which was an explanation of how the arrangement had selected its comparator arrangements. As we are now proposing a market wide comparison via a central VFM database this additional information will no longer be necessary.

10.20 In CP24/16 the FCA asked whether a plain language summary should be a requirement. Following feedback, we do not plan to take this forward at this time.

10.21 As set out in CP24/16, the FCA continues to propose that IGC reports will need to include the following information on individual arrangements:

- **Value for Money data.** For each in-scope arrangement, its RAGG rating and investment returns net of all costs and charges over the 5-year reporting period for 30 YTR, 5YTR and at retirement, where it is possible to provide this information. IGCs can include this information in a tabulated annex to the main report.
- **Rationalisation details.** A narrative explanation for a RAGG rating that depends on rationalisation in comparisons.
- **Actions to address poor value.** For all amber or red rated arrangements, actions to improve value and, for red-rated arrangements, planned transfers to better value arrangements where possible. Where transfers are not possible, the report should explain why and set out other actions. In some amber cases, improvements may have already been made but are not yet evidenced in Framework metrics; this should be explained.

10.22 As stated above in paragraph 8.51, IGCs must also explain in the IGC report how FLMs have been used to reached preliminary outcomes for each cohort, and the reasons and appropriateness for this – including with reference to their BLMs.

Assessment reports: trust-based arrangements

10.23 For trust-based arrangements, TPR intends for the VFM assessment report to be a standalone document, not part of the Chair's statement. The DWP are also considering amendments to the existing legislation for Chair's statements to ensure that there is no duplication or overlap with the VFM framework requirements.

10.24 We would expect the content of the assessment reports for trust-based arrangements to be set out as above for contract-based arrangements. This will be subject to legislation.

Timing of data publication

10.25 We intend that the central VFM database will make all VFM data, including comparator averages, available to those undertaking value for money assessments in April – shortly after the data's collection. As stated by the government, to safeguard those being transferred without consent from contract-based arrangements using the contractual override power, the VFM data may, subject to further consultation, be required by those assessing the validity of such proposals. Further details on this will be considered, and consulted on where appropriate.

10.26 We propose the VFM data for arrangements be made publicly available in the interests of transparency. We are seeking views on when in the annual cycle this should happen:

- Respondents to CP24/16 argued that making the data available in April could risk it being taken out of context and potentially lead to poor decisions by savers or employers. Therefore, it should only be made publicly available when assessment reports are published in October.
- Alternatively, there is a view that data should be made available as soon as practicable in the interests of transparency. By restricting access to a smaller number of people (those who require access to carry out relevant functions), there is a risk that elements of the data enter the public domain, without the full dataset available to corroborate or refute the conclusions drawn.

10.27 We believe both viewpoints have merit and welcome any further views.

Question 43: When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made publicly available in March or in October alongside assessments?

10.28 To provide a complete picture of the VFM assessment, the central VFM database could also include a link to the final assessment report entered by the firm/IGC or trustees. This would ensure that all relevant information could be found in one place.

Question 44: Do you have any comments on the suggestion that firm/IGC or trustees should also add a link to the final VFM assessment report on to the proposed central VFM database?

Chapter 11

Amendments to current FCA Handbook requirements

11.1 This chapter sets out how the new VFM Framework will affect existing FCA Handbook requirements, including current value assessments and the IGC/GAA remit in relation to SIPPs.

CP24/16 proposed how arrangements in scope for the new VFM Framework would be carved out of current value assessment requirements in COBS 19.5 and various updates to the IGC Chair's annual report. We also proposed that accidental workplace SIPPss where employees have made active investment choices be carved out of COBS 19.5.

Summary of feedback

We received limited responses to these questions. Almost all responses supported our proposed approach. A few respondents suggested we review the COBS 19.8 requirements to disclose transaction costs and admin charges, as these may duplicate requirements in the VFM Framework.

Our response and proposals

11.2 Due to positive feedback, we are not currently proposing any changes to what was consulted on in CP24/16. We will keep under review any potential to remove duplication between COBS 19.8 and the new VFM disclosure requirements for costs and charges.

Amendments to current FCA Handbook requirements

11.3 Currently, COBS 19.5 requires the IGCs to assess whether a firm provides value for policyholders, with the assessment included in the IGC Chair's annual report. The new VFM Framework aims to be a more detailed and prescribed version of these requirements. For this reason, arrangements subject to the new rules will be carved out of the more general requirement to carry out value assessments in COBS 19.5.5R(2). IGCs will still be expected to carry out assessments for other workplace pensions not in-scope of the new VFM Framework, such as additional arrangements with under 1,000 members.

11.4 Other, broader elements from COBS 19.5 will continue to cover in-scope arrangements, such as the requirement to assess a firm's investment strategy.

Amendment to requirements regarding 'accidental workplace' SIPP

11.5 In some circumstances individual SIPP can be considered workplace pension schemes where arguably they should not. Where at least 2 relevant employees or ex-employees have made an active choice to 'set up' a SIPP and all relevant employees and ex-employees have selected some or all of their investments in the arrangement, we believe these become 'accidental workplace SIPP'.

11.6 CP24/16 proposed exempting such SIPP from the COBS 19.5 requirements, as we do not consider it necessary for these to have IGC or GAA oversight. Given the supportive feedback, we propose continuing with this approach. However, to clarify which SIPP are intended to be captured in this carve out, we have further revised the proposed wording in the FCA rules.

11.7 By 'set up' a SIPP we intend to capture situations where at least 2 employees have chosen to join (or establish) a SIPP without any employer involvement.

Question 45: We would welcome further comments on our proposals relating to the FCA Handbook.

Annex 1

Questions in this paper

Question 1: Do you have any comments on the proposed scope? Do you believe any further exemptions should be considered?

Question 2: Do you have any comments on our proposals in relation to unlinked members? Do you have any preference with regard to the options suggested? Are there alternative options you would like to suggest?

Question 3: We do not think this situation would arise for trust-based schemes. Do you agree with this understanding?

Question 4: Do you agree with this proposal for transferred members? Why or why not?

Question 5: Do you agree with our proposed exemptions for contract-based arrangements? Why or why not?

Question 6: Do you agree with the proposal to use arithmetic averaging instead of geometric averaging? Why or why not?

Question 7: Do you agree with our proposed disclosures to facilitate comparisons between multi-employer arrangements with variable charges? Why or why not?

Question 8: Do you agree with our suggested approach for mapping the performance of TDFs with multi-year cohorts for the purposes of deriving the relevant performance data?

Question 9: Do you agree with our proposed risk metrics? Why or why not?

Question 10: In light of the role that total costs and charges play in the calculation of net performance, we would be interested in views on whether chain-linking should be applied to costs and charges or if there are alternative suggestions that achieve more accurate reporting of net performance?

Question 11: Do you agree with our proposals for chain-linking? Why or why not?

Question 12: Do you agree with our proposals relating to legacy arrangements? Why or why not?

Question 13: Do you agree with the proposed FLM disclosures and the use of own assumptions? Why or why not?

Question 14: Do you agree with the proposed requirement to obtain and consider external advice? Why or why not?

Question 15: Are the proposed guardrails sufficient to reduce the risk of gaming and ensure the FLMs disclosed are credible for use in the assessment process? If not, what alternatives/ additions would you propose?

Question 16: Do you foresee any difficulties in reporting this data? If yes, what specifically?

Question 17: Do you agree with our proposals for disclosing employer subsidies? Why or why not?

Question 18: We are aware that profit share and with-profits distribution can follow some time after the performance to which they relate. We have considered whether there would be benefit in apportionment, linking the share/ distribution to the period to which it relates. We would be interested in views on this.

Question 19: We would like to include 'Payments out as retirement income' as a key transaction. We are aware that some individuals approaching retirement may request payment at a future date, hence our request for data based on requests for immediate payment. We would be interested in views on whether our proposed measure above would provide a reasonable measure.

Question 20: We would be interested in views on whether the payment of Pension Commencement Lump Sum should be a transaction included in this section.

Question 21: Do you have any comments about our proposal to collect complaints data at the level at which the same service is experienced? Do you agree with our proposed definition of a platform?

Question 22: We would be interested in views on whether our proposed approach to negative perception metrics will provide relevant data to indicate saver concerns.

Question 23: Does our revised approach to engagement metrics seem appropriate? Additionally, we would be grateful if you could provide us with an explanation of what surveys/data gathering exercises you currently undertake for member engagement. If you would be willing to share a copy of your member engagement survey(s) with us, please tell us.

Question 24: We welcome feedback on our revised proposals for engagement metrics and how that engagement generates specific outcomes.

Question 25: Do you agree with our proposal for comparisons against a commercial market comparator group and the criteria for it? Why or why not?

Question 26: Do you agree with our proposed approach to comparisons for different types of arrangements? Why or why not?

Question 27: Do you agree with the approach for weighting of BLMs and FLMs? Why or why not?

Question 28: Do you have any feedback on the proposed approach in option 1? What improvements or changes would you suggest?

Question 29: Do you agree with the proposal for the composite metric in option 2? Why or why not? Is it helpful for considering value? If so, is equal weighting appropriate for the composite metric or what alternatives would you suggest?

Question 30: Do you agree with the proposed composite comparison figure in option 2? If not, what do you think the composite metric or the FLMs should be compared against?

Question 31: Do you have any feedback on the proposed approach in option 2? What improvements or changes would you suggest?

Question 32: Do you agree with the proposed guardrails? Do you believe other guardrails would be appropriate?

Question 33: What is your preferred proposed approach to step 1: option 1 or 2? Why?

Question 34: Do you agree with the proposed use of FLMs in step 1, alongside BLMs? Or should FLMs be considered in a different way in the assessment process?

Question 35: Do you agree with the proposed approach to considering service value in step 2? Why or why not?

Question 36: Do you agree with the proposed approach to considering overall value in step 3 and rationalisation? Why or why not?

Question 37: Do you agree with the proposed updated RAGG ratings? Why or why not?

Question 38: Overall, do you agree with the assessment process we have outlined above? Why or why not? What changes would you propose?

Question 39: Do you agree with the proposed transfer requirements for red rated arrangements? Why or why not?

Question 40: Do you agree with the actions proposed for not value arrangements? Why or why not?

Question 41: How should firms and trustees provide data to the central VFM database? E.g machine-readable flat file, file transfer, webform, direct API etc.

Question 42: Do you agree with our proposals for the central VFM database? Why or why not?

Question 43: When in the VFM cycle should VFM data be made publicly available and why? For example, should data be made publicly available in March or in October alongside assessments?

Question 44: Do you have any comments on the suggestion that firm/ IGC or trustees should also add a link to the final VFM assessment report on to the proposed central VFM database?

Question 45: We would welcome further comments on our proposals relating to the FCA Handbook.

Question 46: Do you have any comments on our updated cost benefit analysis? A new CBA will be produced in the next consultation phase, incorporating further feedback and any substantive market or policy changes.

Annex 2

List of non-confidential respondents

1. We are obliged to include a list of the names of respondents to our Consultation Paper 24/16 who have consented to the publication of their name. That list is as follows:

100 Group

Association of British Insurers

Association of Consulting Acturaries

Aegon

AgeWage

AJ Bell

Altus Consulting

Association of Pension Lawyers

Association of Professional Pension Trustees

Aptia

Association of Real Estate Funds

Aviva

Aviva Staff Pension Trustee Limited

Barnett Waddingham

BlackRock

British Private Equity & Venture Capital Association (BVCA)

CFA UK

City of London Corporation

Cushon

Dentons

Enhance Support Solutions

Eversheds Sutherland

FCA Practitioner Panel

Fidelity IGC

Fidelity International

Financial Inclusion Centre

Financial Services Consumer Panel

Gallagher

Gowling WLG (UK) LLP

Hargreaves Lansdown

Hymans Robertson LLP

Independent Governance Group

Investment and Life Assurance Group

Investors Relation Society

ISIO

Law Debenture

Lana Clark & Peacock LLP

Legal and General

M&G

Make My Money Matter

Money and Pensions Service

Mercer

MHM Pension Services Ltd

My Pension Expert

NOW Pensions

Net Zero Lawyers Alliance

People's Partnership

Pensions and Lifetime Savings Association (PLSA)

Pensions Management Institute (PMI)

Pensions Policy Institute (PPI)

Principles for Responsible Investment (PRI)
Railways Pension Trustee Company Limited
Redington
Royal London
Sackers
Schroders
Scottish Widows
ShareAction
Smart Pension
St James Place
The Investment Association
The Investing and Saving Alliance (TISA)
The Pensions Administration Standards Association (PASA)
The Society of Pension Professionals (SPP)
TPT Retirement Solutions Limited
Universities Superannuation Scheme Limited
University of Bristol Business School
Vidett
Which?
Willis Towers Watson
XPS Group
Zedra
Zurich

Annex 3

Terminology and abbreviations in this document

Terminology in this Consultation Paper

2. FCA-authorised firms operating workplace pensions typically offer Group Personal Pensions (GPPs) or Group Self Invested Personal Pensions (Group SIPP). GPPs and Group SIPP are contract-based personal pensions, regulated by the FCA, grouped together as workplace pensions. Employers can use these structures to provide pensions for their employees including for automatic enrolment (AE).
3. FCA-authorised firms can also set up and sponsor a Master Trust. Master Trust arrangements are regulated by TPR and therefore outside the scope of this consultation in relation to the draft FCA rules. Government has now published the Pension Schemes Bill 2025 which contains measures to apply the Framework to trust-based schemes, including Master Trusts.
4. In this consultation paper, when we refer to 'providers' we mean commercial providers of workplace pensions, both firms that the FCA regulate and commercial Master Trusts regulated by TPR. To qualify for tax benefits, pension schemes need to be registered with HM Revenue & Customs (HMRC). Firms may choose to register schemes in different ways: some register a scheme for a particular GPP or Group SIPP. Others register an overarching HMRC scheme, and then create GPP or Group SIPP structures within that. Each of those GPPs or Group SIPP may be used by potentially very many employers.
5. The term **scheme** is frequently used by industry to describe a scheme registered with HMRC, which may be a GPP or Group SIPP, but can also be used to refer to an employer's pension arrangement for its employees. For this consultation, when we refer to 'scheme' we mean a pension scheme registered with HMRC, unless we otherwise make clear.
6. We also use the term **arrangement**. Although it can refer to an individual employer's pension arrangement, here we use it to describe an investment arrangement within a scheme which is used for the investment of pension contributions. Investment arrangements are provided by firms, who are primarily responsible for product governance and other oversight of what is offered. Firms will generally design a default arrangement, choosing the mix of investments that underpin the arrangement. However, employers sometimes seek the advice of employee benefit consultants (EBCs) or other advisers in tailoring an arrangement for them. The term default arrangement is defined in legislation/FCA Handbook and broadly relates to arrangements used for the purposes of meeting automatic enrolment obligations where savers have not expressed a choice as to where their contributions are allocated.

7. The majority of our proposed requirements apply at arrangement level. A default arrangement can be 'lifestyled' with an investment mix that depends on a saver's age to retirement, or can be provided as a series of target date funds for cohorts of savers of the same age to retirement, with the investment mix of the fund changing.

Abbreviations in this Consultation Paper

Abbreviation	Description
AE	Automatic Enrolment
ASD	Annualised Standard Deviation
BLM	Backward-Looking Metrics
CBA	Cost Benefit Analysis
COBS	Conduct of Business sourcebook
DC	Defined Contribution
DWP	Department for Work and Pensions
EBC	Employee Benefit Consultants
ESG	Environmental, Social and Governance
EPP	Executive Pension Plans
FCA	Financial Conduct Authority
FLM	Forward-Looking Metrics
FRN	Firm Reference Number
FSMA	Financial Services and Markets Act 2000
GAA	Governance Advisory Arrangements
GAR	Guaranteed Annuity Rate
GPP	Group Personal Pensions
IA	Impact Assessment
IGC	Independent Governance Committees

Abbreviation	Description
LRRA	Legislative and Regulatory Reform Act 2006
LTCMA	Long-Term Capital Market Assumptions
MDD	Maximum Drawdown
NPV	Net Present Value
PCLS	Pension Commencement Lump Sum
PV	Present Value
RAG	Red Amber Green Rating
RAGG	Red Amber Light Green Dark Green Rating
SAA	Strategic Asset Allocation
SIPP	Self-Invested Personal Pensions
SLA	Service Level Agreement
SMPI	Statutory Money Purchase Illustration
SSAS	Small Self-Administered Schemes
TDF	Target Date Funds
TPR	The Pensions Regulator
VFM	Value for Money
YTR	Years to Retirement

Annex 4

Illustrative template of data points

Features Table

Provider details	
Name of provider	
FCA Firm Reference Number (FRN) or Scheme Reference Number (PSR)	
Total number of active savers	
Total number of deferred savers	
Total assets in accumulation	
In-scope arrangement summary	
Identification of in-scope arrangement	
Confirmation and name of the external FLM advisor	
Firm designed (contract-based)	Yes/No
AE or legacy	
Open for use by new employers	
Total number of active savers	
Total number of deferred savers	
Total invested assets in accumulation	
Vertically integrated/estimated investment charges	Yes/No
Any employer subsidies	Yes/No
The following relate to the demographics of the in-scope arrangement	
Number of employers	
Average number of savers per employer (active and deferred)	
Average contribution of savers (active only)	
Average pot size of savers (active and deferred)	
Average turnover rate of savers (active and deferred)	
Description of any features not reflected in disclosed metrics that should be considered in assessing value	
<i>Features may include guarantees associated with some legacy arrangements such as life insurance lump sums, guaranteed annuity rates and dependent pensions upon death. Descriptions should draw reference to the proportion to the members that currently hold the benefit or feature.</i>	
<i>For multi-employer arrangements with a single charge, the characteristics of employers using the arrangement should be disclosed, for example if skewed towards large or small employers.</i>	

VFM Framework data

Investment Performance:

Performance metrics – 30 YTR	1 year	3 years	5 years	10 years (if available)
Gross investment performance				
Investment performance net of investment charges				
Investment performance net all costs and charges [For multi-employer arrangements with variable charges: max, min and median]				
Risk Metrics				
Gross investment performance dispersion				
Annualised standard deviation of returns – Average over period				
Annualised standard deviation of returns – Maximum over period				

Performance metrics – 5 YTR	1 year	3 years	5 years	10 years (if available)
Gross investment performance				
Investment performance net of investment charges				
Investment performance net all costs and charges [For multi-employer arrangements with variable charges: max, min and median]				
Risk Metrics				
Gross investment performance dispersion				
Annualised standard deviation of returns – Average over period				
Annualised standard deviation of returns – Maximum over period				

Performance metrics – At retirement	1 year	3 years	5 years	10 years (if available)
Gross investment performance				
Investment performance net of investment charges				
Investment performance net all costs and charges [For multi-employer arrangements with variable charges: max, min and median]				
Risk Metrics				
Gross investment performance dispersion				
Annualised standard deviation of returns – Average over period				
Annualised standard deviation of returns – Maximum over period				

Optional disclosures

Optional non-chain-linked: Performances – 30 YTR	1 year	3 years	5 years	10 years
Gross investment performance: Arrangement 1 <i>Date – date</i>				
Gross investment performance: Arrangement 2 <i>Date – date</i>				
Gross investment performance: <i>insert additional rows for additional arrangements as needed</i>				

Optional non-chain-linked: Performance metrics – 5 YTR	1 year	3 years	5 years	10 years
Gross investment performance: Arrangement 1 <i>Date – date</i>				
Gross investment performance: Arrangement 2 <i>Date – date</i>				
Gross investment performance: <i>insert additional rows for additional arrangements as needed</i>				

Optional non-chain-linked: Performance metrics – At retirement	1 year	3 years	5 years	10 years
Gross investment performance: Arrangement 1 <i>Date – date</i>				
Gross investment performance: Arrangement 2 <i>Date – date</i>				
Gross investment performance: <i>insert additional rows for additional arrangements as needed</i>				

Forward-looking metrics:

YTR cohort	Expected annualised net returns over 10 years	Expected volatility/ risk over 10 years	Composite metric
30 YTR			
5 YTR			
At retirement			

Asset Allocation:

Asset class (30 YTR percentage allocation)	Sub-asset class splits	Listed (UK%)	Listed (Non-UK%)	Unlisted (UK%)	Unlisted (Non-UK%)
Listed equities	Developed markets				
	Emerging markets				
	Other markets				
Bonds	Fixed interest Government				
	Index-linked Government				
	Investment-Grade corporate				
	Non-investment- grade corporate				
	Securitised				
	Other bonds				
Private equity	Venture capital				
	Growth equity				
	Buyout/Leveraged				
	Other private equity				
Private debt/ credit					
Infrastructure					
Property/Real Estate					
Cash					
Other					
Total					

Asset class (5 YTR percentage allocation)	Sub-asset class splits	Listed (UK%)	Listed (Non-UK%)	Unlisted (UK%)	Unlisted (Non-UK%)
Listed equities	Developed markets				
	Emerging markets				
	Other markets				
Bonds	Fixed interest Government				
	Index-linked Government				
	Investment-Grade corporate				
	Non-investment- grade corporate				
	Securitised				
	Other bonds				
Private equity	Venture capital				
	Growth equity				
	Buyout/Leveraged				
	Other private equity				
Private debt/ credit					
Infrastructure					
Property/Real Estate					
Cash					
Other					
Total					

Asset class (AT RETIREMENT percentage allocation)	Sub-asset class splits	Listed (UK%)	Listed (Non-UK%)	Unlisted (UK%)	Unlisted (Non-UK%)
Listed equities	Developed markets				
	Emerging markets				
	Other markets				
Bonds	Fixed interest Government				
	Index-linked Government				
	Investment-Grade corporate				
	Non-investment- grade corporate				
	Securitised				
	Other bonds				
Private equity	Venture capital				
	Growth equity				
	Buyout/Leveraged				
	Other private equity				
Private debt/ credit					
Infrastructure					
Property/Real Estate					
Cash					
Other					
Total					

Asset class (Total in accumulation percentage allocation)	Sub-asset class splits	Listed (UK%)	Listed (Non-UK%)	Unlisted (UK%)	Unlisted (Non-UK%)
Listed equities	Developed markets				
	Emerging markets				
	Other markets				
Bonds	Fixed interest Government				
	Index-linked Government				
	Investment-Grade corporate				
	Non-investment- grade corporate				
	Securitised				
	Other bonds				
Private equity	Venture capital				
	Growth equity				
	Buyout/Leveraged				
	Other private equity				
Private debt/ credit					
Infrastructure					
Property/Real Estate					
Cash					
Other					
Total					

Cost and charges:

Cost Metric 30 YTR	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Cost Metric 5 YTR	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Cost Metric Retirement	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Multi-employer in-scope tables

30 years to retirement

Employer size by invested assets bands	< £100k	£100k- £1m	£1m- £5m	£5m- £25m	£25m- £50m	£50m- £100m	£100m- £250m	>£250m
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)								
Average contribution per saver (active and deferred) £								
Distribution of employers across the in-scope arrangement (%)								

30 years to retirement

Employer size by number of members	Under 100	100- 499	500- 999	1,000- 4,999	5,000- 9,999	10,000- 24,999	25,000- 49,999	50,000- 99,999	>100,000
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)									
Average contribution per saver (active and deferred) £									
Distribution of employers across the in-scope arrangement (%)									

Quality of Service:

Common data

How frequently is common data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct common data?	More than annually	Annually	Less than annually
When was the common data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate common data?			
At the last review date, what was the number (#) of savers with incomplete/inaccurate common data?			

Scheme-specific data

How frequently is the scheme-specific data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct scheme-specific data?	More than annually	Annually	Less than annually
When was the scheme-specific data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate scheme-specific data?			
At the last review date, what was the number (#) of savers with incomplete/inaccurate scheme-specific data?			

Processing financial transactions	Payments in and investment of contributions	Transfer between schemes	Switches between investments	Payments out to beneficiaries on death	Payments out to member/ policyholder as retirement income
The percentage of requests that took longer to complete than the time period specified in the firm's scheme service level agreement or internal policy in the previous calendar year					
The mean end-to-end time period to complete each key financial transaction in the previous calendar year					
Time taken (days)	Payments in and investment of contributions	Transfer between schemes	Transfer and switches between investments	Payments out to beneficiaries on death	Payments out to member/ policyholder as retirement income
1-3					
4-6					
7-10					
11-20					
21-30					
31-50					
>50					

'Percentage of savers who have nominated a beneficiary'	
What was the number (#) of complaints received in the previous calendar year?	
What percentage (%) of members raised at least one complaint in the previous calendar year?	
What was the average end-to-end time taken to close a complaint during the previous calendar year?	
What was the range of end-to-end times taken to close a complaint in the previous calendar year?	
What is the time period stated in the service level agreement (SLA) for the closure of a complaint?	
What was the percentage of complaints within the previous calendar year that were not closed within this time period.	
What was the percentage of complaints escalated to the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints determined by the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints fully upheld by the Pensions/Financial Ombudsman in the previous calendar year?	
What was the percentage of complaints partly upheld by the Pensions Ombudsman in the previous calendar year? Note: Decisions made by the Financial Ombudsman Service are either upheld or not upheld, so we do not ask for partly upheld decisions here.	

Annex 5

FCA cost benefit analysis

Executive summary

1. Pensions perform a vital function in allowing people to build wealth to provide for later life. They have a significant impact on a consumers' financial wellbeing.
2. Currently, sixteen million people save into workplace defined contribution (DC) pension schemes, many in the default arrangement chosen by their employer. It is important that these arrangements provide value for money. However, currently some schemes do not provide value for money. We want to reduce the number of savers with workplace personal pensions that are delivering poor value and drive better value across the workplace DC market for savers.
3. This annex presents the second-stage cost benefit analysis (CBA) for the proposed Value for Money (VFM) Framework, developed jointly by FCA, The Pensions Regulator (TPR), and the Department for Work and Pensions (DWP). The Framework aims to improve outcomes for savers in workplace DC pension schemes by promoting competition, increasing transparency, and standardising assessments of value.
4. The current stage incorporates feedback from the first consultation, updates from the government's Pensions Scheme Bill, and the associated Impact Assessment (IA). There is no substantive new evidence to warrant a full re-modelling of the CBA. The policy has been refined, but the overall aims and market context remain unchanged. As such, the baseline for this CBA is the implementation of rules proposed in CP24/16. The analysis focuses on updates and refinements, rather than a wholesale reassessment of costs and benefits.
5. The VFM Framework is designed to ensure consistent, objective, and transparent assessments of value across DC schemes. Key changes include clarifying the scope of the intervention, refining the requirements for data disclosure, simplifying metrics, updating the assessment process and introducing a forward-looking metric (FLM) for projected returns. Most changes are intended to reduce the regulatory burden on firms. There is one substantive increase in the estimated cost to industry, the cost to firms of obtaining and considering advice from an appropriate third-party on the reasonableness of the assumptions used for the FLMs. We estimate this to cost firms around £7 million over 10 years (at present value).
6. The estimated total cost to industry of the Framework, therefore, increases from the range of £29 million to £40 million over 10 years (at present value), to the range of £36 million to £47 million, with the largest costs expected before and during the first year for implementation of the policy. We include costs incurred before in first year costs. Benefits to savers are projected to range from £430 million to £1.2 billion over 10 years, due to projected improvements in investment performance

in underperforming funds. An alternative scenario, using the government's IA methodology, suggests potential upper-bound benefits of up to £10 billion, though this is not included in our central benefits estimation.

7. A new CBA will be produced in the next consultation phase, incorporating further feedback and any substantive market or policy changes.

Introduction

8. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
9. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.
10. This analysis is the second presented in a three-stage process which aims to result in detailed rules and guidance for the new VFM Framework for savers invested in default arrangements of workplace DC schemes. This is part of a VFM Framework being designed jointly between FCA, TPR, and DWP.
11. In the stage one consultation, CP24/16, our proposals aimed to drive competition within the workplace pension saver markets, to increase returns and ultimately improve outcomes for savers. This included publishing comparative assessments of schemes to clearly identify poor performance and to drive competition based on the value of schemes to savers. This first stage was a standalone FCA consultation, while at this stage we are consulting jointly with TPR.
12. Since the publication of CP24/16, we have received feedback on this consultation, and the government has published their Pensions Scheme Bill. Using these as inputs, we have updated elements of our policy with the aim of working towards a Framework that maximises value for money in DC workplace pensions.
13. At this stage, the overall aims of the policy have not changed, and so we have only estimated costs to changes in the policy details that we assess as substantively impacting firms. We have also assessed that since publication of the stage 1 CP there have not been substantive changes to the market, and so we believe a full re-model of costs and benefits would not be proportionate for this CBA.
14. Therefore, this CBA details the new analysis that has been completed since the first stage to reach the new policy positions, will re-state key elements of the policy, and estimate costs to one change in policy detail. Our baseline for this CBA is that the rules from CP24/16 go ahead, therefore we assess any changes to costs and benefits from

the policy changes in this CP. We have made clear where readers should refer back to the CBA within CP24/16: The Value for Money Framework for information.

- 15.** The third CP, due for publication in H2 2026, will align our consultation with the DWP's consultation on the Pensions Schemes Bill, and will include a new comprehensive CBA, considering all feedback received on the first two stages and new information gathered.
- 16.** This CBA has the following structure:
 - Approach
 - The market
 - Problem and rationale for intervention
 - Options assessment
 - Our proposed intervention
 - Baseline and key assumptions
 - Summary of impacts
 - Benefits
 - Costs
 - Wider economic impacts, including on our secondary objective
 - Risks and uncertainties
 - Monitoring and evaluation

Approach

- 17.** Our approach to this new CBA is informed by:
 - Our analysis of changes in the market and updates to the policy since CP24/16's publication.
 - The feedback on the CBA within CP24/16, and our response to this.
 - The government's Pensions Scheme Bill, including the Impact Assessment (IA).
- 18.** Our baseline for this CBA is that our proposals from stage 1 go into effect, therefore the analysis from the previous CBA is our baseline. This CBA provides updates in relation to the previous proposals.

Feedback on the CBA within CP24/16 and our response

- 19.** The CBA within CP24/16 has been published and feedback has been received. We provide a summary of this feedback and our response to it below.
- 20.** Our consultation received 95 respondents, of which 11 provided detailed comments on the CBA. Of the comments we received on the CBA, 7 respondents believed either that we had underestimated the costs of the intervention or overestimated the benefits that would be delivered but did not provide alternative estimates. Some suggested we do further work to understand the cost of compliance, and that costs may need to be kept under review as the Framework develops.

21. Based on this feedback, we have re-assessed the market to check for accuracy as this is a key input to calculating industry costs, verifying its accuracy and concluding that there have been no substantive changes since the publication of the CBA in CP24/16. Further, we have considered a new scenario for estimating the benefits of the intervention using the methodology used in the government's IA.
22. We have not sought to re-estimate our approach to estimating costs at this stage, as there was no evidence in our analysis that previous estimations were inaccurate, however we have analysed the cost impact of changes to the policy and sought to reduce the burden on firms where possible. However, based on engagement with firms we have introduced one new policy position that we expect to increase the cost to firms. Finally, we will commit to producing a new CBA with re-modelled costs and benefits in the third phase of consultation, incorporating feedback and further engagement with industry to address respondents' concerns. We will monitor firms' compliance with the new rules through our usual regulatory tools, including assessing the burden compliance is placing on firms.

Updates to costs and benefits

23. For the purposes of this CBA, we have not updated our initial estimate of the benefits. The policy package in stage 1 aimed to 'close the gap' between underperforming funds and the average performance of a fund, and this was the central assumption of our modelling. This new package of measures presented in this CP have the same aim of 'closing the gap', therefore the central assumption remains the same. As we have assessed that the total assets under management (AUM) of the industry has not substantively changed, and that the firm population is the same, we have not updated our benefits estimation.
24. However, given the uncertainty surrounding the benefits we also give an overview of the expected benefits of the policy using the same modelling techniques as in the government's IA. This IA accompanied the Pensions Schemes Bill and serves as the government's assessment of costs and benefits to different stakeholders of the legislation. This provides a further estimate of potential benefits of the policy, which uses a different central assumption in the calculation and affects a different market. How we will use this modelling to inform our CBA is discussed within the benefits section.
25. Any changes to the policy that would substantively increase firm burden need to be re-costed. Most changes made to the policy in this CP are designed to reduce firm burden, and we have not sought to estimate this potential fall in costs to firms. We have updated our estimates to include one change to policy which we have assessed as potentially increasing firm burden substantively. Each of these changes are outlined in the policy decisions section, and there is an increase in estimated costs to firms as we have only estimated the potential increase, but there is no update to our intervention approach.

Future work

26. In our third CP, due for publication in H2 2026, which will align our joint policy document with DWP's consultation, we will re-model and fully update the CBA, taking into account any changes in the policy or market.

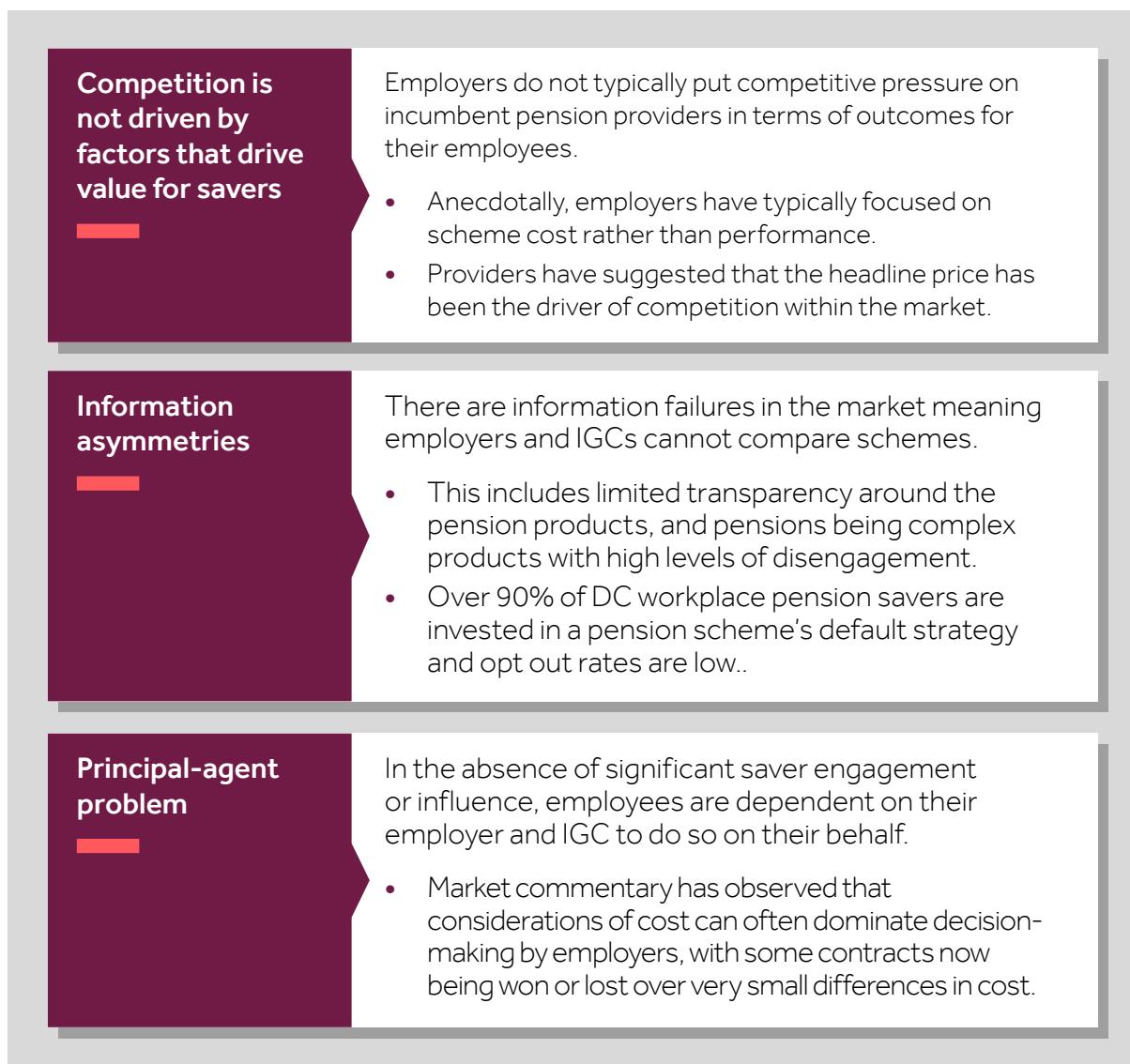
The market

27. We have assessed that the below information is still correct as of 2025, and so an update to the assumptions surrounding the market size and participants is not required at this stage. Please refer back to the CBA within CP24/16 for an assessment of the market size and participants.

Problem and rationale for intervention

28. The need for regulatory interventions in the market for workplace pensions in accumulation arises from a combination of challenges including competition failing to maximise long-term value for savers, information asymmetries and principal-agent problems. See the diagram below for an overview of each of these:

Figure 1: Rationale for intervention



Options assessment

29. The detailed metrics, including the new FLM, have been developed and agreed jointly with DWP and TPR after carefully considering the differing views and alternative options, including detailed consultation with industry working groups. As the market evolves, we can look to adjust the Framework so that it remains appropriate.

30. In this CP, we have considered the main option of going ahead with the policy details as laid out in CP24/16. Table 1 below covers the changes to policy details in this CP, and the justification for these changes.

31. Key proposals that we decided against at that stage were listed in the previous CBA. These were the FLM, a central repository for data storage, and regulator-set benchmarks, as used currently in Australia for superannuation funds. Based on feedback to the previous consultation we are still not proposing regulator-set benchmarks.

32. We are now considering FLMs in this stage of consultation, in order to supplement data on past returns. We will mitigate the previously identified risks of potential gaming and complexity by introducing guardrails and limits to how FLMs must be used in the assessment process.

33. At this stage of consultation, we have assumed that a central repository will be built and used as part of the implementation of the VFM Framework. However, we do not have specific policy positions on building this central repository, it is not yet confirmed under whose remit it will fall, so we have not sought to provide costs at this stage.

Our proposed intervention

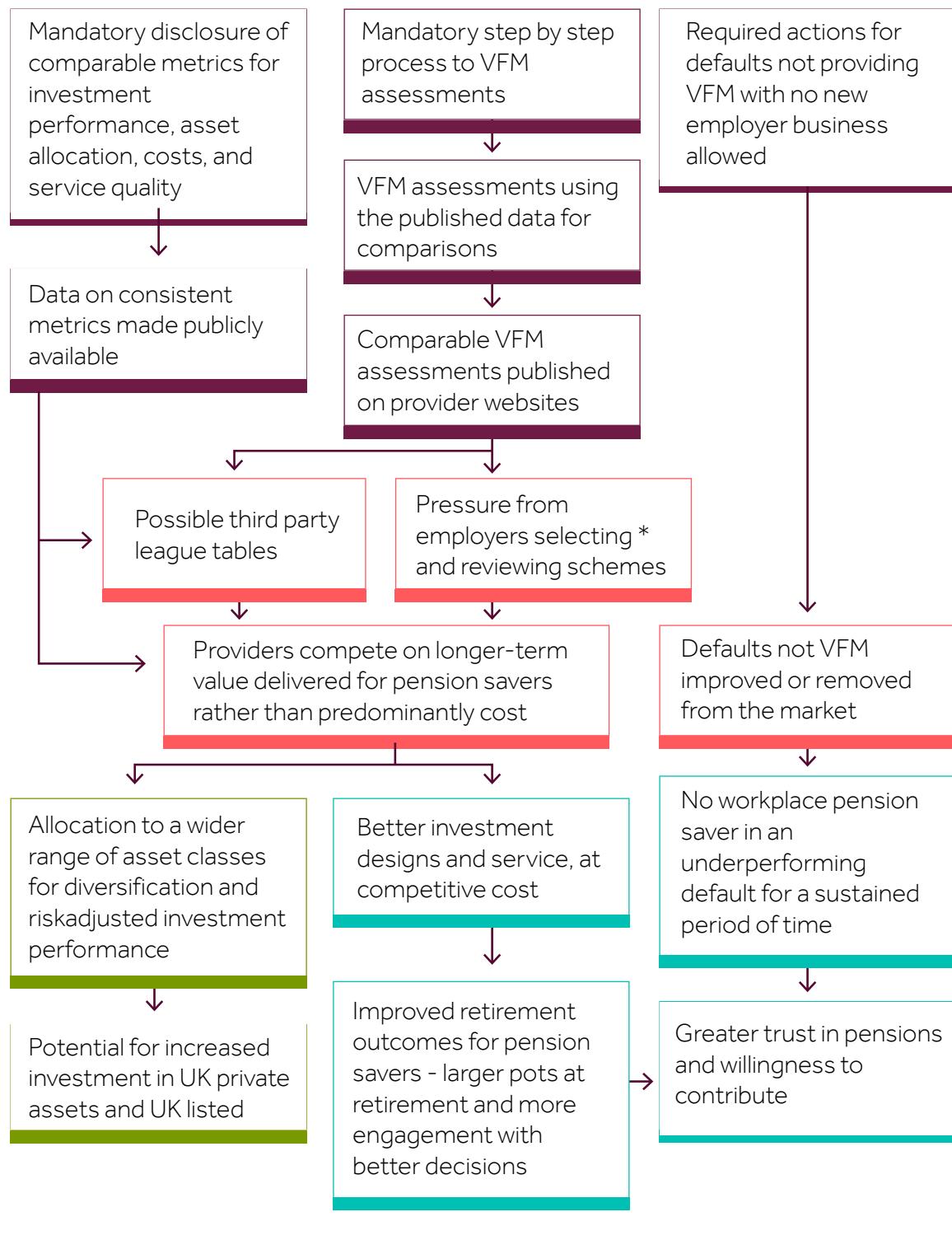
34. The VFM Framework has been developed to support a consistent and more objective process for assessing VFM across DC schemes. It provides a transparent, standardised way for IGCs to holistically assess and evidence VFM outcomes. The Framework requires specific actions of firms to demonstrate they are trying to improve the value they provide to savers.

35. The intervention will consist of four elements that aim to deliver savers overall larger pots at retirement:

- Mandatory disclosure of comparable metrics will ensure that there is consistent and comparable data published publicly on firms' websites, which will incentivise underperforming firms to improve their performance.
- Comparative assessment will require IGC's to adopt an objective approach to assessing VFM which will be compared to other providers.
- We expect mandatory publication of assessment results to further incentivise firms to improve performance and encourage employers to review and consider switching providers where necessary.
- Specified actions for firms with in-scope arrangements that assessed as not providing VFM includes informing the employer.

36. The following chart sets out how our proposed intervention would reduce the harm set out above. For more detail, please refer to the accompanying CP.

Figure 2: The causal chain



■ Interventions

■ Outcomes

■ Firm changes

■ Drivers of international growth and competitiveness

* – Employers continuing to consolidate to commercial providers and potentially switching existing providers. We may expect some pressure from the most engaged workplace pension savers and consumer representative groups.

- 37.** Our proposals aim to drive competition in workplace pension saver outcomes based on value to savers. Pension savers will be protected from clear underperformance with a set of required actions where an arrangement is assessed as not providing VFM. All IGCs will be required to follow the assessment process to determine whether an in-scope arrangement is delivering VFM and publish these assessments with a RAG rating.
- 38.** The Framework will also detail the specific actions required of firms when an arrangement is assessed as not delivering VFM, such as notifying employers that their arrangement is not currently delivering value and to submit an action or improvement plan to regulators. Where schemes are assessed as not delivering value for money, they will be closed to new business, until they improve. We would expect this pressure from employers, the regulator, and potential third-party league tables to drive improvement of those underperforming where possible. Where improvement to reach value is not possible, FCA-authorised firms must bulk transfer members from the arrangement where in the best interests of members, or make what improvements it can.
- 39.** Although the VFM Framework is not aimed at savers it is believed that improving transparency will increase competition among firms through pressure from savers and employers, and greater transparency over asset allocation will make it possible for employers and savers to build more trust in the market.
- 40.** Please refer to the CBA within CP24/16 for a table which summarises why we, collectively with DWP and TPR along with engagement with industry have made certain policy decisions when developing the Framework and the reasons for these.
- 41.** The table below lays out the areas of policy that have changed since the stage 1 CP and the materiality of the changes in terms of the impact on firms' cost.

Table 1: Policy and changes in phase 2

Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
1. Scope				
Overall approach	The pension market is large and diverse, and value matters across all products. However, in the interests of proportionality we are proposing to limit the scope of the VFM framework at this initial stage to those schemes and arrangements that are most material to savers	<ul style="list-style-type: none"> We focused on workplace pensions in accumulation in the first instance: 16 million people now save into defined contribution schemes. We needed to strike a balance between targeting schemes where savers face the greatest risks and implementing a framework that is workable. We proposed that disclosures are made for all default and quasi-default arrangements: over 90% of workplace pension savers are invested in their scheme's default arrangement. We proposed to exclude at this stage arrangements with fewer than 1,000 members (unless all arrangements in a scheme have fewer than 1,000 members, in which case the largest is in scope) with proportionality in mind. 	<ul style="list-style-type: none"> We aim to clarify the definition of quasi-default funds, and the status of members of legacy arrangements who cannot be linked to an employer. Decisions about initial/future scope are being considered. A position is being clarified in relation to with-profits funds. 	<ul style="list-style-type: none"> These changes have not been quantified as the positions are not finalised and will only minorly affect the scope.
2. Investment performance				
Overall approach	Investment performance is key to delivery of long-term consumer outcomes. It is thus essential to capture investment performance.	<ul style="list-style-type: none"> See below. 	<ul style="list-style-type: none"> See below. 	<ul style="list-style-type: none"> See below.

Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
Include backward looking returns	Backward looking metrics are an accepted way to measure performance and widely calculated. They have some limitations as they are not a guide to the future.	<ul style="list-style-type: none"> We proposed disclosure of gross investment performance. We proposed disclosure of performance net of investment charges to allow comparison of the value of the investment element. We also proposed disclosure of investment performance of net of all costs and charges as this would aid comparison of overall value delivered by arrangements. 	<ul style="list-style-type: none"> Minor changes to the data disclosure requirements for assessment purposes. Simplification of rules on chainlinking and unbundling. 	<ul style="list-style-type: none"> We have not sought to re-calculate the cost of producing metrics as we consider there is less burden on firms to produce metrics. However, they will have to collect the same amount of information, and the marginal cost of producing each metric is low. Therefore, we still assess that developing metrics will cost around £2.8 million.
	We want to drive long-term thinking, so we are selecting metrics over a time period but recognise it is not appropriate or possible to retro engineer decades of data.	<ul style="list-style-type: none"> We proposed disclosure of 1, 3, and 5-year periods where the data is available. We recognised that data for 10 and 15 may not always be readily available. In future, schemes should be able to report on more historic returns. We proposed chain-linking for the periods of 1, 3, and 5 years back (10 and 15 where reasonably practical to obtain) recognising that historic data is not always easily obtainable. 	<ul style="list-style-type: none"> Removed the need for year 15 disclosure. Chainlinking has been simplified to exclude internal transfers to arrangements with an existing history. We have moved from a geometric basis to arithmetic. This should have minimal impact on production costs. 	<ul style="list-style-type: none"> We are simplifying and reducing the amount of information required which we expect may reduce costs. However, as feedback from firms suggested we have understated costs, we still assess that developing metrics will cost around £2.8 million.

Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
Asset allocations	Understanding asset allocation is important to provide context to performance and understand drivers of performance. Standardising asset allocation disclosures and making them public will enable greater transparency across the industry.	<ul style="list-style-type: none"> We assessed that full asset allocation disclosure would not be proportionate. Instead, we proposed requiring the disclosure of asset allocations mirroring current policy regulations against 8 key asset classes. We also proposed adopting the same definitions as DWP's statutory guidance, with the appropriate adjustments. In addition, we proposed requiring the disclosure of several sub-asset classes to promote further transparency. 	<ul style="list-style-type: none"> A separate pilot of asset allocation proposals is planned. No changes to the data collected at this stage. 	<ul style="list-style-type: none"> The costs of the pilot have not been quantified as the scope of the pilot is being determined, and the costs are expected to be minimal.
Forward looking metrics	Past returns are factual and reflect member experience. However, there would also be value in having a forward-looking perspective to supplement data on past returns.	<ul style="list-style-type: none"> Not proposed due to the complexities and gaming risks. 	<ul style="list-style-type: none"> All arrangements will be required to disclose a projected return and risk, based on own assumptions. Firms must also obtain and consider third party advice on assumptions used for their FLMs. FLMs will be used in the assessment process. 	<ul style="list-style-type: none"> As firms are now required to obtain and consider advice from an appropriate third party, this will have an impact on their costs, which is quantified below.
3. Costs and charges				
Inclusion of costs and charges within the framework – overall approach	Value in delivering performance and quality of service is dependent upon the costs and charges incurred in doing so.	<ul style="list-style-type: none"> See below. 	<ul style="list-style-type: none"> Minor change to cost/charge disclosure to remove need to separate out investment/service costs for years other than year 1. Move from geometric to arithmetic mean to match investment performance. 	<ul style="list-style-type: none"> The removal of a need to separate costs will unambiguously reduce the burden to firms, but the amount is uncertain and so we have not sought to recalculate.

Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
Bundled schemes and combination charges	Investment charges and administration charges are different in nature and drive different outcomes. Investment costs should be expected correlate to investment choices and performance. Administration costs may cover baseline administration only or may relate to more value-add activities also.	<ul style="list-style-type: none"> We proposed unbundling costs to facilitate a better understanding of whether costs link to value generated. Recognising that unbundled data may not be readily available nor consistent, and not seeking to create undue processes for obtaining such data, we proposed an approach to estimate unbundled costs 	<ul style="list-style-type: none"> Maintaining need to unbundle but relaxing the way in which this is calculated. 	<ul style="list-style-type: none"> The relaxation of calculation will unambiguously reduce the burden to firms, but the amount is uncertain and so we have not sought to recalculate.

4. Quality of services

Inclusion of services within the framework – overall approach	Quality of service is in itself of value to savers and can support informed decision making and therefore outcomes.	<ul style="list-style-type: none"> See below. 	<ul style="list-style-type: none"> See below. 	<ul style="list-style-type: none"> See below.
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Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
Scheme administration	<p>We expect schemes to carry out key financial transactions promptly and to maintain a baseline of data about their scheme and scheme members.</p> <p>Efficiency of scheme administration will likely be a main way that scheme savers judge the quality of service that a scheme provides.</p>	<ul style="list-style-type: none"> We proposed scheme administration metrics that have a material impact on saver outcomes focused on the promptness and accuracy of transactions and the quality of record keeping. 	<ul style="list-style-type: none"> We have refined these and removed some of the previous metrics we consulted on. 	<ul style="list-style-type: none"> As above, we still assess that developing metrics will cost around £2.8 million per firm. This is because we expect the marginal cost of producing each metric to be quite low.
Member communications	<p>Members who engage positively with their scheme have the best chance of optimising their contribution levels and choosing a strategy that best meets their needs.</p>	<ul style="list-style-type: none"> Engagement with workplace pensions is low. We therefore suggested quantifiable metrics that may act as measures of engagement. We also proposed that an event-based member satisfaction survey be conducted to understand savers' experience. 	<ul style="list-style-type: none"> We have reduced the number of metrics significantly based on responses to our CP and engagement with industry. Firms will now be required to provide a single metric which focuses on the percentage of savers who have nominated a beneficiary. 	<ul style="list-style-type: none"> As above, we still assess that developing metrics will cost around £2.8 million per firm.

Issue	Why we are doing this	Policy choice in CP24/16	Changes to policy (2025)	Impact of changes on costs
5. Assessment and outcomes				
Assessment process	Assessments currently allow for considerable flexibility in how VFM is assessed by IGCs. The frameworks aims to provide a more consistent and objective assessment that makes use of published framework data.	<ul style="list-style-type: none"> We proposed a mandatory process for assessing VFM which promotes objectivity in and between assessments whilst allowing scheme demographics to be considered. IGCs were required to consider the framework metrics taking account of costs and charges at each step to focus on value delivered. 	<ul style="list-style-type: none"> Assessment process streamlined from 4 Steps to 3 Steps. Comparisons against commercial market averages complied by central VFM data base, rather than against 3 chosen comparators. A presumption of not value introduced to step 1 for YTR cohorts. FLM metrics to be used in assessment process, two options are being consulted on. 	<ul style="list-style-type: none"> This will be a medium change in process but not materially affect the costs to firms.
6. Disclosure				
Publication of data	In order to compare VFM assessment data with other arrangements data needs to be published and accessible. This also increases transparency allowing savers to view the performance of arrangements.	<ul style="list-style-type: none"> We proposed that data be made available in a suitable format on a publicly accessible website 	<ul style="list-style-type: none"> We are now proposing a centralised VFM database where information can be accessed. 	<ul style="list-style-type: none"> There will be minor changes in relation to publication.

Baseline and key assumptions

42. Our baseline for the previous analysis was our current rules and what firms are doing to comply with these rules, which includes establishing effective IGCs which assess VFM consistent with the Consumer Duty. These standards differ between IGCs under our current rules, and the proposed VFM Framework is designed to standardise assessments. Our baseline for this CBA is that the rules from CP24/16 go ahead, therefore we assess any changes to costs and benefits from the policy changes in this CP relative to the last.
43. We assumed a market size of around £300bn (calculated costs and benefits for a lower bound of £250bn and an upper bound of £350bn) with 27 firms operating in the market. This is unchanged from the previous CP, which used 2024 estimates.
44. We issued an implementation costs survey in December 2023 to firms who would be in scope of the proposals. We received responses from 19 firms and assume this is a representative sample. The survey responses were used to provide estimates of the incremental compliance costs and potential benefits from the intervention.
45. In addition to the information on costs, we also asked two questions regarding annualised investment performance and annual management charges.
46. Market-wide impacts were calculated by weighting individual survey responses on the basis of each individual firm's share of the total workplace personal pension assets.
47. Regarding compliance costs, for the purposes of the previous CBA, we assumed that by averaging across all firms in the sample, our scaled estimates are representative of the market.
48. Our aim was to illustrate the cumulative impact over 5 years of successive small improvements driven by the Framework, with the cumulative impact persisting beyond 5 years, relative to the counterfactual of not implementing the Framework.
49. For this CBA, we did not send a new survey to firms, and we have deemed that all of our assumptions still hold. Therefore, we will not be updating our key assumptions for the stage 2 analysis.

Summary of Impacts

50. Within CP24/16, we expected the benefits to outweigh the costs. We estimated total costs to industry to be in the range of £29 million to £40 million over 10 years when expressed in present value terms, using a 3.5% discount rate. We expected costs to be higher in the first year due to the additional adjustment costs such as setting up the systems for data collection and developing the metrics for the first time.

51. Within this CP, there will be an additional one-off cost of familiarisation with the content of the CP and CBA, which is 126 pages. However, there are no additional gap analyses necessary, so the cost is one-off in the year of implementation. Overall, we have calculated this additional one-off familiarisation to cost under £100,000 in total to the in-scope firms, which does not impact the overall cost of the intervention.

52. We have also estimated the costs to industry of firms being required to obtain and consider advice from an appropriate third party on the reasonableness of the assumptions used for the FLMs. We estimate this to cost firms around £7 million over 10 years (at present value).

53. In quantifying the benefits, which accrue to pension savers, we assumed that the Framework would drive improvements to the investment performance of default arrangements of below average performance. Our modelling suggests that a closing of 1% to 3% annually of the gap to the current average, over 5 years and with no further improvement beyond, yields benefits to savers ranging from £430 million to £1.2 billion.

54. Using the methodology from the IA of the Pensions Bill, we have a further upper limit for the benefits of the policy of £10bn, however this is not included in our core estimation and is instead presented as a secondary scenario. An explanation of this further analysis is below.

55. We summarise the impacts that we expected to arise from our proposals in Table 2.

Table 2 – Summary table of benefits and costs

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Firms	One-off costs: familiarisation and gap analysis, learning costs, developing metrics, implementing data template			£7.5m – £10.6m	
	Ongoing costs: additional meetings/time, data collection and storage, providing data at request, framework data reporting, assessment reporting, and developing and consulting on metrics				£28.2m – £36.7m
Consumers	Improvement in investment performance of default arrangements that are below average performance		£430m – £1.2bn		
Total			£430m – £1.2bn	£7.5m – £10.6m	£28.2m – £36.7m

* All figures are discounted at the standard government Green Book rate of 3.5% and expressed in present value terms over a 10-year time horizon.

56. We also presented the total impact of our proposals in net present value terms over a 10-year time horizon in Table 3, distinguishing between direct and indirect impacts. We showed the range of expected annual net direct cost to business (EANDCB) in Table 4, which is calculated by annualising the total net direct cost to business.

Table 3 – Present Value and Net Present Value

	PV Benefits	PV Costs	NPV (10 yrs) (benefits-costs)
Total impact	£430m – £1.2bn	£36m – £47m	£400m – £1.2bn
-of which direct		£36m – £47m	£36m – £47m
-of which indirect	£430m – £1.2bn		£430m – £1.2bn
Key unquantified items to consider			None

Table 4 – Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (10 yrs)	EANDCB
Total net direct cost to business (costs to businesses – benefits to businesses)	£36m – £47m	£4.2m – £5.5m

* To annualise the net direct cost to business, we use the standard discount rate of 3.5% and a 10-year time horizon, which gives an annuity rate of 8.61.

57. We do not estimate substantive changes to benefits from phase 1 of the VFM Framework in this CP, and costs have increased by approximately £7 million. Therefore, we still estimate that the Framework overall will have an NPV over 10 years of £400m-1.2bn.

Benefits

58. Regarding benefits, we assumed in the stage 1 CBA:

- The main benefit from the VFM intervention accrues from 'closing the gap' in investment performance between the lower performers and the average performance.
- The proportion of the investment performance gap that will be closed each year and the number of years the benefits from closing the gap will continue to accrue. We assumed benefits from closing the gap in performance by 1% to 3% each year for the first 5 years, such that 5% to 15% of the gap is closed by the end of 5 years as a consequence of the Framework. We assumed these annual improvements will be cumulative and will persist for 10 years relative to a counterfactual where there is no VFM Framework.
- The weighted average market performance is held constant throughout the time periods assessed.

- We did not include an assessment of potential improvements to arrangements already above the market average.
- When calculating investment performance for each firm, we assumed that all portfolios have equal weight within a firm, and the gross investment performance of firms that couldn't provide it.

59. Our aim was to illustrate the cumulative impact over 5 years of successive small improvements driven by the Framework, with the cumulative impact persisting beyond 5 years, relative to the counterfactual of not implementing the Framework.

60. For a full summary of our methodology for calculating benefits, refer to CP24/16.

61. In this CBA, we have maintained our central assumption of 'closing the gap' between underperforming funds and the average performance of a fund. We are confident that the updates within this CP will still lead to this gap being closed, as they are fine-tuning the policy based upon feedback received from firms. Therefore, we assume that the updates to the policy in this CP do not impact our benefits modelling, meaning that there is no impact on the benefits from this CP.

Costs

62. We expect firms to incur one-off costs, which include familiarising themselves with the new requirements and learning costs, and ongoing costs per year which include additional meeting time and firm costs to support the IGC/GAA. We based these costs on the information that firms provided in response to the survey.

63. Our cost estimates had several key inputs, including standard modelling which was scaled by the cost estimates that we received from firms. We have increased the cost estimates in this CBA to account for the changes in policy regarding FLMs and associated costs of obtaining and considering advice on the assumptions of the FLMs.

64. Based on our understanding of the market, obtaining this advice will cost approximately £30,000 per firm, per year. Over 10 years (at present value) we estimate a total cost to industry of around £7 million.

65. We had some concerns over the accuracy of our cost estimates, and so we gave a range of total costs to industry of £29 million to £40 million over 10 years. Therefore, we now give an updated range of total costs to industry of £36 million to £47 million over 10 years. For a full assessment and methodology of costs found in the original CBA, refer to CP24/16.

66. Our analysis for this CBA indicates that there are no substantive changes to the market, and that changes to the policy will increase costs by approximately £7 million. Therefore, using the baseline of costs of the overall policy being £29 million to £40 million over 10 years, we assess that this CP will bring approximately £7 million in costs to industry. Based on the policy changes, such as the simplification and reduction in number of metrics required to be produced by firms, there may be a fall in firm burden, but this is left unquantified in this CBA.

Wider economic impacts, including on secondary objective

67. Under the current system, pension funds in the DC market are not incentivised to compete on returns for savers, and are instead incentivised to compete on cost to the employer. Recent government and industry initiatives, such as the [Mansion House Accord](#) and [upcoming pension reforms](#), have highlighted the strategic importance of mobilising pension capital to support domestic economic growth. These reforms will be most effective if investments maximise returns for savers and mobilise capital into UK businesses. This is because when investments are in assets with higher returns, it implies they have been allocated more efficiently.

68. While the direct impact of the VFM Framework on funds and outcomes for savers will depend on how firms and consumers respond to the new regime, there is a clear policy direction towards harnessing the scale of UK pension savings to drive investment in the domestic economy. Ensuring that funds are attempting to make investments with the highest returns for savers can support this overall policy direction.

Risks and uncertainties

Rebalancing risk

69. In identifying how interventions in the pensions market can support both FCA strategic and operational objectives, we consider our approach from a perspective of "rebalancing risk". We are not a zero-fail regulator, and we accept that risk plays a vital role in innovation. We assessed that this market had some consistently underperforming funds, and consumers were not empowered to pressure these funds to improve returns. Alongside other reforms to make the pensions market more transparent and accessible, this should cause firms to compete more on returns for savers than cost to businesses. This should lead to firms pursuing more effective and potentially riskier strategies to improve returns. This approach is not about accepting harm, but rather about ensuring we make balanced, risk-informed decisions that reflect the real-world complexity of dynamic markets, and allow us to be a smarter, more adaptive regulator.

A presentation of the benefits using the government's IA modelling

70. Concurrent with the publication of CP24/16, the government published their Pensions Bill, along with an impact assessment (IA) which includes a separate IA for the VFM Framework. The IA gives a total net present social value of £20bn, based on an AUM of £600bn.

71. In this section, we will give an overview of the estimated benefits of our policy using their modelling techniques and then discuss the differences in approach.

72. This section should be considered a second scenario for the potential benefits that could arise because of this policy, not as an estimate of the benefits or an assessment of the effect of the change in policy.

Benefits of our proposals using IA modelling

73. The IA uses a different central assumption to their modelling, instead of assuming that the policy will 'close the gap' between underperforming funds and the average performance of funds, they assume that the policy will cause an overall increase in average fund performance of 0.4%. Refer to the [DWP's Pension Schemes Bill IA](#) for an overview of their analysis and how they reach this assumption.

74. To get a wider estimate of the potential benefits of the policy within the CBA, we will now present the benefits to the market using the modelling within the IA.

75. To recreate the benefits modelling within the IA, we take the central market size of £300bn. We also assume that the % of total AUM remains consistent, i.e., it's 50% based on current values (the market size in the IA was £600bn). Therefore, our starting market size in 2027 is 50% of the figure used in the IA (£512bn): £256bn.

76. The below table shows the expected benefits up to 2034, at NPV:

	2025-2026	2027	2028	2029	2030	2031	2032	2033	2034
Net Return (with VFM)	No VFM here	First year VFM	7.2%	7.3%	7.5%	7.6%	7.6%	7.6%	7.6%
Net Return (no VFM)			7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Average earnings (OBR)			2.3%	2.6%	3.5%	3.6%	3.6%	3.7%	3.7%
Real VFM Returns			4.9%	4.7%	3.9%	4.0%	4.0%	3.9%	3.9%
Real no VFM Returns			4.9%	4.6%	3.7%	3.6%	3.6%	3.5%	3.5%
DC Growth market with VFM (in billions)			£268	£281	£294	£306	£318	£330	£343
Counterfactual (in billions)			£268	£281	£294	£304	£315	£327	£338
VFM impact (in billions)			£-	£-	£0.37	£1.17	£2.44	£3.79	£5.25
At NPV (in billions)			£-	£-	£0.31	£0.95	£1.91	£2.88	£3.85
Total of £13bn greater investment returns via VFM								£13bn	
Present Value (£10bn)								£10bn	

Differences in approaches

77. We appreciate that these benefits (£10bn) are of a different magnitude than the benefits we originally predicted (£430mn-£1.2bn). However, the assumptions of the models were different, and we have assessed that the modelling used in the original CBA is more appropriate to this half of the market because of the smaller number of firms in the market. The approach in the IA, assuming a 0.4% annual return improvement, is well-suited to the overall market (which contains the trust-based market) where consolidation of schemes are expected to drive measurable performance gains across the market.

78. For the contract-based DC market, it was more appropriate to assess benefits through the lens of improved governance, transparency, and competitive pressure rather than modelling specific investment return uplifts as in the IA. This is because the key mechanism is not forced transfers but the empowerment of IGCs and market participants to challenge firms and shift behaviours, which should improve the performance of low performing funds but not cause improvements for funds that are already highly performing.
79. For this reason, we will focus on modelling using market-specific benefits, rather than applying assumptions about uniform return uplifts that may not translate directly to this part of the pensions landscape. However, the modelling used by the government does still include the contract-based DC market, and we therefore consider it an upper bound in a secondary scenario.

Monitoring and evaluation

80. Monitoring: We will monitor firms' compliance with the new rules through our usual regulatory tools, including assessing the burden compliance is placing on firms.
81. Evaluation: If we implement these proposals, we believe these will help ensure that schemes deliver long-term value for savers, which we could measure through the proportion of arrangements assessed as not VFM over time, the average score of each metric over time, and any consequent market consolidation over time.

Question 46: Do you have any comments on our updated cost benefit analysis? A new CBA will be produced in the next consultation phase, incorporating further feedback and any substantive market or policy changes.

Annex 6

Compatibility statement

Compliance with legal requirements

- 1.** This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
- 2.** When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
- 3.** This Annex also sets out the FCA's view of how the proposed rules are compatible with the FCA's competition duty. The competition duty requires the FCA, so far as is compatible with acting in a way which advances the consumer protection objective and the integrity objective, to discharge its general functions (which include rulemaking) in a way which promotes effective competition in the interests of consumers (section 1B(4)).
- 4.** In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
- 5.** This letter from the Treasury is known as the 'remit letter'. The FCA must have regard to the recommendations in it when the FCA discharges general functions including giving general guidance and making rules.
- 6.** This Annex includes our assessment of the equality and diversity implications of these proposals.
- 7.** Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that relevant markets function well, for the reasons set out below. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA and include the markets for regulated financial services.

Measuring success

9. The Framework is intended to drive an overall improvement in the value of DC workplace default arrangements. We expect competitive pressures will lead to trustees and firms improving arrangements which already offer value. Over time we expect to see less of a gap between poorly performing arrangements and those offering value, as poor value arrangements will be required to either improve or exit the market.

10. Disclosing a consistent set of metrics under the Framework will provide a detailed and holistic view of performance. The initial data publications will provide a baseline of information on the market, allowing tracking of performance against metrics over time.

Consumer protection objective

11. The mandate of the FCA includes the requirement to secure an appropriate degree of protection for consumers. We have had regard in this consultation to the 8 matters listed in s. 1C(2)(a)(h) FSMA on consumer protection. We consider our proposals are compatible with our consumer protection objective.

12. The changes proposed intend to advance our consumer protection objective by ensuring that poor value in workplace pensions is identified and addressed. The focus of our proposals is on default and quasi-default arrangements where savers are typically not engaged with their pension. Firms will be required to take action where poor value is identified without depending on individual savers to take action themselves. The Framework is intended to increase value for money for individual savers, ultimately increasing the size of their pension at retirement.

Competition objective

13. The mandate of the FCA also includes the requirement to promote competition. We have had regard in this consultation to the 5 matters listed in s. 1E(2)(a)(e) FSMA on promoting competition and consider our proposals are compatible with our competition objective and our Competition duty under s. 1(B)(4).

14. The changes proposed intend to advance our competition objective by improving how competition works in this market in the interests of consumers. The Framework will require a holistic assessment of value and a focus on longer-term saver outcomes when the market currently may be overly focused on cost.

15. The Framework is designed to allow direct comparison between the performance of workplace DC pensions schemes through data collection, evaluation and publication. We anticipate that public transparency of performance on metrics that matter to long-term saver outcomes will encourage firms generally to improve their propositions. Employers and their advisers will be better able to compare pension providers on consistent data and more comparable published VFM assessments. We expect an increase in competitive pressure based on value to savers, with an overall rise in VFM across the market, and with poorer value arrangements consolidating or leaving the market.

Secondary international competitiveness and growth objective

16. We also consider that these proposals are compatible with our secondary international growth and competitiveness objective. As noted above, the Framework is designed to shift the focus of decision-making from cost to value, encouraging firms to continually assess the value they offer to savers and to take action where necessary. This opens up the potential for some arrangements to allocate increased funds to alternative assets – such as infrastructure and venture capital – which may offer greater long-term returns but cost more to manage. Where this investment is directed towards UK-focused assets, it has the potential to support UK growth and competitiveness.

17. Greater transparency over asset allocation will make it possible for employers and savers to compare arrangements and understand the potential differences in asset allocations within schemes that demonstrate improved investment performance. This, in turn, helps employers and savers to build greater trust in the pension market while fostering competition among market participants.

The FCA's regulatory principles

18. In preparing the proposals set out in this Consultation Paper, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

19. The proposals set out in this consultation are consistent with an efficient and economic use of our resource. We have built on existing work where possible and have engaged extensively with stakeholders in developing our proposals to incorporate expertise and feedback throughout the process.

The principle that a burden or restriction should be proportionate to the benefits

20. As outlined in the cost benefit analysis (CBA), we are satisfied that the likely benefits of these proposals outweigh and justify the likely costs. Firm surveys informed our earlier CBA in CP24/16, which now serves as the baseline for the latest CBA stage (Annex 4). As the overall aims and market context of our proposals remain unchanged, our latest analysis stage focuses on updates and refinements, rather than a wholesale reassessment of costs and benefits.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

21. The FCA has considered the environmental, social and governance (ESG) implications of the proposals and its duty under sections 1B(5) and 3B(1)(c) FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021. The FCA does not consider the proposals are relevant to contributing to those targets. The FCA will keep this under review during the consultation period and when considering any final rules.

The general principle that consumers should take responsibility for their decisions

22. The proposals do not depart from the general principle that consumers should take responsibilities for their decisions. The Framework is not actively targeted at consumer decision-making, as it is aimed at default and quasi-default arrangements which savers are put in automatically. However, published assessment reports will provide consumers with access to the information about their workplace pension scheme.

The responsibilities of senior management

23. It will be responsibility of relevant Senior Managers to ensure that their firms comply with the rule changes that we are proposing, if made. Senior Managers must have regard to their responsibilities under the Senior Managers and Certification Regime.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

24. We do not consider that our proposals are inconsistent with this principle.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

25. We have had regard to this principle and do not believe that our proposals undermine it.

The principle that we should exercise of our functions as transparently as possible

26. We have engaged regularly and worked closely with other partners on the work, including the Department of Work and Pensions (DWP) and the Pensions Regulator (TPR). We have also engaged with industry through a series of working groups whilst shaping our proposals and will continue to do so as part of this ongoing consultation process before making final rules.

27. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). We do not consider this relevant to our proposals.

Expected effect on mutual societies

28. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

Equality and diversity

29. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

30. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered.

31. Overall, we do not consider that our proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies).

32. We welcome your comments if you have any concerns. We will keep these considerations under review throughout the consultation period and in developing our final rules.

Legislative and Regulatory Reform Act 2006 (LRRA)

33. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals are proportionate and promote our operational objectives of consumer protection and effective competition, as well as our strategic objective to ensure that markets function well. We consider that the proposals will result in an appropriate level of consumer protection without creating undue burdens on the industry or adversely affecting competition.

34. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals are proportionate to the potential harm to consumer or risks to our statutory objectives identified.

Appendix 1

Draft Handbook text

For clarity, this draft Handbook text indicates where the proposed text differs from existing Handbook text but does not indicate changes relative to the previous FCA consultation.

CONDUCT OF BUSINESS (VALUE FOR MONEY FRAMEWORK) INSTRUMENT 2026

Powers exercised

A. The Financial Conduct Authority (“the FCA”) 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 137T (General supplementary powers); and
- (3) 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 [date].

Amendments to the Handbook

D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Principles of Businesses (PRIN)	Annex B
Conduct of Business sourcebook (COBS)	Annex C

Notes

E. In the Annexes to this instrument, the notes (indicated by “**Note:**” or “*Editor’s note:*”) are included for the convenience of readers, but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Conduct of Business (Value for Money Framework) Instrument 2026.

By order of the Board
[date]

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. All the text is new and is not underlined.

[*Editor's note:* The following glossary definitions anticipate the changes introduced by the Pension Schemes Bill, which is currently before Parliament.]

<i>commercial market comparator group</i>	a group of pension arrangements, including <i>in-scope arrangements</i> , and relevant pension schemes and arrangements prescribed under section X of the Pension Schemes Act 202X [<i>Editor's note:</i> this is currently in clause 11 of the Pension Schemes Bill], where each arrangement in the group is:
	(a) commercially available for use by employers new to the provider of the pension arrangement; and
	(b) used by more than one employer.
<i>firm-designed in-scope arrangement</i>	an <i>in-scope arrangement</i> designed by a <i>firm</i> which is used by an employer without any variation to that design being made for that employer.
<i>in-scope active saver</i>	a member of a <i>relevant scheme</i> who:
	(a) has pension contributions already invested in an <i>in-scope arrangement</i> in that <i>relevant scheme</i> ; and
	(b) is currently having contributions made on their behalf by their employer, regardless of whether they are themselves contributing, to that <i>relevant scheme</i> to be invested in the <i>in-scope arrangement</i> .
<i>in-scope arrangement</i>	an arrangement that is in accumulation within a <i>relevant scheme</i> and is either an <i>in-scope default arrangement</i> , an <i>in-scope legacy arrangement</i> or an <i>in-scope transferred-member arrangement</i> .
<i>in-scope default arrangement</i>	a <i>default arrangement</i> which has:
	(a) at least 1,000 members; or
	(b) fewer than 1,000 members and is the largest, or only, <i>default arrangement</i> provided by a <i>firm</i> , within the particular <i>qualifying scheme</i> .
<i>in-scope deferred saver</i>	a member of a <i>relevant scheme</i> who:

- (a) has pension contributions already invested in an *in-scope arrangement* in that *relevant scheme*;
- (b) is not currently having contributions made on their behalf by an employer, regardless of whether they are themselves contributing to that *relevant scheme*; and
- (c) is not receiving, and has not received, payment of any pension or other benefits from that *relevant scheme* in respect of the *in-scope arrangement* in which the member is invested.

in-scope legacy arrangement

an arrangement:

- (a) offered within a *relevant scheme* which is not a *qualifying scheme*;
- (b) in which, at 31 December [Editor's note: year to be inserted]:
 - (i) at least 80% of current or past workers of at least one employer who still have contributions invested in the *relevant scheme* are invested in the arrangement; or
 - (ii) there are members invested in the arrangement that the *firm* cannot link to a particular employer and there are no other arrangements within the *relevant scheme*; or
 - (iii) there are members invested in the arrangement that the *firm* cannot link to a particular employer and the number of those members is greater than the average number of such members in other arrangements within the particular *relevant scheme*; and
- (c) which has:
 - (i) at least 1,000 members; or
 - (ii) fewer than 1,000 members and is either the largest or only such arrangement within the particular *relevant scheme*.

in-scope saver

a member of a *relevant scheme* who is an *in-scope active saver* or an *in-scope deferred saver*.

in-scope transferred member arrangement

an arrangement in a *relevant scheme*:

- (a) into which at least one member has had their contributions transferred from another pension arrangement without their explicit consent, where those contributions were paid under direct payment arrangements within the meaning of section 111A of the Pension Schemes Act 1993; and
- (b) which has:

- (i) at least 1,000 members; or
- (ii) fewer than 1,000 members and is either the largest or only such arrangement provided by a *firm* in relation to the particular *relevant scheme*.

in-scope transferring arrangement an *in-scope arrangement*:

- (a) where the *firm* is transferring all the members into a different arrangement, whether offered by the *firm* or a different provider, by way of either:
 - (i) an insurance business transfer scheme under Part VII of the *Act*, and the *firm* has applied to court for an order sanctioning the scheme in accordance with section 107 of the *Act*; or
 - (ii) a unilateral change under Part 7A of the *Act* [*Editor's note*: this is currently in clause 48 of the Pension Schemes Bill] where:
 - (A) the person appointed to review the proposed unilateral change has given the *firm* a certificate under section 117E of the *Act* [*Editor's note*: this is currently in clause 48 of the Pension Schemes Bill]; and
 - (B) the *firm* has sent a unilateral change notice to each of the required recipients in accordance with section 117F of the *Act* [*Editor's note*: this is currently in clause 48 of the Pension Schemes Bill]; and
- (b) into which the *firm* is not accepting contributions from an employer to be invested, unless the employer had agreed to do so, contractually or otherwise, prior to either (a)(i) or (ii) being met.

invested assets assets in accumulation invested in a particular *in-scope arrangement* that have been obtained with contributions from or on behalf of *in-scope savers*.

investment charges

- (a) in relation to a *firm* providing a *non-vertically integrated arrangement*, fees and charges only in relation to *investments* of the *non-vertically integrated arrangement*, including any performance-based fees but excluding *transaction costs*; or
- (b) in relation to a *firm* providing a *vertically integrated arrangement*, a reasonable estimate of fees and charges only in relation to *investments* of the *vertically integrated arrangement*.

<i>non-vertically integrated arrangement</i>	an <i>in-scope arrangement</i> where all of the underlying <i>investments</i> in the arrangement's investment portfolio are managed by a third party outside of the <i>firm</i> or the <i>firm's group</i> .
<i>retirement age cohorts</i>	the following cohorts of <i>in-scope savers</i> :
	<ul style="list-style-type: none"> (a) <i>in-scope savers</i> of the <i>in-scope arrangement</i> who have reached their target retirement date in the calendar year being assessed; (b) <i>in-scope savers</i> of the <i>in-scope arrangement</i> who are 5 years away from their target retirement date in the calendar year being assessed; and (c) <i>in-scope savers</i> of the <i>in-scope arrangement</i> who are 30 years away from their target retirement date in the calendar year being assessed.
<i>service costs</i>	<i>total costs and charges</i> less <i>investment charges</i> .
<i>total costs and charges</i>	the total of all <i>administration charges</i> , which will equal the sum of <i>service costs</i> and <i>investment charges</i> , and employer subsidies.
<i>total in-scope assets</i>	<p>the total value of all assets made up of:</p> <ul style="list-style-type: none"> (a) assets held by the <i>firm</i> for the purpose of any <i>relevant scheme</i>; and (b) assets arranged to be invested, or invested, by a <i>firm</i> in relation to a <i>defined contribution occupational pension scheme</i>, the trustee of which is a <i>client</i> of the <i>firm</i>, including the trustee of a master trust for which the scheme funder is the <i>firm</i>, or a <i>person</i> within the same <i>group</i> as the <i>firm</i>.
<i>vertically integrated arrangement</i>	an <i>in-scope arrangement</i> which is not a <i>non-vertically integrated arrangement</i> .

Amend the following definitions as shown.

<i>administration charge</i>	<ul style="list-style-type: none"> (1) (except for the purposes of <i>COBS 19.5</i>, <i>COBS 19.5A</i> and <i>COBS 19.8</i>), any charge made which: <ul style="list-style-type: none"> ... (2) (for the purposes of <i>COBS 19.5</i>, <i>COBS 19.5A</i> and <i>COBS 19.8</i> only), in relation to a member of a pension scheme or (for the purposes of <i>COBS 19.5</i> only) a pathway investor, means any of the following to the extent that they may be used to meet the administrative expenses of the scheme or (for the purposes of <i>COBS 19.5</i> only) the <i>pathway investment</i>, to pay commission
------------------------------	--

or in any other way that does not result in the provision of pension benefits for or in respect of members or (for the purposes of COBS 19.5 only) pathway investors:

...

governance advisory arrangement (in PRIN, ~~and COBS 19.5, and COBS 19.5A~~) an arrangement between a *firm* and a third party under which the third party establishes a committee to represent the interests of:

...

IGC (in PRIN, COBS 19.5, COBS 19.5A and COBS 19.8) an independent governance committee established by a *firm* with terms of reference which satisfy COBS 19.5.5R ~~and COBS 19.5A.21R~~ with the purpose, in summary, to represent the interests of:

...

[*Editor's note:* The definition of 'regulated market' below takes into account the changes made by the Prospectus Instrument 2025 (FCA 2025/30), which come into force on 19 January 2026.]

regulated market ...

(2) (in addition, in INSPRU, IPRU(INS), SYSC 3.4, COBS 2.2B, COBS 19.5A and MAR 5-A and for the purposes of *Principle 12* and PRIN 2A only) a market situated outside the *United Kingdom* which is characterised by the fact that:

...

...

relevant policyholder (in SYSC 3.2, SYSC 4.1 ~~and~~, COBS 19.5 ~~and COBS 19.5A~~) a member of a *relevant scheme* who is or has been a worker entitled to have contributions paid by or on behalf of ~~his~~ their employer in respect of that *relevant scheme*.

...

relevant scheme (1) (except in FEES 6, COBS 19.5, COBS 19.5A and COBS 19.8) a *collective investment scheme* managed by an *EEA UCITS management company*.

...

(3) (in PRIN, SYSC 3.2, SYSC 4.1 ~~and~~, COBS 19.5 ~~and COBS 19.5A~~) a *personal pension scheme* or *stakeholder pension scheme* for which direct payment arrangements are, or have

been, in place, and under which contributions have been paid for two or more *employees* of the same employer. ‘Direct payment arrangements’ has the same meaning as in section 111A of the Pension Schemes Act 1993, that is, arrangements under which contributions fall to be paid by or on behalf of the employer towards the scheme (a) on the employer’s own account (but in respect of the employee); or (b) on behalf of the employee out of deductions from the employee’s earnings.

[*Editor’s note:* The definition of ‘transaction costs’ below takes into account the changes made by the Consumer Composite Investments Instrument 2025 (FCA 2025/52), which comes into force on 6 April 2026.]

transaction costs (1) (for the purposes of *COBS 19.5*, *COBS 19.5A* and *COBS 19.8*) means costs incurred as a result of the buying, selling, lending or borrowing of *investments*.

...

Annex B

Amendments to the Principles of Businesses (PRIN)

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

2A The Consumer Duty

...

2A.4 Consumer Duty: retail customer outcome on price and value

...

Application to pension scheme operators and providers of pathway investments

2A.4.36 R (1) This *rule* applies to a *firm* that is required to comply with *COBS 19.5* (Independent Governance Committees (IGCs) and publication and disclosure of costs and charges) and/or COBS 19.5A (Value for money framework).

(2) A *firm* to which this *rule* applies must use the value for money assessment assessment(s) carried out by the *IGC* or the *governance advisory arrangement* in accordance with COBS 19.5 and COBS 19.5A (if applicable) when carrying out its value assessment under *PRIN 2A.4.2R*.

(3) Where a *firm* disagrees with the value for money assessment carried out by the *IGC* or the *governance advisory arrangement* in accordance with COBS 19.5 it must:

...

...

(5) ...

(6) Where a *firm* disagrees with the value for money assessment carried out by the *IGC* or the *governance advisory arrangement* in accordance with COBS 19.5A it must follow the process in COBS 19.5A.61R.

(7) Where the process in COBS 19.5A.61R(1) has been followed and the *IGC* or *governance advisory arrangement* does not carry out another assessment in accordance with COBS 19.5A.61R(2), the *firm* must apply PRIN 2A.4.25R in relation to the *in-scope arrangement*.

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

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

[Editor's note: This Annex takes into account the changes proposed in the Pensions Interactive Digital Simulations Instrument 202X and the Conduct of Business (Non-Advised Pension Transfers) Instrument 202X, both of which are being consulted on in CP25/39, as if they were made.]

13 Preparing product information

...

13.5 Preparing product information: other projections

...

Projections for in-force products

...

13.5.1B R ...

13.51BA R The rules in COBS 13.5 do not apply to a firm when it is preparing and disclosing forward-looking investment performance metrics, and when it publishes a link to those metrics, in accordance with COBS 19.5A.15R to COBS 19.5A.18R.

...

19 Pensions supplementary provisions

...

19.5 Independent governance committees (IGCs) and publication and disclosure of costs and charges

Application

19.5.1 R ...

19.5.1Z R The rules in this section do not apply where the relevant scheme operated by the firm is a SIPP which meets the following conditions:

- (1) at least 2 members of the SIPP are or have been employees of the same employer; and
- (2) those members:

- (a) chose the SIPP without any involvement from that employer;
- (b) requested that the employer, or an employer in the same group, pay contributions into the SIPP on their behalf; and
- (c) chose how some or all of their contributions are invested.

Definitions

19.5.1A R In this section:

...

- (6) ...
- (7) “*IGC*’s remit of review” means the remit of the *IGC* as described in *COBS 19.5.5R(2)*, *COBS 19.5.5R(2A)*, *COBS 19.5.5R(2B)*, *COBS 19.5.5R(2C)*, and, where applicable, *COBS 19.5.5R(2D)* and, *COBS 19.5.5R(2E)* and *COBS 19.5A*.

Purpose

19.5.1B G ...

Interaction with COBS 19.5A (Value for money assessments)

19.5.1B A G *COBS 19.5A applies to a firm where the firm is operating a relevant scheme which includes an in-scope arrangement. In such circumstances, the IGC must undertake a value for money assessment in relation to that in-scope arrangement in accordance with the terms of reference set out at COBS 19.5A.22R to COBS 19.5A.64R instead of the terms of reference which set out the ongoing value for money assessment in COBS 19.5.5R(2). The rest of COBS 19.5 (including the rest of the terms of reference in COBS 19.5.5R where applicable) continues to apply to firms where relevant.*

...

Terms of reference for an IGC

19.5.5 R A *firm* must include, as a minimum, the following requirements in its terms of reference for an *IGC*:

...

- (2) the *IGC* will assess the ongoing value for money for *relevant policyholders* delivered by a *relevant scheme*, except in relation to any in-scope arrangement(s), and particularly, though not exclusively, through assessing the three factors in (a) to (c) below, taking into account the specific points in (d) to (g):

...

...

(6) the Chair of the *IGC* will be responsible for the production of an annual report setting out the following, in sufficient detail, taking into account the information needs of *consumers*:

...

(ac) ...

(ad) the information required by COBS 19.5A.64R where COBS 19.5A applies to the firm;

...

(7) the Chair of the *IGC* will ensure the annual report is produced, and a copy provided to the firm, by 30 September 31 October each year, in respect of the previous calendar year;

...

...

Duties of firms in relation to an IGC

19.5.7 R A *firm* must:

...

(8) ~~make available publish~~ the *IGC*'s terms of reference and the ~~three 5~~ most recent annual reports, ~~in a way appearing to the firm to be best calculated to bring them to the attention of relevant policyholders and their employers or to the attention of pathway investors~~; and:

(a) for free on its publicly accessible website where one exists, or, where one does not exist, on a publicly accessible website; and

(b) in the way the firm deems best designed to bring them to the attention of relevant policyholders and their employers or to the attention of pathway investors;

(8A) publish the *IGC*'s most recent annual report in accordance with (8) in a timely manner and in any event within 5 business days from 31 October of the most recent calendar year; and

...

...

Appointment of IGC members

19.5.9 R ...

(3) A *firm* must appoint members to the *IGC* so that:

...

(b) *IGC* members are bound by appropriate contracts which reflect the terms of reference in *COBS 19.5.5R*, and *COBS 19.5A.22R* to *COBS 19.5A.64R* where applicable, and on such terms as to secure the independence of independent members;

...

...

Publication and disclosure of costs and charges by IGCs

19.5.13 R ...

19.5.13A R The requirements in *COBS 19.5.13R* apply to the extent that they are not satisfied by the *firm*'s compliance with *COBS 19.5A.17R* and *COBS 19.5A.18R*. The *firm* is not required to publish the same information twice where information published in accordance with *COBS 19.5A.17R* and *COBS 19.5A.18R* would satisfy some or all of the requirements in *COBS 19.5.13R*.

...

19.5.16 R ...

19.5.16A R The requirement in *COBS 19.5.16R* applies to the extent that such information is not included in the *IGC*'s annual report as a result of *COBS 19.5A.64R*.

...

Insert the following new section, COBS 19.5A, after COBS 19.5 (Independent governance committees (IGCs) and publication and disclosure of costs and charges). All the text is new and is not underlined.

19.5A Value for money framework

Application

19.5A.1 R This section applies to a *firm* which operates a *relevant scheme* in relation to:

- (1) any *in-scope arrangement* it provides, subject to *COBS* 19.5A.2R and 19.5A.3R; and
- (2) any group of members within such an arrangement meeting the criteria in *COBS* 19.5A.7R which are to be treated as separate *in-scope arrangements*.

19.5A.2 R This section does not apply in relation to any *in-scope arrangement* that is a *SIPP* which meets the conditions in *COBS* 19.5.1ZAR(1) and (2).

19.5A.3 R Where the arrangement provided by a *firm* is an *in-scope transferring arrangement* this section does not apply save for the following rules:

- (1) *COBS* 19.5A.15R(1)(a) but only where the *firm* must chain-link in accordance with *COBS* 19 Annex 9 12.1R in relation to the *in-scope arrangement* into which members are transferred; and
- (2) *COBS* 19.5A.64R(11)(a).

Purpose

19.5A.4 G The purpose of this section is to ensure that *in-scope savers* benefit from the independent review of the value for money provided by *in-scope arrangements* in which they are invested by:

- (1) requiring *firms* to measure and publicly disclose data on investment performance, costs and charges, and service quality for each *in-scope arrangement* against consistent metrics;
- (2) requiring *IGCs* to assess the value for money delivered for *in-scope savers* by using the published data in comparisons with data relating to the *commercial market comparator group*, following a consistent assessment process; and
- (3) requiring *firms* to take action to improve value for money for *in-scope savers* where an *IGC* has concluded that they are not receiving value for money.

In-scope arrangements

19.5A.5 R A *firm* must take the following steps to determine the *in-scope arrangements* it operates:

- (1) identify whether a *relevant scheme* it operates includes any *in-scope arrangements*; and
- (2) determine whether any of those *in-scope arrangements* include different groups of members that meet the criteria in *COBS* 19.5A.7R such that each group is treated as a separate *in-scope arrangement*.

19.5A.6 R The *in-scope arrangements* that a *firm* operates are subject to the requirements in this section where they have been operating for at least 1 calendar year.

19.5A.7 R For the purposes of *COBS* 19.5A.5R(2), a group of members within an *in-scope arrangement* must be treated as a separate *in-scope arrangement* where the *firm* provides a different package of services to that group as compared with other groups of members within the *in-scope arrangement*.

19.5A.8 G For the purposes of *COBS* 19.5A.7R, an example of where there may be a different package of services being offered to a different group of members could be where services are offered or delivered through a different administration platform to that used for other groups of members.

19.5A.9 G Where the terms of a package have been amended for a particular employer, this will not be considered as a different package of services where that amendment is not material.

Timing

19.5A.10 R A *firm* is to determine whether:

- (1) a *default arrangement* is an *in-scope default arrangement*; and
- (2) any arrangements it provides are *in-scope transferred-member arrangements*,

as on 31 December of the calendar year prior to the year of assessment.

19.5A.11 G Once a *firm* has determined whether any arrangement it provides is an *in-scope legacy arrangement* as on 31 December [Editor's note: year to be inserted], it may also review that determination periodically to determine whether the arrangement is still considered to be an *in-scope legacy arrangement*.

Governance advisory arrangements

19.5A.12 R If a *firm* has decided to establish a *governance advisory arrangement* rather than an *IGC* pursuant to *COBS* 19.5.3R(1), this section applies to the *firm* by reading references to the *IGC* as references to the *governance advisory arrangement*.

Interaction with COBS 19.5

19.5A.13 G *Firms* are reminded that they will still need to comply with certain requirements in *COBS* 19.5, including:

- (1) taking reasonable steps to ensure that the *IGC* acts and continues to act in accordance with its terms of reference (*COBS* 19.5.7R(1));

- (2) taking reasonable steps to provide the *IGC* with all information reasonably requested by the *IGC* in good time for the purposes of carrying out its role (*COBS* 19.5.7R(2)); and
- (3) providing the *IGC* with sufficient resources as are reasonably necessary to allow it to carry out its role independently (*COBS* 19.5.7R(3)).

Definitions

19.5A.14 R In this section:

- (1) ‘bespoke arrangement’ means an *in-scope arrangement* where the *firm* has agreed to an investment design proposed by an employer or a third party acting on behalf of the employer for use by employees or past employees of that particular employer only;
- (2) ‘central data repository’ means an electronic database that is made available to *firms* for the disclosure of metrics and information that *firms* must prepare in accordance with *COBS* 19.5A.15R, and for the publication and sharing of such metrics and information;
- (3) ‘multi-employer *in-scope arrangement*’ means an *in-scope arrangement* which is used by more than one employer;
- (4) ‘employer cohorts’ means employers grouped together based on their size as determined by assets under management or number of employees and ex-employees. The cohorts are:
 - (a) for size by assets under management: less than £100,000; between £100,000 and £1,000,000; between £1,000,000 and £5,000,000; between £5,000,000 and £25,000,000; between £25,000,000 and £50,000,000; between £50,000,000 and £100,000,000; between £100,000,000 and £250,000,000; and more than £250,000,000.
 - (b) for size by number of employees and ex-employees (members): under 100; between 100 and 499; between 500 and 999; between 1,000 and 4,999; between 5,000 and 9,999; between 10,000 and 24,999; between 25,000 and 49,999; between 50,000 and 99,999; and more than 100,000; and
- (5) ‘reporting periods’ means:
 - (a) the previous calendar year;
 - (b) the previous 3 calendar years;
 - (c) the previous 5 calendar years; and

- (d) the previous 10 calendar years;

Requirements on firms in relation to the preparation, disclosure and publication of value for money metrics data relating to in-scope arrangements

19.5A.15 R A *firm* must prepare the following metrics and information:

- (1) for each of its *in-scope arrangements*:
 - (a) backward-looking investment performance metrics in accordance with *COBS* 19 Annex 9;
 - (b) forward-looking investment performance metrics in accordance with *COBS* 19 Annex 10;]
 - (b) forward-looking investment performance metrics and composite investment performance metrics in accordance with *COBS* 19 Annex 10;]
 - (c) cost and charges metrics in accordance with *COBS* 19 Annex 11;
 - (d) quality of service metrics in accordance with *COBS* 19 Annex 12; and
 - (e) a features table in accordance with *COBS* 19 Annex 13; and
- (2) for each of its *firm-designed in-scope arrangements*, asset allocation information in accordance with *COBS* 19 Annex 14.

19.5A.16 R A *firm* must disclose the metrics and information in *COBS* 19.5A.15R by electronic means to the central data repository annually in respect of the reporting periods ending 31 December of the previous year, by 31 March each year.

[*Editor's note*: For the purposes of this consultation, there are 2 alternative drafts of *COBS* 19.5A.17R. Both versions are set out below.]

[19.5A.1 R A *firm* must publish, on its own publicly accessible website (or another publicly accessible website where the *firm* has no such website of its own), a link to the central data repository that provides access to the *firm's* metrics and information set out in *COBS* 19.5A.15R in respect of the reporting period ending 31 December of the previous year, by 31 March each year.]

[19.5A.1 R A *firm* must publish, on its own publicly accessible website (or another publicly accessible website where the *firm* has no such website of its own), a

link to the central data repository that provides access to the *firm's* metrics and information set out in *COBS* 19.5A.15R in respect of the reporting period ending 31 December of the previous year, by 31 October each year.]

19.5A.18 R The link a *firm* must publish in accordance with *COBS* 19.5A.17R must provide access to the *firm's* metrics and information free of charge, must be published:

- (1) prominently; and
- (2) in such a manner that it is easily identifiable,

[*Editor's note*: For the purposes of this consultation, there are 2 alternative drafts of the remainder of *COBS* 19.5A.18R. Both versions are set out below.]

[and must remain so published for a period of 5 years beginning on 31 March of the year it was first published.]

[and must remain so published for a period of 5 years beginning on 31 October of the year it was first published.]

Retention of disclosed data

19.5A.19 R The *firm* must retain the metrics and information it has disclosed in accordance with *COBS* 19.5A.16R for a period of 6 years beginning on 31 March of the year it was first disclosed.

Terms of reference for an IGC

19.5A.20 G *COBS* 19.5A.21R to *COBS* 19.5A.64R set out what a *firm* must include in an *IGC*'s terms of reference. For consistency in assessments, *IGCs* will need to follow the 3 steps in *COBS* 19.5A.25R onwards to come to a view about whether *in-scope savers* invested in a particular *in-scope arrangement* receive value for money as against the *commercial market comparator group*.

The first 2 steps of the process require the *IGC* to consider the metrics and other information available to it and to make a provisional judgement in relation to the value provided by the *in-scope arrangement*'s investment performance, quality of services and overall value.

The third step requires the *IGC* to reach a decision in relation to whether the *in-scope arrangement* is providing value for money. This step also allows the *IGC* to consider other limited factors. This is so that the *IGC* can form a view on value taking account of additional information where it has a strong rationale for doing so.

19.5A.21 R In addition to *COBS* 19.5.5R, a *firm* must include in its terms of reference for an *IGC* the requirements set out in *COBS* 19.5A.22R to *COBS* 19.5A.64R.

19.5A.22 R (1) Save for any *in-scope arrangement* within scope of *COBS* 19.5A.23R, the *IGC* will carry out a value for money assessment in

relation to each *in-scope arrangement*, and rate that arrangement, in accordance with the process set out in COBS 19.5A.24R to COBS 19.5A.59R.

- (2) For the purposes of the value for money assessment the *IGC* will compare each *in-scope arrangement* against the *commercial market comparator group*.
- (3) To carry out the comparison the *IGC* will use comparative metrics produced by the central data repository from data relating to the *commercial market comparator group* which correspond to the metrics in COBS 19.5A.15R(1). The metrics provided by the central data repository will be calculated by the central data repository as set out in the following table:

[Editor's note: The below table includes composite investment performance but this is only relevant to Option 2 as set out in COBS 19.5A.26R to 49IR]

Metric	Calculation by the central data repository	
Gross investment performance	Step 1	Take the figures disclosed for the particular metric in relation to each pension arrangement within the <i>commercial market comparator group</i> .
Gross investment performance net of <i>investment charges</i>	Step 2	Calculate the arithmetic mean
Gross investment dispersion		
Annualised standard deviation		
Annualised standard deviation – maximum over a period		
Expected annualised standard deviation of the investment returns of the <i>in-scope arrangement</i>		
Quality of service metrics, for which an arithmetic mean can be calculated		

<p><i>Investment charges</i></p> <p><i>Service costs</i></p> <p><i>Total costs and charges</i></p> <p>Gross investment performance net of <i>total costs and charges</i></p>	<p>Step 1</p> <p>Step 2</p> <p>Step 3</p> <p>Step 4</p> <p>Step 5</p> <p>Step 6</p>	<p>Take the single annualised percentage figures disclosed for that metric in relation to each pension arrangement within the <i>commercial market comparator group</i> for which costs and charges do not vary.</p> <p>Take the median figures disclosed for that metric in relation to each pension arrangement within the <i>commercial market comparator group</i> for which costs and charges vary.</p> <p>Add the figures from step 1 and step 2 and calculate the arithmetic mean to obtain the <i>commercial market comparator group</i> average median metric.</p> <p>Repeat steps 1 to 3 using the maximum figures disclosed for arrangements for which costs and charges vary to obtain the <i>commercial market comparator group</i> average maximum metric.</p> <p>Repeat steps 1 to 3 using the minimum figures disclosed for arrangements for which costs and charges vary to obtain the <i>commercial market comparator group</i> average minimum metric.</p> <p>Additionally, for <i>total costs and charges</i> for the table in relation to multi-employer <i>in-scope arrangements</i> as set out in COBS 19 Annex 11 13.4R, the central data repository will carry out steps 1 to 5 for each employer cohort to obtain the <i>commercial market comparator group</i> total costs and charges average employer cohort metrics.</p>
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Composite investment performance	Step 1	Take the single annualised percentage figures and median figures disclosed for gross investment performance net of <i>total costs and charges</i> for the previous 5-year reporting period in relation to each pension arrangement within the <i>commercial market comparator group</i> .
	Step 2	Take the figures disclosed for expected gross investment performance net of expected <i>total costs and charges</i> and expected median gross investment performance net of expected <i>total costs and charges</i> in relation to each pension arrangement within the <i>commercial market comparator group</i> .
	Step 3	Add the figures from step 1 and step 2 and divide by 2 to reach the <i>commercial market comparator group</i> composite metric.

[Editor's note: The following provision anticipates changes introduced by the Pension Schemes Bill, which is currently before Parliament.]

19.5A.23 R COBS 19.5A.22R(1) does not apply in relation to a particular *in-scope arrangement* where:

- (1) the *firm* has notified the *FCA* of its intention to transfer all the members in that arrangement into a different pension arrangement, whether offered by the *firm* or a different provider, by way of either:
 - (a) an insurance business transfer scheme under Part VII of the *Act*; or
 - (b) a unilateral change under Part 7A of the *Act* [Editor's note: this is currently in clause 48 of the Pension Schemes Bill]; and
- (2) the *firm* is not accepting contributions from any employer, including employers new to the *in-scope arrangement*, to be invested into the arrangement, unless the employer had agreed to do so, contractually or otherwise, prior to notifying the *FCA* in accordance with (1).

Steps for the *IGC* to take when carrying out the value for money assessment

19.5A.24 R There are 3 steps for the *IGC* to take when carrying out the value for money assessment, as set out below. The *IGC* will first identify the arrangement to be assessed to determine the approach to comparison against the *commercial market comparator group*. The *IGC* will consider the difference in value and determine whether any differences are material. Where such differences are

found not to be sufficiently material, the *IGC* should be able to explain the reasons for that decision. Ultimately, the *IGC* will form a view on the impact of identified differences on outcomes for *in-scope savers* as compared against the *commercial market comparator group* and will use its judgment to come to a decision as to whether the *in-scope arrangement* is providing value for money.

Step 1 – investment performance

19.5A.25 R In step 1, the *IGC* will be comparing the value for the *in-scope savers* of a particular *in-scope arrangement* in terms of investment performance for each *retirement age cohort* as against that of the *commercial market comparator group*.

[*Editor's note:* For the purposes of this consultation, there are 2 alternative drafts of the process for assessing investment performance, labelled as 'Option 1' and 'Option 2'. Both versions are set out below.]

[Option 1

19.5A.26 R For each *in-scope arrangement* the *IGC* will compare:

- (1) for each *retirement age cohort*:
 - (a) the backward-looking investment performance metrics as set out in *COBS* 19 Annex 9 3.1R (gross investment performance, gross investment performance net of *investment charges*, gross investment performance net of *total costs and charges*, gross investment dispersion, annualised standard deviation and annualised standard deviation (maximum over the period)); and
 - (b) the costs and charges metric set out in *COBS* 19 Annex 11 3.1(1)R (*investment charges*); and
- (2) for the *retirement age cohort* of *in-scope savers* who are 30 years away from their target retirement date in the calendar year being assessed, the *total costs and charges* metric or, in relation to multi-employer *in-scope arrangements*, the table as set out in *COBS* 19 Annex 11 13.4R, over the required reporting periods against the corresponding *commercial market comparator group* metrics as set out in the table in *COBS* 19.5A.22R(3), by following the process set out in *COBS* 19.5A.27R to *COBS* 19.5A.46R.

19.5A.27 R When the *IGC* is comparing gross investment performance net of *total costs and charges*, and *total costs and charges*, it will first determine the characteristics of the particular *in-scope arrangement* being assessed in accordance with first column of the table set out below and apply the method of comparison as set out in the corresponding row in the second column of the table:

Arrangement to be assessed	Corresponding comparisons against the commercial market comparator group	
Multi-employer	<p>The <i>IGC</i> will compare:</p> <p>(1) the gross investment performance net of <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> average median metric, the <i>commercial market comparator group</i> average maximum metric and the <i>commercial market comparator group</i> average minimum metric as calculated by the central data repository in accordance with the table in <i>COBS</i> 19.5A.22R(3); and</p> <p>(2) the <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> total costs and charges average employer cohort metrics, as calculated by the central data repository in accordance with the table in <i>COBS</i> 19.5A.22R(3).</p>	
Single employer (bespoke or SET)	<p>The <i>IGC</i> will compare:</p> <p>(1) the gross investment performance net of <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> average median metric, the <i>commercial market comparator group</i> average maximum metric and the <i>commercial market comparator group</i> average minimum metric as calculated by the central data repository in accordance with the table in <i>COBS</i> 19.5A.22R(3); and</p> <p>(2) the <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the comparable cohort of employers by ‘employer size by invested asset bands’ and ‘employer size by number of members’ of the <i>commercial market comparator group</i> average employer</p>	

		cohort metrics as calculated by the central data repository in accordance with the table in <i>COBS</i> 19.5A.22R(3).
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19.5A.28 R When comparing the remaining metrics the *IGC* will compare against the corresponding *commercial market comparator group* metric as calculated by the central data repository in accordance with the table in *COBS* 19.5A.22R(3).

Process

19.5A.29 R The *IGC* will identify whether there is a material difference between the value delivered by the *in-scope arrangement*'s metrics and the corresponding *commercial market comparator group* metrics.

19.5A.30 R The *IGC* will take a data-led approach when determining whether there is a material difference for the purposes of *COBS* 19.5A.29R. Examples of where an *IGC* may consider there to be a material difference in value are:

- (1) where the majority of metrics are below the *commercial market comparator group* metrics; or
- (2) where at least one of the metrics is well below the corresponding *commercial market comparator group* metric.

19.5A.31 R Where the *IGC* identifies:

- (1) materially worse gross investment performance net of *investment charges* compared to that of the *commercial market comparator group*; and/or
- (2) similar gross investment performance compared to the *commercial market comparator group*, but much greater investment risk,

the *IGC* should consider that factor as indicative that value is not being delivered by the investment performance of that *retirement age cohort*.

19.5A.32 R The *IGC* will then compare for each *retirement age cohort* the forward-looking metrics in relation to the *in-scope arrangement* against the corresponding forward-looking *commercial market comparator group* metrics to identify whether there is a material difference.

19.5A.33 R For the purposes of *COBS* 19.5A.32R there will be a material difference where at least one of the forward-looking metrics for at least one *retirement age cohort* of the *in-scope arrangement* is materially lower than the corresponding *commercial market comparator group* metric.

19.5A.34 R The *IGC* will then balance the backward-looking metrics with the forward-looking metrics and weigh them against each other in accordance with the following:

- (1) Forward-looking metrics must be given some weight but must not be given more weight than the other metrics.
- (2) Where:
 - (a) the *firm* has made recent significant changes to the investment strategy of the *in-scope arrangement*; and
 - (b) there are investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,
 the *IGC* must apply a near-equal weight to the backward- and forward-looking metrics.
- (3) Where:
 - (a) the *firm* has made recent significant changes to the investment strategy of the *in-scope arrangement*; or
 - (b) there are investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,
 the *IGC* must apply moderate weight to the forward-looking metrics.
- (4) Where:
 - (a) the *firm* has not made recent significant changes to the investment strategy of the *in-scope arrangement*; and
 - (b) there are no investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,
 the *IGC* must apply very little weight to the forward-looking metrics.

19.5A.35 G Where investments in assets result in early returns that are structurally depressed or produce a J-curve, the *IGC* should consider the impact of this on intergenerational fairness and cross-member subsidies when deciding on the appropriate weight to be given to backward- and forward-looking metrics.

19.5A.36 G The *FCA* expects *IGCs* to apply decreasing weight to the forward-looking metrics as value for money is evidenced by the backward-looking metrics over time.

Provisional view of value for each retirement age cohort

19.5A.37 R Having completed the process as set out in *COBS* 19.5A.29R to *COBS* 19.5A.36G, the *IGC* must come to a provisional view as to whether each *retirement age cohort* is providing value for money or not to its *in-scope*

savers taking into account the considerations set out in COBS 19.5A.38R to COBS 19.5A.44R.

Considerations for IGCs on assessing value of retirement age cohorts

- 19.5A.38 R The *IGC* should take into account what is known about the particular *in-scope arrangement* and its *in-scope savers*. The *IGC* should put quantitative comparisons for each *retirement age cohort* in context where the *IGC* has information that clearly explains observed differences in terms of saver needs of the *in-scope savers* of the arrangement being assessed relative to the savers of the *commercial market comparator group*. The starting assumption should be that *in-scope savers*' needs in respect of value delivered by investment performance do not differ.
- 19.5A.39 R The *IGC* should consider investment returns in the context of the risk being taken. When the *IGC* is considering the *retirement age cohort* consisting of *in-scope savers* who have reached their target retirement date in the calendar year being assessed, and potentially those who are 5 years from their target retirement date in the calendar year being assessed where members are known to commence withdrawals in advance of their target retirement age, it should take into account that volatile performance may impact retirement outcomes and that de-risking too much too early may reduce income in retirement.
- 19.5A.40 R When considering different reporting periods, subject to the magnitude of the differences in performance, the *IGC* should use the following order of weighting: 5 years and 10 years (where available), 3 years, and 1 year. The *IGC* should give particular weight to the metrics which have reporting periods over the previous 5 and 10 calendar years, except where there has been a recent and significant change to investment strategy.
- 19.5A.41 R The *IGC* should consider *investment charges* together with the gross investment performance net of *investment charges* metric and consider whether the *investment charges* figure is so low that it could impact on the investment choices available to the *firm*. Such an impact could potentially impact on the value of the arrangement as a whole. The *IGC* should use available data for *investment charges* for shorter periods as indicative of this particular metric for a longer period.
- 19.5A.42 R Where the *IGC* is considering the *retirement age cohorts* of an *in-scope legacy arrangement*, it should start with the underlying investment performance relative to the comparator group. As the comparison will be against more modern products, any valuable legacy features such as guaranteed investment returns will need to be considered in step 3.
- 19.5A.43 R Where the *IGC* compares with-profit arrangements, the *IGC* should focus on the gross investment performance net of *total costs and charges* of the underlying *investments* net of the cost of those *investments*.
- 19.5A.44 R The *IGC* should not use asset allocation information to assess the value delivered by the investment performance of an *in-scope*

arrangement unless the *IGC* has concerns about the asset allocation and cannot justify a value rating.

Multi-employer arrangements

19.5A.45 R Where the arrangement is a multi-employer *in-scope arrangement*, the *IGC* will assess the value for money in respect of each employer cohort as set out in the table in *COBS* 19 Annex 11 13.4R – ‘employer size by invested asset bands’ and ‘employer size by number of members’ following the banding in the costs and charges table. Where the *IGC* is assessing a multi-employer *in-scope arrangement* where charges vary it would need to consider whether value is being delivered at the different levels of employer cohorts.

19.5A.46 R Where the *IGC* assesses a multi-employer arrangement with charges that do not vary, it should assess whether there is a difference in the value for money received by employers in different cohorts in the multi-employer cohort tables in *COBS* 19 Annex 11 13.4R (‘employer size by invested asset bands’ and ‘employer size by number of members’).

Provisional view of value for the in-scope arrangement overall

19.5A.47 R When the *IGC* has reached a provisional view of value in respect of each *retirement age cohort*, it will then need to reach a provisional view of value in respect of the overall *in-scope arrangement* for investment performance.

19.5A.48 R Where the *IGC* has provisionally concluded that any *retirement age cohort* is not providing value, the *IGC* will apply a rebuttable presumption that the *in-scope arrangement* as a whole is not providing value for money in relation to investment performance.

19.5A.49 R The presumption can be rebutted if the *IGC* considers there to be reasonable grounds to do so. An example of where the *IGC* may reasonably conclude that the presumption can be rebutted is where the *IGC* considers that, in the context of the *in-scope arrangement* as a whole, the number of members within the particular *retirement age cohort(s)* that is/are not providing value is not material and/or if the impact to member outcomes would not be significant.]

[Option 2:

19.5A.26 R The *IGC* will use different processes to compare the investment performance of each *retirement age cohort* depending on whether the *in-scope arrangement* has calculated gross investment performance net of *total costs and charges* for the previous 5-year reporting period and is therefore able to produce a composite investment performance metric in accordance with *COBS* 19.5A.15(1)(b) and *COBS* 19 Annex 10.

19.5A.27 R Where the *IGC* has composite investment performance metrics available to it, it will follow the process set out in *COBS* 19.5A.29R to *COBS* 19.5A.33R, followed by the process set out in *COBS* 19.5A.34R to *COBS* 19.5A.45G.

19.5A.28 R Where the *IGC* does not have composite investment performance metrics available to it, it will follow the process set out in *COBS* 19.5A.34R to *COBS* 19.5A.45G.

Process where there are composite investment performance metrics – starting point

19.5A.29 R Where there are composite investment performance metrics available to the *IGC* it will compare, for *each retirement age cohort*, each composite investment performance metric relating to the *in-scope arrangement* as calculated in accordance with *COBS* 19 Annex 10 with the corresponding *commercial market comparator group* composite metric as calculated by the central data repository in accordance with the table in *COBS* 19.5A.22R(3).

19.5A.30 R For multi-employer *in-scope arrangements* with variable charges the *IGC* will compare 3 composite metrics for each *retirement age cohort* (the maximum, minimum and median).

19.5A.31 R The *IGC* will first identify whether there is a material difference between the composite investment performance metrics of the *in-scope arrangement* and the corresponding *commercial market comparator group* composite metrics for its *in-scope savers* for each *retirement age cohort*.

19.5A.32 R The *IGC* will take a data-led approach when determining whether there is a material difference for the purposes of *COBS* 19.5A.31R. Examples of where an *IGC* may consider there to be a material difference are:

- (1) where, for multi-employer *in-scope arrangements* with variable charges, the majority of composite investment performance metrics are below the *commercial market comparator group* composite metrics; or
- (2) where the composite investment performance metric, or, in relation to multi-employer *in-scope arrangements*, at least one of the composite investment performance metrics, is well below the *commercial market comparator group* composite metrics.

19.5A.33 R Where the *IGC* identifies a material difference it should consider that factor as an initial indication that value is not being delivered by that *retirement age cohort* before going on to consider other metrics in accordance with *COBS* 19.5A.34R to *COBS* 19.5A.49FR below.

Process to follow once the *IGC* has considered the composite investment performance metrics, or where there are none available

19.5A.34 R For each *in-scope arrangement* the *IGC* will compare:

- (1) for each *retirement age cohort*:
 - (a) the backward-looking investment performance metrics as set out in *COBS* 19 Annex 9 3.1R (gross investment performance, gross investment performance net of *investment charges*, gross investment performance net of *total costs and charges*, gross

investment dispersion, annualised standard deviation and annualised standard deviation (maximum over the period)); and

(b) the costs and charges metric set out in *COBS* 19 Annex 11 3.1(1)R (*investment charges*); and

(2) for the *retirement age cohort* of *in-scope savers* who are 30 years away from their target retirement date in the calendar year being assessed, the *total costs and charges* metric or, in relation to multi-employer *in-scope arrangements*, the table as set out in *COBS* 19 Annex 11 13.4R,

over the required reporting periods against the corresponding *commercial market comparator group* metrics as set out in the table in *COBS* 19.5A.22R(3), by following the process set out in *COBS* 19.5A.35R to *COBS* 19.5A.49FR.

19.5A.35 R When the *IGC* is comparing gross investment performance net of *total costs and charges*, and *total costs and charges*, it will first determine the characteristics of the particular *in-scope arrangement* being assessed in accordance with first column of the table set out below and apply the method of comparison as set out in the corresponding row in the second column of the table:

Arrangement to be assessed	Corresponding comparisons against the commercial market comparator group
Multi-employer	<p>The <i>IGC</i> will compare:</p> <p>(1) the gross investment performance net of <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> average median metric, the <i>commercial market comparator group</i> average maximum metric and the <i>commercial market comparator group</i> average minimum metric as calculated by the central data repository in accordance with the table in <i>COBS</i> 19.5A.22R(3); and</p>
	<p>(2) the <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> total costs and charges average employer cohort metrics, as calculated by the central data</p>

		repository in accordance with the table in COBS 19.5A.22R(3).
Single employer (bespoke or SET)		The <i>IGC</i> will compare:
	(1)	the gross investment performance net of <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the <i>commercial market comparator group</i> average median metric, the <i>commercial market comparator group</i> average maximum metric and the <i>commercial market comparator group</i> average minimum metric as calculated by the central data repository in accordance with the table in COBS 19.5A.22R(3); and
	(2)	the <i>total costs and charges</i> metrics of the <i>in-scope arrangement</i> against the comparable cohort of employers by 'employer size by invested asset bands' and 'employer size by number of members' of the <i>commercial market comparator group</i> average employer cohort metrics, as calculated by the central data repository in accordance with the table in COBS 19.5A.22R(3).

19.5A.36 R When comparing the remaining metrics the *IGC* will compare against the corresponding *commercial market comparator group* metric as calculated by the central data repository in accordance with the table in COBS 19.5A.22R(3).

Process

19.5A.37 R The *IGC* will identify whether there is a material difference between the value delivered by the *in-scope arrangement*'s metrics and the corresponding *commercial market comparator group* metrics.

19.5A.38 R The *IGC* will take a data-led approach when determining whether there is a material difference for the purposes of COBS 19.5A.37R. Examples of where an *IGC* may consider there to be a material difference in value are:

- (1) where the majority of metrics are below the *commercial market comparator group* metrics; or

(2) where at least one of the metrics is well below the corresponding *commercial market comparator group* metric.

19.5A.39 R Where the *IGC* identifies:

- (1) materially worse gross investment performance net of *investment charges* compared to that of the *commercial market comparator group*; and/or
- (2) similar gross investment performance compared to the *commercial market comparator group*, but much greater investment risk,

the *IGC* should consider that factor as indicative that value is not being delivered by the investment performance of that *retirement age cohort*.

19.5A.40 R The *IGC* will then compare, for each *retirement age cohort*, the forward-looking metrics in relation to the *in-scope arrangement* against the corresponding forward-looking *commercial market comparator group* metrics to identify whether there is a material difference.

19.5A.41 R The *IGC* will identify whether there is a material difference between the value delivered by the forward-looking investment performance and the corresponding *commercial market comparator group* to its *in-scope savers* for each *retirement age cohort*.

19.5A.42 R For the purposes of COBS 19.5A.41R there will be a material difference where at least one of the forward-looking metrics for at least one *retirement age cohort* of the *in-scope arrangement* is materially lower than the corresponding *commercial market comparator group* metric.

19.5A.43 R The *IGC* will then balance the backward-looking metrics with the forward-looking metrics and weigh them against each other in accordance with the following:

- (1) Forward-looking metrics must be given some weight but must not be given more weight than the other metrics.
- (2) Where :
 - (a) the *firm* has made recent significant changes to the investment strategy of the *in-scope arrangement*; and
 - (b) there are investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,

the *IGC* must apply a near-equal weight to the backward- and forward-looking metrics.

- (3) Where :

- (a) the *firm* has made recent significant changes to the investment strategy of the *in-scope arrangement*; or
- (b) there are investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,

the *IGC* must apply moderate weight to the forward-looking metrics.

(4) Where :

- (a) the *firm* has not made recent significant changes to the investment strategy of the *in-scope arrangement*; and
- (b) there are no investments in assets where the returns experienced in recent periods do not reflect the *IGC*'s expectations on the long-term returns achievable in the asset class,

the *IGC* must apply very little weight to the forward-looking metrics.

19.5A.44 G Where investments in assets result in early returns that are structurally depressed or produce a J-curve, the *IGC* should consider the impact of this on intergenerational fairness and cross-member subsidies when deciding on the appropriate weight to be given to backward- and forward-looking metrics.

19.5A.45 G The *FCA* expects *IGCs* to apply decreasing weight to the forward-looking metrics as value for money is evidenced by the backward-looking metrics over time.

Provisional view of value for each retirement age cohort

19.5A.46 R Having completed the process as set out in *COBS* 19.5A.37R to *COBS* 19.5A.45G, the *IGC* must come to a provisional view as to whether each *retirement age cohort* is providing value for money or not to its *in-scope savers* taking into account the considerations set out in *COBS* 19.5A.47R to *COBS* 19.5A.49D.

Considerations for *IGCs* on assessing value of retirement age cohorts

19.5A.47 R The *IGC* should take into account what is known about the particular *in-scope arrangement* and its *in-scope savers*. The *IGC* should put quantitative comparisons for each *retirement age cohort* in context where the *IGC* has information that clearly explains observed differences in terms of saver needs of the *in-scope savers* of the arrangement being assessed relative to the savers of the *commercial market comparator group*. The starting assumption should be that *in-scope savers*' needs in respect of value delivered by investment performance do not differ.

19.5A.48 R The *IGC* should consider investment returns in the context of the risk being taken. When the *IGC* is considering the *retirement age cohort* consisting of *in-scope savers* who have reached their target retirement date in the calendar year

being assessed, and potentially those who are 5 years from their target retirement date in the calendar year being assessed where members are known to commence withdrawals in advance of their target retirement age, it should take into account that volatile performance may impact retirement outcomes and that de-risking too much too early may reduce income in retirement.

19.5A.49 R When considering different reporting periods, subject to the magnitude of the differences in performance, the *IGC* should use the following order of weighting: 5 years and 10 years (where available), 3 years, and 1 year. The *IGC* should give particular weight to the metrics which have reporting periods over the previous 5 and 10 calendar years, except where there has been a recent and significant change to investment strategy.

19.5A.49 R A The *IGC* should consider *investment charges* together with the gross investment performance net of *investment charges* metric and consider whether the *investment charges* figure is so low that it could impact on the investment choices available to the *firm*. Such an impact could potentially impact on the value of the arrangement as a whole. The *IGC* should use available data for *investment charges* for shorter periods as indicative of this particular metric for a longer period.

19.5A.49 R B Where the *IGC* is considering the *retirement age cohorts* of an *in-scope legacy arrangement*, it should start with the underlying investment performance relative to the comparator group. As the comparison will be against more modern products, any valuable legacy features such as guaranteed investment returns will need to be considered in step 3.

19.5A.49 R C Where the *IGC* compares with-profit arrangements, the *IGC* should focus on the gross investment performance net of *total costs and charges* of the underlying *investments* net of the cost of those *investments*.

19.5A.49 R D The *IGC* should not use asset allocation information to assess the value delivered by the investment performance of an *in-scope arrangement* unless the *IGC* has concerns about the asset allocation and cannot justify a value rating.

Multi-employer arrangements

19.5A.49 R E Where the arrangement is a multi-employer *in-scope arrangement*, the *IGC* will assess the value for money in respect of each employer cohort as set out in the table in *COBS* 19 Annex 11 13.4R – ‘employer size by invested asset bands’ and ‘employer size by number of members’ following the banding in the costs and charges table. Where the *IGC* is assessing a multi-employer *in-scope arrangement* where charges vary it would need to consider whether value is being delivered at the different levels of employer cohorts.

19.5A.49 R F Where the *IGC* assesses a multi-employer arrangement with charges that do not vary, it should assess whether there is a difference in the value for money received by employers in different cohorts in the multi-employer cohort tables in *COBS* 19 Annex 11 13.4R (‘employer size by invested asset bands’ and ‘employer size by number of members’).

Provisional view of value for the in-scope arrangement overall

19.5A.49 R When the *IGC* has reached a provisional view of value in respect of each *retirement age cohort*, it will then need to reach a provisional view of value in respect of the overall *in-scope arrangement* for investment performance.

19.5A.49 R Where the *IGC* has provisionally concluded that any *retirement age cohort* is not providing value, the *IGC* will apply a rebuttable presumption that the *in-scope arrangement* as a whole is not providing value for money in relation to investment performance.

19.5A.49 R The presumption can be rebutted if the *IGC* considers there to be reasonable grounds to do so. An example of where the *IGC* may reasonably conclude that the presumption can be rebutted is where the *IGC* considers that in the context of the *in-scope arrangement* as a whole, the number of members within the particular *retirement age cohort(s)* that is/are not providing value is not material and/or the impact to member outcomes would not be significant.]

Step 2 – quality of service

19.5A.50 R In Step 2, the *IGC* will form a provisional view as to the value delivered by the quality of services provided to *in-scope savers* of the *in-scope arrangement* as against that provided by the *commercial market comparator group* taking into account *service costs*. The *IGC* should consider the value delivered by all the services as a whole package relative to the costs of those services, rather than looking at each service in isolation. The *IGC* will determine whether any differences in value are material such that they have the potential to significantly affect the outcomes for the *in-scope savers*. The *IGC* should also consider whether any differences in service quality, regardless of cost, have the potential to significantly affect the outcomes for the *in-scope savers*.

Process

19.5A.51 R The *IGC* will examine the quality of service metrics that have been prepared and disclosed by the *firm* in accordance with *COBS* 19.5A.15R(1)(d), *COBS* 19.5A.16R and *COBS* 19 Annex 12 and assess the value delivered by the services to each *retirement age cohort* in a particular *in-scope arrangement* by:

- (1) considering the quantitative metrics prepared in accordance with *COBS* 19 Annex 12 as against the corresponding *commercial market comparator group* metrics;
- (2) considering the 1-year *service costs* for each *retirement age cohort* as against the corresponding *commercial market comparator group* metrics; and
- (3) identifying any material difference between (1) and (2) in the value of services provided to the *in-scope savers* of that *in-scope arrangement*.

[Editor's note: For the purposes of this consultation there are 2 alternative drafts of COBS 19.5A.52R. Both versions are set out below.]

[19.5A.5 R The *IGC* will then form a provisional view as to the value delivered by the quality of services provided to *in-scope savers* of the *in-scope arrangement*. This provisional view should be used to adjust the provisional rating given to the *in-scope arrangement* at the end of Step 1 (COBS 19.5A.49R) as follows:]

[19.5A.5 R The *IGC* will then form a provisional view as to the value delivered by the quality of services provided to *in-scope savers* of the *in-scope arrangement*. This provisional view should be used to adjust the provisional rating given to the *in-scope arrangement* at the end of Step 1 (COBS 19.5A.49IR) as follows:]

- (1) Where the arrangement has been given a provisional rating of providing value for money in Step 1 and Step 2, the provisional rating remains one of providing value for money.
- (2) Where the arrangement has been given a provisional rating of providing value for money in relation to Step 1 and a provisional rating of not providing value for money in relation to Step 2, the overall provisional rating at this stage is not providing value for money.
- (3) Where the arrangement has been given a provisional rating of not providing value for money in relation to Step 1 and not providing value for money in relation to Step 2, the overall provisional rating remains not providing value for money at this stage.
- (4) Where the arrangement has been given a provisional rating of not providing value for money in relation to Step 1 and providing value for money in relation to Step 2, the overall provisional rating remains not providing value for money at this stage.

Considerations for IGCs on Step 2

19.5A.53 R Where the *IGC* identifies:

- (1) materially worse overall service quality for comparable *service costs* compared to the *commercial market comparator group* metrics;
- (2) materially higher *service costs* for comparable overall quality of service compared to the *commercial market comparator group* metrics; or
- (3) that the quality of services provided to *in-scope savers* is such that the needs of those *in-scope savers* are not met, and they are unlikely to receive good outcomes,

the *IGC* should consider that as provisionally indicative of poor value delivered by the quality of services.

Step 3 – red, amber, light green or dark green rating: considerations for the IGC

19.5A.54 R In Step 3, the *IGC* will come to a conclusion as to whether the *in-scope arrangement* provides value for money as a whole, taking into account the factors considered in Step 1 and Step 2 and wider considerations that are relevant to that decision making. The *IGC* should balance the relevant factors against each other, giving appropriate weight to them. The *IGC*'s conclusion as to value will be expressed as a rating of red, amber, light green or dark green. Where a *firm* disagrees with the *IGC*'s rating, it will be given the opportunity to provide further information or clarification to the *IGC*.

Process

19.5A.55 R The *IGC* will determine whether the *in-scope arrangement* it is assessing provides value for money compared to the *commercial market comparator group* by considering:

- (1) the data, evidence and other information it has considered as part of Step 1 and Step 2; and
- (2) its findings and provisional ratings in relation to Step 1 and Step 2 above, including the results of comparisons against the *commercial market comparator group*.

Other information

19.5A.56 R (1) The *IGC* should take account of saver and employer demographics (such as number of savers and saver protected characteristics) and any special features or characteristics (such as a guaranteed annuity rate) disclosed in the features tables for the *in-scope arrangement* and the *commercial market comparator group* that may affect value delivered for *in-scope savers*.

(2) Where the *IGC* considers that an *in-scope arrangement* is not providing equivalent or better value for money than the *commercial market comparator group* in a way that the *IGC* considers is not material, the *IGC* may still determine that the arrangement is providing value for money based on other information, where the *IGC* has considered that it is reasonable to do so.

Rating the arrangement

19.5A.57 R (1) Where the *IGC* determines that the *in-scope arrangement* is fully providing value for money, it must rate it as dark green.

(2) Where the *IGC* determines that the *in-scope arrangement* is providing value for money but has identified a number of improvements, it must rate it as light green.

(3) Where the *IGC* determines that the *in-scope arrangement* is not providing value for money, it must:

- (a) request from the *firm* the actions the *firm* proposes to take to improve the value for money provided by the *in-scope arrangement*;
- (b) determine whether, within a reasonable period, the proposed actions are reasonably likely to result in the *in-scope arrangement* providing value for money; and
- (c) agree the actions that the *firm* will take to be included in the improvement plan or action plan, as applicable, submitted by the *firm* to the *FCA* in accordance with *COBS* 19.5A.75R.

(4) The *IGC* may also provide the *firm* with recommendations of actions the *firm* could take to improve the value for money provided by the *in-scope arrangement*.

(5) Where the *IGC* determines that an *in-scope arrangement* is not providing value for money but that, in accordance with *COBS* 19.5A.57R(3)(b), the *firm*'s proposed actions are reasonably likely to result in the *in-scope arrangement* providing value for money within a reasonable period, the arrangement must be rated as amber.

(6) Where the *IGC* determines that an *in-scope arrangement* is not providing value for money, and determines that the *firm*'s proposed actions are not reasonably likely to result in the *in-scope arrangement* providing value for money within a reasonable period or will not result in the *in-scope arrangement* providing value for money, the arrangement must be rated as red.

(7) Subject to (8), where an *in-scope arrangement* has been rated as amber in each of the previous 3 years and the *IGC* would otherwise rate it as amber following the most recent assessment, the *IGC* must rate that arrangement as red, unless it concludes that it would not be in the best financial interest of its *in-scope savers* to do so.

(8) Where the *in-scope arrangement* was not assessed the previous year because the *firm* had notified the *FCA* of its intention to transfer members in accordance with *COBS* 19.5A.23R(1), that previous year is to be considered for the purposes of (7) above as if it had been rated amber.

19.5A.58 G The *FCA* expects the *IGC* to apply a rating of dark green where the *in-scope arrangement* is clearly outperforming the corresponding *commercial market comparator group* and there are minimal or no improvements that can be made.

Bespoke arrangements

19.5A.59 R (1) Where the *IGC* is assessing a bespoke arrangement, it should consider whether further information is required from the *firm* in order for the

IGC to determine whether the bespoke arrangement provides value for money, and if so, request that further information from the *firm*.

- (2) If the *IGC* has formed a provisional view that the bespoke arrangement does not provide value for money and requests further information in accordance with (1), and the *firm* does not provide that information, the *IGC* should determine that the arrangement does not provide value for money.

Out of cycle assessments

19.5A.60 R (1) Where an *in-scope arrangement* is rated as amber or red, an *IGC* may re-assess that arrangement outside of the annual assessment cycle where the *firm* can evidence potential improvements it has made to the value of the *in-scope arrangement* which could reasonably affect the rating. In doing so, the *IGC* must follow the assessment process in Steps 1 to 3.

- (2) For the purposes of (1), a *firm* is unlikely to be able to evidence improvements to investment performance outside of the annual assessment cycle, as a comparison of investment performance would require available comparator investment performance metrics to the same end point in time.

Process where the firm disagrees with the IGC's rating

19.5A.61 R (1) Where a *firm* does not agree with the *IGC*'s rating of amber or red, it must be given the opportunity to make representations to the *IGC* and to provide further relevant information or evidence where necessary before the rating is inserted into the annual report in accordance with COBS 19.5A.64R(3)(a).

- (2) The *IGC* must give full and proper consideration to the *firm*'s representations and carry out another assessment using Steps 1 to 3 where it considers those representations material to its assessment of value.

Environmental, social and governance considerations

19.5A.62 R The *IGC* should consider how environmental, social and governance considerations have been taken into account by the *firm* across its *firm-designed in-scope arrangements* and how they may have shaped their relevant strategies.

Retention of evidence

19.5A.63 R The *IGC* will retain copies of any evidence used in the assessment of value for money and the rating of each *in-scope arrangement* for a minimum of 6 years.

Information to be included in the IGC's annual report

19.5A.64 R (1) In addition to the requirements in COBS 19.5.5R(6), the *IGC* will include in its annual report the information set out in (2) to (11) to bring transparency to the assessment process and how it has arrived at the rating of each *in-scope arrangement*.

(2) The Chair of the *IGC* will be responsible for setting out a review of the key themes the *IGC* has seen across all *in-scope arrangements* it has assessed in the annual report.

(3) For each *in-scope arrangement* assessed by the *IGC*, the following information must be included in the annual report:

- (a) the unique identifier of the *in-scope arrangement* and its rating of dark green, light green, amber or red, and, for *firm-designed in-scope arrangements*, an explanation for that rating;
- (b) its gross investment performance net of *total costs and charges* for the 5-year reporting period for each of the *retirement age cohorts*, where this information is available;
- (c) the findings in Step 1 and Step 2;

[Editor's note: For the purposes of this consultation there are 2 alternative drafts of COBS 19.5A.64(3)(d). Both versions are set out below.]

- [(d) how the forward-looking metrics have been used in the assessment of value for money provided by the *in-scope arrangement* and the approach used to balance the backward- and forward-looking metrics in COBS 19.5A.34R; and]
- [(d) how the forward-looking metrics have been used in the assessment of value for money provided by the *in-scope arrangement* and the approach used to balance the backward- and forward-looking metrics in COBS 19.5A.43R; and]
- (e) where the determination of whether the *in-scope arrangement* is providing value for money was dependent on the *IGC*'s consideration of other information in accordance with COBS 19.5A.56R, a narrative explanation of the determination, including the rationale for relying on that other information.

(4) For each *in-scope arrangement* assessed by the *IGC* which is a *vertically integrated arrangement* for which the *firm* estimated its *investment charges*, the short narrative explanation disclosed by the *firm* of how it calculated the estimate and the assumptions it applied must be included in the annual report.

(5) For each *in-scope arrangement* rated by the *IGC* as dark or light green, any concerns identified by the *IGC* and recommendations made to the *firm* must be included in the annual report.

- (6) For each *in-scope arrangement* rated by the *IGC* as amber where the *firm* has taken actions to improve the arrangement's value for money which are yet to be evidenced in the metrics, an explanation as to why this is the position must be included in the annual report.
- (7) For each *in-scope arrangement* rated by the *IGC* as amber or red, the actions proposed by the *firm* to improve the arrangement's value for money that have been agreed with the *IGC* must be included in the annual report.
- (8) For each *in-scope arrangement* rated by the *IGC* as red, whether there are planned transfers of *in-scope savers* to other arrangements, or where a transfer is not planned, an explanation as to why and any other actions to improve value for money for *in-scope savers* must be included in the annual report.
- (9) Where the *IGC* has considered how environmental, social and governance considerations have been taken into account in accordance with *COBS* 19.5A.62R, those considerations must be set out in the annual report.
- (10) Where the *IGC* has assessed a *vertically integrated arrangement*, the short narrative explanation of how the *firm*'s estimate of *investment charges* has been calculated and the assumptions applied, which the *firm* has disclosed to the *IGC* in accordance with *COBS* 19 Annex 11 10.1R(2), must be included in the annual report.
- (11) For each *in-scope arrangement* not assessed by the *IGC*, the following information must be included in the annual report:
 - (a) where the *in-scope arrangement* was not assessed as a result of *COBS* 19.5A.3R:
 - (i) the unique identifier of the *in-scope arrangement*; and
 - (ii) a statement that:
 - (A) the *firm* did not prepare metrics and publish a link to those metrics; and
 - (B) the *IGC* did not carry out a value for money assessment,

because the *firm* is in the process of transferring all the members in that arrangement into a different arrangement; and
 - (b) where the *in-scope arrangement* was not assessed as a result of *COBS* 19.5A.23R:
 - (i) the unique identifier of the *in-scope arrangement*; and

- (ii) a statement that the *IGC* did not carry out a value for money assessment because the *firm* notified the *FCA* that it intends to transfer all the members in that arrangement into a different arrangement.
- (12) The review of key themes referred to in *COBS* 19.5A.64R(2) may include, for example, trends in return on investments net of *investment charges* relative to the *commercial market comparator group*. The review should highlight where the *IGC* has made recommendations to the *firm* to improve, for example, the design of arrangements including the strategic asset allocation.
- (13) The responsibility of the Chair of the *IGC* at (3)(a) and (b) to set out in the annual report the rating and investment returns net of *total costs and charges* of each *in-scope arrangement* may be met by setting that information out in a tabulated annex to the annual report.

Actions a firm must take where rating is amber or red: closure to new employer business

- 19.5A.65 R A *firm* must not accept contributions from an employer to be invested in an *in-scope arrangement* that has been rated as amber or red unless the employer making some or all of those contributions had agreed to make those contributions to the *firm*, contractually or otherwise, prior to the amber or red rating.
- 19.5A.66 R The closure to new employer business required in *COBS* 19.5A.65R will continue until the *in-scope arrangement* is assessed by the *IGC* as providing value for money and therefore rated light or dark green.

Actions a firm must take where rating is red: transfer of in-scope savers

[*Editor's note*: The following provision anticipates changes introduced by the Pension Schemes Bill, which is currently before Parliament.]

- 19.5A.67 R Where an *in-scope arrangement* has been rated as red, and the requirements in Part 7A of the *Act* [*Editor's note*: this is currently in clause 48 of the Pension Schemes Bill] are met, the *firm* must use the power in section 117B of the *Act* [*Editor's note*: this is currently in clause 48 of the Pension Schemes Bill] to transfer all *in-scope savers* from that arrangement into another arrangement that has been assessed as providing value for money.
- 19.5A.68 G *Firms* are reminded that *PRIN* 2A.4.25R requires *firms* to take appropriate action to mitigate, and where appropriate, remediate any harm caused to existing *retail customers* and prevent harm to new *retail customers* where a *product* no longer provides fair value.
- 19.5A.69 G The transfer referred to in *COBS* 19.5A.67R may be to an alternative pension arrangement provided by the *firm* or by another pension provider.

Actions a firm must take where rating is amber or red: improvement plans and action plans

19.5A.70 R For each *in-scope arrangement* that the *IGC* has rated as amber, the *firm* must prepare an improvement plan, which must be agreed with the *IGC* and must include actions the *firm* proposes to take to:

- (1) improve the value for money provided by the *in-scope arrangement* such that the arrangement will provide value for money; or
- (2) transfer all *in-scope savers* to another arrangement,

and the proposed timeline for taking those actions.

19.5A.71 R Where a *firm* prepares an improvement plan that includes actions the *firm* proposes to take to improve the value for money of the *in-scope arrangement* in accordance with COBS 19.5A.70R(1), the *firm* must also include in the improvement plan:

- (1) the specific areas of improvement to be made and the intended outcomes of those actions;
- (2) an explanation as to how those actions will improve the value for money; and
- (3) the timeline for when the *firm* reasonably expects those actions to improve the value for money and therefore have an effect on the metrics.

19.5A.72 R For each *in-scope arrangement* that the *IGC* has rated as red, the *firm* must prepare an action plan, which must be agreed with the *IGC* and must include:

- (1) the actions the *firm* intends to take to transfer all *in-scope savers* to another arrangement, or where that is not possible, to improve value for money for *in-scope savers*;
- (2) an explanation as to how those actions will improve value for money for those *in-scope savers*;
- (3) where the actions in (1) do not include actions the firm intends to take to transfer all affected *in-scope savers*, an explanation of why it is not possible to use the power in section 117B of the *Act* [Editor's note: this is currently in clause 48 of the Pension Schemes Bill];
- (4) the proposed timeline for taking those actions; and
- (5) where actions are for the purpose of improving value for money, the timeline for when the *firm* reasonably expects those actions to improve that value for money.

19.5A.73 G An improvement plan or action plan, as relevant, should include the actions that the *firm* submitted and agreed with the *IGC* in accordance with *COBS* 19.5A.57R(3)(c).

19.5A.74 G Where a *firm* is going to take or has taken appropriate action in accordance with *PRIN* 2A.4.25R, and such action includes material that may be used for the purposes of *COBS* 19.5A.70R or *COBS* 19.5A.72R, the *firm* can use that material for the purposes of preparing its improvement plan or action plan in accordance with *COBS* 19.5A.70R or *COBS* 19.5A.72R respectively.

19.5A.75 R The *firm* must submit an improvement plan or action plan prepared in accordance with *COBS* 19.5A.70R or *COBS* 19.5A.72R respectively to the *FCA* within 1 *month* of receiving the *IGC*'s annual report.

19.5A.76 R For an *in-scope arrangement* that continues to be rated amber by the *IGC* after being rated amber as a result of the previous year's value for money assessment, the improvement plan referred to in *COBS* 19.5A.70R must also include an update on the actions the *firm* has taken previously and/or that are under way, and any outcome and/or emerging results from those actions.

Actions a firm must take where rating is amber or red: communication to employers

19.5A.77 R For each of a *firm*'s *in-scope arrangements* that have been rated as amber or red, the *firm* must communicate the following information to each employer that is paying contributions that may be invested into that *in-scope arrangement* and to any employer who will pay such contributions having agreed to do so, contractually or otherwise, with the *firm*:

- (1) the *in-scope arrangement*'s rating as amber or red;
- (2) the next steps the *firm* intends to take to address the rating;
- (3) any recommendations the *firm* may have to the employer; and
- (4) for an *in-scope arrangement* that continues to be rated amber by the *IGC* after being rated amber as a result of the previous year's value for money assessment, an update on the actions the *firm* has taken previously and/or that are under way, and any outcome and/or emerging results from those actions.

19.5A.78 G In addition to the information that must be communicated to employers in accordance with *COBS* 19.5A.77R, where the arrangement is a multi-employer *in-scope arrangement* that has been rated amber or red by the *IGC* because it does not provide value for money in relation to some employers, the *firm* should communicate to each employer whether that employer is or is not in an employer cohort that has been assessed as receiving value for money.

19.5A.79 R A *firm* must provide the information referred to in *COBS* 19.5A.77R to the employer annually and within 1 *month* of receiving the *IGC* Chair's annual report for publication.

Action a firm may consider where rating is light green or dark green

19.5A.80 G Where an *in-scope arrangement* has been rated as light green or dark green, a *firm* may wish to consider providing the employer with information about the arrangement's rating.

Actions a firm must take where rating is amber or red: communication to the FCA

19.5A.81 R For each of a *firm's in-scope arrangements* that has been rated as amber or red by the *IGC*, the *firm* must notify the *FCA* of the rating no later than 5 *business days* after it has received the *IGC's* annual report.

19.5A.82 R Where the *firm* has not agreed the improvement plan or action plan with the *IGC* within 1 *month* of it receiving the *IGC* Chair's annual report for publication, the *firm* must provide the *FCA* with a copy of the unagreed plan by that date.

19.5A.83 R Where a *firm* sends an unagreed improvement plan or action plan in accordance with *COBS 19.5A.82R*, the *firm* must provide the *FCA* with a copy of the plan agreed with the *IGC* as soon as practicable after it has been agreed.

Consideration for the firm where the rating is light green or dark green

19.5A.84 G *Firms* are encouraged to consider any recommendations made by its *IGC* in relation to *in-scope arrangements* that are rated light green or dark green, such as where improvements to investment performance could potentially be made to improve long-term value to *in-scope savers*.

Insert the following new Annexes, COBS 19 Annex 9 to COBS 19 Annex 14, after COBS 19 Annex 8 (Information request template). All the text is new and is not underlined.

19 Backward-looking investment performance metrics

Annex 9

Introduction

19 Annex 9 G This Annex belongs to *COBS 19.5A.15R*. *COBS 19.5A.15R(1)(a)* requires *firms* to prepare backward-looking investment performance metrics in relation to each of their *in-scope arrangements*. This Annex describes what those metrics are and the methodology that *firms* must use to calculate them.

Definitions

19 Annex 9 2.1 R The definitions in *COBS 19.5A.14R* are applied to this Annex.

Investment performance metrics

19 R The backward-looking investment performance metrics referred to in *COBS* 19.5A.15R(1)(a) are:

Annex 9 3.1

- (1) gross investment performance;
- (2) gross investment performance net of *investment charges*; and
- (3) gross investment performance net of *total costs and charges*,

and include 3 risk metrics, which are:

- (4) gross investment dispersion;
- (5) annualised standard deviation; and
- (6) annualised standard deviation (maximum over the period).

19 G The metrics in *COBS* 19 Annex 9 3.1R(1) to (3) reflect investment performance of the *in-scope arrangement*. The metrics in *COBS* 19 Annex 9 3.1R(4) to (6) are comparative risk metrics. Throughout this Annex they are referred to collectively as the ‘investment performance metrics’.

Annex 9 3.2

Identification of retirement age cohorts

19 R A *firm* must identify each *retirement age cohort* within each of its *in-scope arrangements*.

Annex 9 4.1

19 G The make-up of *in-scope savers* within a *retirement age cohort* may vary from year to year within each reporting period.

Annex 9 4.2

19 R A *firm* must prepare and disclose each of the investment performance metrics for each *retirement age cohort*.

Annex 9 4.3

19 R Each of the investment performance metrics must be expressed as a single percentage figure to a maximum of 2 decimal places.

Annex 9 4.4

Reporting periods

19 R Subject to *COBS* 19 Annex 9 9.1R, a *firm* must prepare and disclose a single annualised percentage figure for each of the *retirement age cohorts*:

Annex 9 5.1

- (1) for each investment performance metric, except for gross investment dispersion and annualised standard deviation (maximum over the period), for the previous calendar year where data is available;

- (2) for each investment performance metric, except for gross investment performance net of *investment charges*, where data is available:
 - (a) for the previous 3 calendar years; and
 - (b) for the previous 5 calendar years; and
- (3) for each investment performance metric, except for gross investment performance net of *investment charges*, where data is reasonably practicable to obtain, for the previous 10 calendar years.

19 R For the purposes of COBS 19 Annex 9 5.1R(1), data will be available to the *firm* unless the *in-scope arrangement* has not been capable of accepting contributions from or on behalf of individual members for at least 12 *months* prior to the date that the investment performance metrics need to be prepared.

Annex 9 5.2

Illustration of how information is to be disclosed

19 G The following table illustrates the information *firms* must disclose for each *retirement age cohort* where the data is available to the *firm*. The boxes shaded in grey indicate the information that a *firm* must disclose where it is reasonably practicable to obtain it. The boxes in black indicate when data is not required. A *firm* may disclose data that has not been chain-linked in accordance with COBS 19 Annex 9 12.1R if it chooses to.

Annex 9 6.1

Performance metrics	1 year	3 years	5 years	10 years
Gross investment performance				
Gross investment performance net of <i>investment charges</i>				
Gross investment performance net of <i>total costs and charges</i> [For multi-employer arrangements with variable charges: minimum, maximum and median values]				
Risk metrics				
Gross investment dispersion				
Annualised standard deviation				
Annualised standard deviation (maximum over the period)				

Calculation of gross investment performance: calculating the metrics for a retirement age cohort for a particular calendar year

19 Annex R Subject to *COBS* 19 Annex 9.7.2R, to calculate gross investment performance and gross investment performance net of *investment charges* (*COBS* 19 Annex 9.3.1R(1) and (2)) for a *retirement age cohort* for a particular calendar year, a *firm* must:

- (1) obtain the monthly returns, net of *transaction costs*, of the underlying *investments* for the particular *retirement age cohort* within the *in-scope arrangement* for the calendar year being assessed, expressed as a percentage of the monthly assets of each underlying *investment*;
- (2) weight each of the monthly returns of the underlying *investments* by monthly asset allocation, by expressing it as a percentage of the assets for that particular *retirement age cohort* to arrive at the monthly return;
- (3) compound those monthly returns to arrive at an annual percentage figure for gross investment performance for the calendar year being assessed; and
- (4) subtract the figure for *investment charges* from the figure in (3) to arrive at an annual percentage figure for gross investment performance net of *investment charges*.

19 Annex R Where an *in-scope arrangement* includes a unit-linked fund in its investment portfolio, the *firm* must use the charge applied in relation to that unit-linked fund as its *investment charges* in order to calculate gross investment performance net of *investment charges* for the previous calendar year for each *retirement age cohort*.

19 Annex G A *firm* should be able to obtain the relevant monthly returns for gross investment performance and gross investment performance net of *investment charges* from the manager(s) of the *investments* in the *in-scope arrangement*'s investment portfolio and those monthly returns should already be net of *transaction costs*.

19 Annex G Where a *firm* does not offer *target date funds* within an *in-scope arrangement* for each *retirement age cohort*, the *firm* may use investment performance data for whichever *target date funds* contain, in that given calendar year, the members that are in each *retirement age cohort*.

19 Annex G Where an *in-scope arrangement* invests in multiple funds, and for which the allocations vary over time (lifestyling), a *firm* should consider the monthly returns for each fund, weighting these as appropriate to obtain the overall monthly return for each *retirement age cohort*.

19 Annex R To calculate gross investment performance net of *total costs and charges* (*COBS* 19 Annex 9.3.1R(3)) for a particular calendar year, a *firm* must use the annualised percentage figure for gross investment performance and

deduct the percentage figure for *total costs and charges* as calculated in accordance with *COBS* 19 Annex 11 6.1R and 7.1R.

19 Annex 9 7.7 R A *firm* must not take into account any guaranteed investment return when calculating any of the investment performance metrics in *COBS* 19 Annex 9 3.1R(1) to (6).

19 Annex 9 7.8 G A *firm* should record the methodology used to compute the investment returns it uses for the purposes of calculating the investment performance metrics. The methodology should be consistent.

Calculating the gross investment performance metrics as an annualised figure for reporting periods containing multiple years

19 Annex 9 8.1 R To calculate the investment performance metrics in *COBS* 19 Annex 9 3.1R(1) and (3) as a single percentage figure for each *retirement age cohort* for each of the reporting periods of 3, 5 or 10 years, a *firm* must:

- (1) take the percentage calendar year figures produced in accordance with *COBS* 19 Annex 9 7.1R for each year within the particular reporting period for each *retirement age cohort*;
- (2) using those figures, calculate the arithmetic mean (sum of the figures divided by the number of figures) for each *retirement age cohort*; and
- (3) express each single percentage figure to 2 decimal places.

19 Annex 9 8.2 G An example of the process in *COBS* 19 Annex 9 8.1R(1) above would be as follows: where a *firm* is calculating the gross investment performance metric over the past 5 years for the *retirement age cohort* where *in-scope savers* are 30 years from retirement, the *firm* would use the gross investment performance figure for the previous calendar year at the time of the assessment, the gross investment performance figure for those who would have been 30 years to retirement for the year prior to the previous year (this group would be made up of different members), and so on for the past 5 years.

19 Annex 9 8.3 G An example of the process in *COBS* Annex 9 8.1R(2) and (3) is as follows:

30 years to retirement cohort	2023	2022	2021	2020	2019
Investment return	17%	-6%	10%	4%	13%
Age cohort considered	Aged 36 in 2023	Aged 36 in 2022	Aged 36 in 2021	Aged 36 in 2020	Aged 36 in 2019

Annualised	$(0.17 + 0.06 + 0.10 + 0.04 + 0.13) / 5 = 7.60\%$ annualised
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Multi-employer arrangements: minimum, maximum and median disclosures

19
Annex 9
9.1

R Where a *firm* operates a multi-employer *in-scope arrangement* and the *total costs and charges* vary between employers, instead of a single annualised percentage figure as required by COBS 19 Annex 9 7.1R, the *firm* must disclose the minimum, maximum and median values for:

- (1) gross investment performance;
- (2) gross investment performance net of *total costs and charges*; and
- (3) gross investment performance net of *investment charges* where *investment charges* vary between employers,

for each *retirement age cohort* and for the reporting periods as required by COBS 19 Annex 9 5.1R.

19
Annex 9
9.2

G There should generally be no variation between employers in relation to gross investment performance in COBS 19 Annex 9 9.1R(1) and this metric should be disclosed in accordance with COBS 19.5A.16R (where the investment performance metric represents gross investment performance net of *transaction costs*). Where there is variation, for example where gross investment performance has been chain-linked and COBS 19 Annex 9 12.1R(2) applies, the minimum, maximum and median values should be disclosed.

Preparation of gross investment dispersion (COBS 19 Annex 9 3.1R(4))

19
Annex 9
10.1

R To calculate gross investment dispersion as required by COBS 19 Annex 9 5.1R for a *retirement age cohort*, a *firm* must:

- (1) take the percentage calendar year figures produced in accordance with COBS 19 Annex 9 7.1R for gross investment performance for each year within the particular reporting period for that *retirement age cohort*;
- (2) using those figures, calculate the range by subtracting the figure which represents the lowest gross investment performance from the figure which represents the highest gross investment performance; and
- (3) express the range as a percentage figure to 2 decimal places.

Preparation of the annualised standard deviation metrics (COBS 19 Annex 9 3.1R(5) and (6))

19 R To calculate the annualised standard deviation as required by COBS 19 Annex 9 5.1R for a *retirement age cohort*, a *firm* must calculate the annualised standard deviation of the monthly gross investment performance (net of *transaction costs*) for that *retirement age cohort* that the *firm* will have produced in accordance with COBS 19 Annex 9 7.1R to 7.8G, using each of the monthly data points across the relevant year.

19 R To calculate the annualised standard deviation as required by COBS 19 Annex 9 5.1R for a *retirement age cohort* for each of the reporting periods of 3, 5 or 10 years, a *firm* must:

- (1) calculate the annualised standard deviation for each year of the reporting period in accordance with COBS 19 Annex 9 11.1R for that *retirement age cohort*; and
- (2) average the relevant variances of the annualised standard deviations as follows:
 - (a) square the annualised standard deviation for each year of the reporting period and add those figures together to calculate the sum of those values;
 - (b) divide the sum of those values by n (where n equals the number of years in the relevant reporting period); and
 - (c) take the square root of the result.

19 G An example of the calculation in COBS 19 Annex 9 11.2R(2) is as follows:
The annualised standard deviation experienced over 12 monthly returns by the cohorts of *in-scope savers* who were 5 years away from their target retirement date for the 5 previous years reporting period are:
12.50% in 2024, 8.30% in 2023, 7.80% in 2022, 11.60% in 2021 and 10.20% in 2020.
Calculation:
$$\begin{aligned} & (((0.125^2 + 0.083^2 + 0.078^2 + 0.116^2 + 0.102^2) / 5))^{1/2} \\ & = (5.247\% / 5)^{1/2} \\ & = 1.049\%^{1/2} = 10.24\% \end{aligned}$$

19 R The annualised standard deviation (maximum) that a *firm* must disclose as required by COBS 19 Annex 9 5.1R for a *retirement age cohort* and a reporting period is the maximum annualised standard deviation calculated in accordance with COBS 19 Annex 9 11.2R(1) for that *retirement age cohort* and that reporting period.

Additional considerations: chain-linking

19 R Save for the circumstances in COBS 19 Annex 9 12.2R, a *firm* must chain-link the relevant investment performance to calculate the investment performance

metrics for each *retirement age cohort* for each reporting period each time the following circumstances arise within a reporting period:

- (1) where the *firm* replaces an existing *in-scope arrangement* with a different *in-scope arrangement* operated by the same *firm* and members of the existing *in-scope arrangement* are transferred to the replacement *in-scope arrangement*; or
- (2) where members from at least 1 existing *in-scope arrangement* operated by a *firm* are transferred to another existing *in-scope arrangement* operated by the same *firm*, such that the first *in-scope arrangement(s)* no longer operate(s) as (an) arrangement(s) on its/their own.

19 R A *firm* is not required to chain-link where the *in-scope arrangement* into Annex 9 which members are transferred has:

12.2

- (1) been an *in-scope arrangement* for each of the previous 3 calendar years; and
- (2) had pension contributions invested in it by or on behalf of at least 5% of the total members of the *relevant scheme* of which the arrangement is part in each of the previous 3 calendar years.

[**Note:** Transitional provisions apply to this *rule*: see *COBS* TP 2.36AR and *COBS* TP 2.36BR.]

19 G A *firm* that is required to chain-link as a result of *COBS* 19 Annex 9 12.1R(2) Annex 9 should ensure it has access to the relevant metrics relating to the transferring 12.3 *in-scope arrangement*, including, where necessary, for any period that the arrangement was excluded from the application of this section by virtue of *COBS* 19.5A.3R.

19 G An example of chain-linking is as follows:

Annex 9 *In-scope arrangement A* is merged with *in-scope arrangement B* on 1 January 12.4 2025. *In-scope arrangement B* opened in July 2023 and so at the time of merging has been open for 18 months. To calculate the investment performance metrics for the 3-year reporting period for the *retirement age cohort* where *in-scope savers* are 30 years away from their target retirement date in the calendar year being assessed, a *firm* would use the following investment performance data:

	Calendar year 2025	Calendar year 2024	Calendar year 2023
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Relevant investment performance	12 monthly returns from <i>in-scope arrangement</i> B	12 weighted average monthly returns from <i>in-scope arrangement</i> A and <i>in-scope arrangement</i> B, weighted as follows: $WAMR^{Month} = W_A^{Month}P_A^{Month} + W_B^{Month}P_B^{Month}$ where 'P' stands for performance and 'W' stands for weighting	6 monthly returns from <i>in-scope arrangement</i> A (from January to June, until <i>in-scope arrangement</i> B is opened) followed by 6 weighted average monthly returns from <i>in-scope arrangement</i> A and <i>in-scope arrangement</i> B, weighted as follows: $WAMR^{Month} = W_A^{Month}P_A^{Month} + W_B^{Month}P_B^{Month}$ where 'P' stands for performance and 'W' stands for weighting
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Annex 9
12.5

G There are two different approaches to weighting that a *firm* should take for the purposes of the table in COBS 19 Annex 9 12.4G, depending on whether the merger of the *in-scope arrangements* happens in a single step or more gradually in a series of steps over a period of time. The approaches apply in a corresponding way to both arrangements and, for arrangement A, are as follows:

(1) Where the *in-scope arrangements* merge in a single step, the weighting should be set by the relative size of the two *in-scope arrangements* at the time of the merger:

$$W_A^{Every\ month} = \frac{Size\ (AuM)_A^{Time\ of\ merger}}{Size\ (AuM)_A^{Time\ of\ merger} + Size\ (AuM)_B^{Time\ of\ merger}}$$

(2) Where the *in-scope arrangements* merge in a series of steps over a period of time and members are transferred gradually, every month from the start of the merger should be weighted with individual monthly weights set by the relative size of the two *in-scope arrangements* at the end of the month:

$$W_A^{Month} = \frac{Size(AuM)_A^{Month}}{Size(AuM)_A^{Month} + Size(AuM)_B^{Month}}$$

19 G A *firm* may also choose to disclose investment performance metrics that have
Annex 9 not been chain-linked alongside the metrics which have been chain-linked.
12.6

Guarantees

19 R Where a *firm* is providing an *in-scope arrangement* which includes a
Annex 9 guarantee – for example, a *guaranteed annuity rate* or a *guaranteed
13.1 investment return* – the *firm* must include that guarantee on the features table
required by *COBS 19.5A.15R(1)(e)*.

19 G The *IGC* should refer to such guarantees when undertaking the value for
Annex 9 money assessment.
13.2

19 G *Firms* are reminded that guaranteed investment returns are not to be taken into
Annex 9 account when calculating any of the investment performance metrics, in
13.3 accordance with this Annex.

With-profits funds

19 R Where a *firm* provides an *in-scope arrangement* that is invested in a *with-
Annex 9 profits fund*, and the *firm* calculates the gross investment performance metric
14.1 (*COBS 19 Annex 9 3.1R(1)*) for each *retirement age cohort* from the monthly
asset share figures, the *firm* must ensure that all deductions from the fund and
other adjustments in relation to the asset share figures are reversed and then
calculate the investment performance metrics in accordance with *COBS 19
Annex 9 7.1R*.

19 G Where the *firm* has data for monthly gross investment performance of the
Annex 9 underlying *investments*, the *firm* should use that information to calculate the
14.2 gross investment performance for each *retirement age cohort*.

Smoothed returns

19 R Where the investment returns of an *investment* in an *in-scope arrangement's*
Annex 9 investment portfolio are smoothed by tracking an index, a *firm* must disregard
15.1 those returns and calculate the investment performance metrics by using the
monthly returns of that *investment* as per *COBS 19 Annex 9 7.1R to 7.8G*.

[*Editor's note*: For the purposes of this consultation, there are 2 alternative drafts of *COBS 19 Annex 10*. Both versions are set out below.]

[19 Annex 10 Forward-looking investment performance metrics

Introduction

19 G This Annex belongs to *COBS 19.5A.15R*. *COBS 19.5A.15R(1)(b)* requires
Annex *firms* to prepare forward-looking investment performance metrics in relation
10 1.1 to each of their *in-scope arrangements*, referred to in this Annex as the
‘forward-looking metrics’. This Annex describes what the forward-looking
metrics are and how *firms* must calculate them.

19 G *Firms* should read this Annex in conjunction with *COBS 19 Annex 9*, which
Annex sets out how to calculate gross investment performance net of *total costs and*
10 1.2 *charges* and the annualised standard deviation.

Definitions

19 R The definitions in COBS 19.5A.14R are applied to this Annex.
Annex
10.2.1

Forward-looking metrics

19 R The forward-looking metrics referred to in COBS 19.5A.15R(1)(b) are:
Annex
10 3.1

(1) expected gross investment performance net of expected *total costs and charges* for the period of the next 10 calendar years; and

(2) expected annualised standard deviation of the investment returns of the *in-scope arrangement* for the period of the next 10 calendar years.

19 R Subject to COBS 19 Annex 10 6.1R, a *firm* must prepare and disclose each of
Annex
10 3.2 the forward-looking metrics for each *retirement age cohort*.

19 R Each of the forward-looking metrics must be expressed as a single
Annex
10 3.3 percentage figure to a maximum of 2 decimal places.

Calculation of expected gross performance net of expected total costs and charges

19 R A *firm* must decide the methodology and assumptions it will use to calculate Annex the expected gross performance net of expected *total costs and charges*.
10 4.1

19 R A *firm* must ensure that its calculation of expected gross performance net of Annex expected *total costs and charges* is based on reasonable assumptions and 10 4.2 reflects the assumptions used in determining, or in later monitoring, the ongoing suitability of the strategic asset allocation of the *in-scope arrangement*.

19 G *Firms* should calculate the expected gross performance net of expected *total costs and charges* based on the strategic asset allocation of the *in-scope arrangement*.

19 Annex 10 4.3

19 R In deciding the methodology and assumptions it will use in accordance with *COBS* 19 Annex 10.4.1R, a *firm* must:

10 4.4

(1) obtain advice from a third party on the reasonableness of the assumptions it will use to calculate the expected gross performance net of expected *total costs and charges*; and

(2) consider that advice.

19 Annex 10 4.5

R A *firm* must ensure that the third party from which it obtains advice in accordance with *COBS* 19 Annex 10.4.4R has appropriate skills and experience to provide that advice.

19 Annex 10 4.6

R A *firm* must disclose the name of the third party that provided the advice as required by *COBS* 19 Annex 10.4.4R in the features table as set out at *COBS* 19 Annex 13.1.2R(2)(b).

Calculation of expected annualised standard deviation of the investment returns

19 Annex 10 5.1

R A *firm* must ensure that its calculation of expected annualised standard deviation of the investment returns of the *in-scope arrangement* is based on the same long-term capital market assumptions the *firm* used to calculate the expected gross performance net of expected *total costs and charges*.

19 Annex 10 5.2

G *Firms* should calculate the expected annualised standard deviation of the investment returns of the *in-scope arrangement* based on their chosen modelling approach for projecting future returns.

Multi-employer arrangements: minimum, maximum and median disclosures

19 Annex 10 6.1

R Where a *firm* operates a multi-employer *in-scope arrangement* and the *total costs and charges* vary between employers, instead of the expected gross investment returns net of expected *total costs and charges*, the *firm* must disclose:

(1) expected minimum gross investment performance net of expected *total costs and charges*;

(2) expected maximum gross investment performance net of expected *total costs and charges*; and

(3) expected median gross investment performance net of expected *total costs and charges*,

for each *retirement age cohort* relating to the period of the next 10 calendar years.

19 R A *firm* must comply with *COBS* 19 Annex 10 4.1R to 4.6R when it calculates the metrics in *COBS* 19 Annex 10 6.1R(1) to (3) as if references to expected gross investment performance net of expected *total costs and charges* refer to the minimum, maximum or median metrics as appropriate.

Annex 10 6.2

Record keeping

19 R A *firm* must keep a record of the assumptions it has used for calculating each of the forward-looking metrics for 6 years.]

Annex 10 7.1

[19 Annex 10]

Forward-looking and composite investment performance metrics

19 G This Annex belongs to *COBS* 19.5A.15R. *COBS* 19.5A.15R(1)(b) requires *firms* to disclose forward-looking investment performance metrics and composite investment performance metrics in relation to each of their *in-scope arrangements*. This Annex describes what the metrics are and how *firms* must calculate them.

Annex 10 1.1

19 G *Firms* should read this Annex in conjunction with *COBS* 19 Annex 9, which sets out how to calculate gross investment performance net of *total costs and charges* and the annualised standard deviation.

Annex 10 1.2

Definitions

19 R The definitions in *COBS* 19.5A.14R are applied to this Annex.

Annex 10 2.1

Forward-looking metrics

19 R The forward-looking metrics referred to in *COBS* 19.5A.15R(1)(b) are:

Annex 10 3.1

(1) expected gross investment performance net of expected *total costs and charges* for the period of the next 10 calendar years; and

(2) expected annualised standard deviation of the investment returns of the *in-scope arrangement* for the period of the next 10 calendar years.

19 R Subject to *COBS* 19 Annex 10 6.1R, a *firm* must prepare and disclose each of the forward-looking metrics for each *retirement age cohort*.

Annex 10 3.2

19 Annex 10 3.3 R Each of the forward-looking metrics must be expressed as a single percentage figure to a maximum of 2 decimal places.

Calculation of expected gross performance net of expected total costs and charges

19 Annex 10 4.1 R A *firm* must decide the methodology and assumptions it will use to calculate the expected gross performance net of expected *total costs and charges*.

19 Annex 10 4.2 R A *firm* must ensure that its calculation of expected gross performance net of expected *total costs and charges* is based on reasonable assumptions and reflects the assumptions used in determining, or in later monitoring, the ongoing suitability of the strategic asset allocation of the *in-scope arrangement*.

19 Annex 10 4.3 G *Firms* should calculate the expected gross performance net of expected *total costs and charges* based on the strategic asset allocation of the *in-scope arrangement*.

19 Annex 10 4.4 R In deciding the methodology and assumptions it will use in accordance with COBS 19 Annex 10.4.1R, a *firm* must:

- (1) obtain advice from a third party on the reasonableness of the assumptions it will use to calculate the expected gross performance net of expected *total costs and charges*; and
- (2) consider that advice.

19 Annex 10 4.5 R A *firm* must ensure that the third party from which it obtains advice in accordance with COBS 19 Annex 10.4.4R has appropriate skills and experience to provide that advice.

19 Annex 10 4.6 R A *firm* must disclose the name of the third party that provided the advice as required by COBS 19 Annex 10.4.4R in the features table as set out at COBS 19 Annex 13 1.2R(2)(b).

Calculation of expected annualised standard deviation of the investment returns

19 Annex 10 5.1 R A *firm* must ensure that its calculation of expected annualised standard deviation of the investment returns of the *in-scope arrangement* is based on the same long-term capital market assumptions it used to calculate the expected gross performance net of expected *total costs and charges*.

19 Annex 10 5.2 G *Firms* should calculate the expected annualised standard deviation of the investment returns of the *in-scope arrangement* based on their chosen modelling approach for projecting future returns.

Multi-employer arrangements: minimum, maximum and median disclosures

19 Annex 10 6.1 R Where a *firm* operates a multi-employer *in-scope arrangement* and the *total costs and charges* vary between employers, instead of the expected gross investment returns net of expected *total costs and charges*, the *firm* must disclose:

- (1) expected minimum gross investment performance net of expected *total costs and charges*;
- (2) expected maximum gross investment performance net of expected *total costs and charges*; and
- (3) expected median gross investment performance net of expected *total costs and charges*,

for each *retirement age cohort* relating to the period of the next 10 calendar years.

19 Annex 10 6.2 R A *firm* must comply with COBS 19 Annex 10 4.1R to 4.6R when it calculates the metrics in COBS 19 Annex 10 6.1R(1) to (3) as if references to expected gross investment performance net of expected *total costs and charges* refer to the minimum, maximum or median metrics as appropriate.

Composite investment performance metric

19 Annex 10 7.1 R The composite investment performance metric referred to in COBS 19.5A.15R(1)(b) is made up of backward-looking investment performance and forward-looking investment performance.

19 Annex 10 7.2 R (1) Where data is available, and subject to COBS 19 Annex 10 9.1R, a *firm* must prepare and disclose the composite investment performance metric for each *retirement age cohort*.

(2) For the purposes of (1), data will be available to the *firm* if it has calculated gross investment performance net of *total costs and charges* for the previous 5-year reporting period, in accordance with COBS 19 Annex 9.

19 Annex 10 7.3 R The composite investment performance metric must be expressed as a single percentage figure to a maximum of 2 decimal places.

Calculation of composite investment performance metric

19 Annex 10 8.1 R *Firms* must calculate the composite investment performance metric by:

- (1) adding:

- (a) the gross investment performance net of *total costs and charges* for the previous 5-year reporting period, calculated in accordance with COBS 19 Annex 9 7.1R to 7.8G; and
- (b) the expected gross investment performance net of expected *total costs and charges*, calculated in accordance with COBS 19 Annex 10 4.1R to 4.6R; and

(2) dividing the total of (1)(a) and (b) by 2.

Multi-employer arrangements: minimum, maximum and median disclosures

19
Annex
10 9.1

R Where a *firm* operates a multi-employer *in-scope arrangement* and the *total costs and charges* vary between employers, the *firm* must disclose:

- (1) minimum composite investment performance;
- (2) maximum composite investment performance; and
- (3) median composite investment performance,

for each *retirement age cohort*.

19
Annex
10 9.2

R To calculate minimum, maximum and median composite investment performance, a *firm* must apply the same method used to calculate the composite investment performance metric as set out in COBS 19 Annex 10 8.1R, substituting the relevant minimum, maximum or median values for gross investment performance net of *total costs and charges* and expected gross investment performance net of expected *total costs and charges* as appropriate.

Record keeping

19
Annex
10 10.1

R A *firm* must keep a record of the assumptions it has used for calculating each of the forward-looking metrics for 6 years.]

**19
Annex
11**

Costs and charges metrics

Introduction

19
Annex
11 1.1

G This Annex belongs to COBS 19.5A.15R. COBS 19.5A.15R(1)(c) requires *firms* to prepare costs and charges metrics in relation to each of their *in-scope arrangements*. This Annex describes what those metrics are, and the methodology *firms* must use to calculate them.

Definitions

19
Annex
11 2.1

R The definitions in *COBS 19.5A.14R* are applied to this Annex.

19
Annex
11 3.1

Costs and charges metrics

R The costs and charges metrics referred to in *COBS 19.5A.15R(1)(c)* are:

- (1) *investment charges*;
- (2) *service costs*; and
- (3) *total costs and charges*.

19
Annex
11 3.2

G The metrics above reflect the charges an *in-scope arrangement* makes to its members and are referred to throughout this Annex as the ‘costs and charges metrics’.

Identification of retirement age cohorts

19
Annex
11 4.1

R A *firm* must apply the *rules* set out in *COBS 19 Annex 9 4.1R* to *4.4R* and read the references to ‘investment performance metrics’ as ‘costs and charges metrics’.

Reporting periods

19
Annex
11 5.1

R Subject to *COBS 19 Annex 11 11.1R*, a *firm* must disclose a single annualised percentage figure for each of the *retirement age cohorts*:

- (1) for each costs and charges metric for the previous calendar year where data is available;
- (2) for *total costs and charges* where data is available:
 - (a) for the previous 3 calendar years; and
 - (b) for the previous 5 calendar years; and
- (3) for *total costs and charges* where data is reasonably practicable to obtain, for the previous 10 calendar years.

19
Annex
11 5.2

R Where data is available, a *firm* must compare the percentage figure disclosed in accordance with *COBS 19 Annex 11 5.1R(1)* with the percentage figure from the previous assessment year, and disclose the increase or decrease as a single percentage figure to a maximum of 2 decimal places, as a negative or positive as appropriate.

19 Annex 11 5.3 G Where a *firm* discloses a single annualised percentage figure and a median percentage figure the following year, the *firm* should disclose the increase or decrease between the single annualised percentage figure and the median percentage figure (or vice versa).

19 Annex 11 5.4 G For the purposes of *COBS* 19 Annex 11 5.1R(1) and *COBS* 19 Annex 11 5.2R, data will be available to the *firm* unless the *in-scope arrangement* has not been capable of accepting contributions from or on behalf of individual members for at least 12 *months* prior to the date that the costs and charges metrics need to be prepared.

Illustration of how information is to be disclosed

19 Annex 11 5.5 G The following table illustrates the information *firms* must disclose for each *retirement age cohort* where the data is available to the *firm*. The boxes shaded in grey indicate the information *firms* must disclose where data is reasonably practicable to obtain. The boxes in black indicate where data is not required. A *firm* may in addition choose to disclose an estimate of *total costs and charges* where *combination charge structures* apply to *in-scope savers*.

Costs and charges metrics	Reporting periods			
	1 year	3 years	5 years	10 years
<i>Investment charges</i>				
<i>Investment charges % change</i>				
<i>Service costs</i>				
<i>Service costs % change</i>				
<i>Total costs and charges</i>				
<i>Total costs and charges % change</i>				
Optional: estimate of <i>total costs and charges</i>				

Calculation of costs and charges metrics: calculating the metrics for a particular calendar year

19 Annex 11 6.1

R To calculate the costs and charges metrics for a particular calendar year for a particular *retirement age cohort*, a firm must:

- (1) express the monetary amount for each costs and charges metric for each *retirement age cohort* as a decimal figure;
- (2) divide each figure in (1) by the average *invested assets* for the *retirement age cohort* (where the ‘average of *invested assets*’ is the sum of the *invested assets* at 31 December for the calendar year being assessed and at 31 December for the previous calendar year, divided by 2); and
- (3) express the result as a percentage figure.

Calculation of costs and charges metrics: Calculating the metrics as an annualised figure for reporting periods containing multiple years

19 Annex 11 7.1

R To express *total costs and charges* as a single percentage figure of *invested assets* for each of the reporting periods of 3, 5 or 10 years, a firm must:

- (1) take the percentage calendar year figures produced in accordance with COBS 19 Annex 11 6.1R for each year within the particular reporting period for each *retirement age cohort*;
- (2) using those figures, calculate the arithmetic mean (sum of the figures divided by the number of figures) for each *retirement age cohort*; and
- (3) express each single percentage figure to 2 decimal places.

Mutuals profit sharing and distributions from with-profits funds

19 Annex 11 8.1

G A mutual that pays *relevant policyholders* a share of its profits should calculate its *total costs and charges* net of profit share. *Service costs* may reduce as a consequence.

19 Annex 11 8.2

G A firm that makes a distribution from a *with-profits fund* to *with-profits policyholders* may calculate its *total costs and charges* net of that distribution.

Combination charge structures

19 Annex 11 9.1

R A firm that applies *combination charge structures* must disclose the costs and charges metrics in accordance with COBS 19 Annex 11 5.1R to 5.5G.

19 G Where *combination charge structures* apply to an *in-scope saver*, and the amounts saved by a particular *retirement age cohort* in the *in-scope arrangement* are low relative to contributions or fixed fees (at the point in time that the *firm* is required to disclose the information in accordance with COBS 19.5A.16R), a *firm* may also disclose an estimate of the *total costs and charges* at a future date to be calculated based on the expectation the *firm* has for the growth in the amount saved relative to future contributions or fixed fees.

19 Annex 11 9.2 G The estimate in COBS 19 Annex 11 9.2G above should be expressed as a single percentage figure for savers in a particular *retirement age cohort*.

19 Annex 11 9.3 G Where a *firm* elects to calculate the estimate of *total costs and charges*, it should disclose the date on which the calculation in COBS 19 Annex 11 9.2G is based.

Unbundling of costs and charges

19 Annex 11 10.1 R Where a *firm* that provides *vertically integrated arrangements* has estimated its *investment charges*, it must:

- (1) keep, for 6 years:
 - (a) a record of the methodology for calculating the estimate; and,
 - (b) where appropriate, a record of the objective market rates used and the source of the information; and
- (2) disclose to the *IGC* a short narrative explanation of how the estimate has been calculated and the assumptions applied.

Multi-employer in scope arrangements: minimum, maximum and median

19 Annex 11 11.1 R Where a *firm* operates a multi-employer *in-scope arrangement* and one or more of the costs and charges metrics vary between employers, the *firm* must prepare and disclose the minimum, maximum and median for each of those metrics, instead of a single annualised percentage figure as required by COBS 19 Annex 11 5.1R.

19 Annex 11 11.2 R The minimum, maximum and median referred to above are across all *in-scope savers* invested in the arrangement and for each *retirement age cohort* and each reporting period as set out in COBS 19 Annex 11 5.1R.

19 Annex 11 11.3 G Where a *firm* operates a multi-employer *in-scope arrangement* and the costs and charges metrics do not vary by employer, the *firm* is not expected to disclose the minimum, maximum and median in respect of that metric but will be required to prepare and disclose a single annualised percentage figure in accordance with COBS 19 Annex 11 7.1R.

Profit share

19 R For multi-employer *in-scope arrangements* where *service costs* or *total costs and charges* will vary, the minimum, maximum and median for each metric (weighted by number of savers) must be disclosed separately after allowing for profit share. *Service costs* may reduce as a consequence.

Additional disclosures by multi-employer in-scope arrangements

19 R For each multi-employer *in-scope arrangement*, a *firm* must disclose additional disclosures for the most recent year for savers who are 30 years to retirement.

19 R (1) To calculate the additional disclosures for multi-employer *in-scope arrangements*, a *firm* must:

- (a) identify each employer cohort in accordance with the table in *COBS* 19 Annex 11 13.4R for each of its multi-employer *in-scope arrangements*;
- (b) for each set of employer cohorts in the table in *COBS* 19 Annex 11 13.4R below, calculate, for the most recent year, for savers who are 30 years to retirement:
 - (i) the minimum, maximum and median of the *total costs and charges*;
 - (ii) the average contributions per saver; and
 - (iii) the distribution of employers across the *in-scope arrangement*; and
- (c) complete the table in *COBS* 19 Annex 11 13.4R.

(2) For the purposes of this *rule*:

- (a) ‘average contributions per saver’ means contributions by and on behalf of savers averaging across the *in-scope active savers* and *in-scope deferred savers* for each employer cohort; and
- (b) ‘distribution of employers across the *in-scope arrangement*’ means the percentage of employers in each employer cohort, which should add up to 100%.

19 G The additional disclosure in *COBS* 19 Annex 11 13.1R will enable a comparison of multi-employer *in-scope arrangements* at employer cohort level for the *retirement age cohort* where *in-scope savers* are 30 years away from their target retirement date in the calendar year being assessed.

19
Annex
11 13.4

R Where a *firm* operates a multi-employer *in-scope arrangement*, the *firm* must complete the table below for the most recent year for *in-scope savers* in the 30 years to *retirement age cohort*.

30 years to retirement at 1 year									
Employer size by invested asset bands	< £100k	£100k-£1m	£1m-£5m	£5m-£25m	£25m-£50m	£50m-£100m	£100m-£250m	>£250m	
Maximum, minimum and median of charges (e.g. 0.22% - 0.41%, 0.31%)									
Average contribution s per saver (active and deferred) £									
Distribution of employers across the <i>in-scope arrangement</i> (%)									
30 years to retirement at 1 year									
Employer size by number of members	Un- de r 10 0	100- 499	500- 999	1,00 0- 4,99 9	5,00 0- 9,99 9	10,0 00- 24,9 99	25,0 00- 49,9 99	50,0 00- 99,9 99	>100,0 00
Maximum, minimum and median of charges (e.g. 0.22%-									

0.41%, 0.31%)							
Average contribution s per saver (active and deferred) £							
Distribution of employers across the <i>in-scope</i> <i>arrange- ment</i> (%)							

19 Quality of service metrics Annex 12

Introduction

19 G This Annex belongs to COBS 19.5A.15R. COBS 19.5A.15R(1)(d) requires
Annex firms to prepare quality of service metrics in relation to each of their *in-
scope arrangements*, referred to in this Annex as the ‘quality of service
12 1.1 metrics’. This Annex requires firms to collect data to allow for the
calculation and publication of the quality of service metrics, and describes
what the quality of service metrics are and how firms must calculate them.
Firms are also able to include certain savers other than *in-scope savers*
when complying with the requirements in this Annex.

Definitions

19 R In addition to the definitions set out in COBS 19 Annex 12.2R, the
Annex definitions in COBS 19.5A.14R apply to this Annex.
12.2.1

19 R In this Annex:
Annex
1222

(1) ‘common data’ means data that is used by a *firm* that operates a *relevant scheme* to identify a member of the *relevant scheme* and must include:

- (a) National Insurance number;
- (b) surname and either forename or initial(s);

- (c) sex;
- (d) date of birth;
- (e) date pensionable service started;
- (f) policy start date;
- (g) date of first contribution;
- (h) expected retirement date;
- (i) policy maturity date;
- (j) membership status (active/deferred);
- (k) last status event; and
- (l) address, including postcode;

(2) a ‘closed complaint’ is a complaint:

- (a) where the *firm* has sent a final response; or
- (b) where the complainant has positively indicated acceptance of a response from the *firm*;

(3) ‘complaint’ means any oral or written expression of dissatisfaction, whether justified or not, from an individual, or on their behalf with their consent, about the provision of, or failure to provide, a financial service, which alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience;

(4) ‘contacted the *firm*’ includes contacting a *person* to which the *firm* outsources the customer service function;

(5) ‘final response’ means a written response from the *firm* which:

- (a) either:
 - (i) accepts the complaint and, where appropriate, offers redress or remedial action;
 - (ii) offers redress or remedial action without accepting the complaint; or
 - (iii) rejects the complaint and gives reasons for doing so;
- (b) encloses a copy of the *Financial Ombudsman Service’s* standard explanatory leaflet;

- (c) provides the website address of the *Financial Ombudsman Service*;
- (d) informs the complainant that if they remain dissatisfied with the respondent's response, they may now refer their complaint to the *Financial Ombudsman Service*; and
- (e) indicates whether or not the *firm* consents to waive the relevant time limits in *DISP 2.8.2R* by including the appropriate wording set out in *DISP 1 Annex 3R*;

(6) the 'key financial transactions' are:

- (a) payments in and investment of contributions – which occur from the point of payment of monies into the *relevant scheme* to the point at which the monies are sent to the appropriate investment fund;
- (b) transfers between *relevant schemes* – which occur from the point of a formal request for a transfer to another *relevant scheme* until the point at which the saver's details and benefits have been successfully sent to the receiving *relevant scheme*;
- (c) transfers and switches between *investments* – which occur from the point of a formal request for a transfer to an alternative *investment* until the point at which the transfer is successfully received by the alternative *investment* within the same *in-scope arrangement*;
- (d) payments out to beneficiaries on death – which occur from the point at which the *firm* is notified of the death until the point at which the payment is received by the beneficiary's receiving account; and
- (e) payments out as retirement income – which occur from the point at which a request for immediate payment of retirement income is made by or on behalf of a saver or a saver's beneficiary for payment to be issued until the point at which the payment is sent to the saver's or the saver's beneficiary's receiving account;

(7) 'platform' means the single administration system used to manage and access investments, including the *in-scope arrangement* for which data is being disclosed;

(8) 'savers':

- (a) means *in-scope savers* of the *in-scope arrangement*; and

- (b) may include other members of the same *relevant scheme* as those in (a), whether *in-scope savers* of another *in-scope arrangement* within the *relevant scheme* or not, who are provided with services under the same or a substantially similar package of services as the *in-scope savers* in (a), where the *firm* chooses to include them;
- (9) ‘scheme-specific data’ means data unique to each member of the *relevant scheme*, that is not common data, and is needed by a *firm* that operates a *relevant scheme* to meet its obligations, to conduct its regular functions, for effective administration of the *relevant scheme* and to provide effective communications; and
- (10) ‘time period for closing a complaint’ is the period of time from the receipt of a complaint by the *firm* in relation to the *relevant scheme* until the complaint is a closed complaint.

Collecting data and preparing and disclosing the metrics

19
Annex
12 3.1

R A *firm* must collect data to enable it to prepare and disclose the quality of service metrics (where required) in relation to:

- (1) each of its *in-scope arrangements*; and
- (2) any other arrangement that it reasonably expects to determine as being an *in-scope arrangement* the following calendar year.

19
Annex
12 3.2

R A *firm* must prepare and disclose the quality of service metrics for *in-scope savers* of a particular *in-scope arrangement*.

19
Annex
12 3.3

G A *firm* may choose to meet the requirement in COBS 19 Annex 12 3.2R by relying on data collected for savers and not just that collected for *in-scope savers*.

Calculating the quality of service metrics

19
Annex
12 4.1

R Unless otherwise indicated, when calculating the percentage of savers for a particular metric, a *firm* must use the number of savers on 31 December of the previous calendar year to produce the percentage.

Indicators of quality of service

19
Annex
12 5.1

R The quality of service metrics set out at COBS 19 Annex 9 12 6.1R to 6.3R relate to one of the indicators of quality of service. The indicators of quality of service are:

- (1) savers can be confident that transactions are secure, prompt and accurate; and

(2) savers are satisfied with the service they receive.

Quality of service metrics

19 Annex R The quality of service metrics that a *firm* must prepare and publish are set out at *COBS* 19 Annex 12 6.2R to 6.4R.

12 6.1

Indicator: savers can be confident that transactions are secure, prompt and accurate

19 Annex R (1) The following are the metrics relating to the *relevant scheme*'s common data:

12 6.2

- (a) whether the *firm* reviews the *relevant scheme*'s common data for accuracy on a more frequent than annual, annual, or less than annual basis;
- (b) whether the *firm* updates the *relevant scheme*'s common data on a more frequent than annual, annual, or less than annual basis;
- (c) the date when the *firm* last reviewed the *relevant scheme*'s common data;
- (d) at that last review date, the percentage of savers as at that date with complete and accurate common data; and
- (e) at that last review date, the number of savers with incomplete and/or inaccurate common data.

(2) The following are the metrics for the *relevant scheme*'s scheme-specific data:

- (a) whether the *firm* reviews the *relevant scheme*'s scheme-specific data for accuracy on a more frequent than annual, annual, or less than annual basis;
- (b) whether the *firm* updates the *relevant scheme*'s scheme-specific data on a more frequent than annual, annual, or less than annual basis;
- (c) the date when the *firm* last reviewed the *relevant scheme*'s scheme-specific data;
- (d) at that last review date, the percentage of savers as at that date with complete and accurate scheme-specific data; and
- (e) at that last review date, the number of savers with incomplete and/or inaccurate scheme-specific data.

(3) The information in the following tables constitute the metrics for each of the key financial transactions:

(a) Table for metrics on processing financial transactions:

	Payments in and investment of contributions	Transfer between schemes	Transfers and switches between investments	Payments out to beneficiaries on death	Payments out as retirement income
The percentage of total requests that took longer to complete than the time period specified in the <i>firm's</i> scheme service level agreement or internal policy in the previous calendar year					
The mean end-to-end time period to complete each key financial transaction in the previous calendar year					

(b) Table for range of end-to-end time periods to complete each of the key financial transactions in the previous calendar year:

Time taken (days)	Payments in and investment of contributions	Transfer between schemes	Transfers and switches between investment s	Payments out to beneficiaries on death	Payments out as retirement income
1-3					
4-6					
7-10					
11-20					
21-30					
31-50					
>50					

Indicator: savers are satisfied with the service they receive

19
Annex
12 6.3

R The following are the metrics relating to complaints:

- (1) the number of complaints received by the *firm* in relation to the platform in the previous calendar year;
- (2) the percentage of *savers* that made at least one complaint to the *firm* in relation to the platform in the previous calendar year;
- (3) the mean end-to-end time period for closing a complaint in the previous calendar year;
- (4) the range of end-to-end time periods for closing a complaint in the previous calendar year;
- (5) the time period for closing a complaint specified in the *firm's* scheme service level agreement or internal policy;
- (6) the percentage of complaints which became closed complaints in the previous calendar year outside of the time period in (5); and
- (7) the percentage of complaints received by the *firm* from savers in relation to the platform that were:
 - (a) referred to the *Financial Ombudsman Service* or the *Pensions Ombudsman* in the previous calendar year;

- (b) determined by the *Financial Ombudsman Service* or the *Pensions Ombudsman* in the previous calendar year;
- (c) upheld by the *Financial Ombudsman Service* or the *Pensions Ombudsman* in the previous calendar year; and
- (d) partly upheld by the *Pensions Ombudsman* in the previous calendar year.

Standalone metric

19 R The relevant metric is the percentage of savers that have nominated a
Annex beneficiary.
12 6.4

19 Annex 13 **Features table**

Introduction

19 G This Annex belongs to COBS 19.5A.15R. COBS 19.5A.15R(1)(e) requires
Annex firms to prepare and disclose a features table in relation to each of its *in-*
13 1.1 *scope arrangements*. This Annex details the minimum features information
required to be disclosed in that features table. The information to be
included in the features table is mandatory. An example of how the features
table could be presented is also provided in this Annex.

19 R The features information to be included in the features table that a *firm* must
Annex prepare and disclose for each of its *in-scope arrangements* in accordance
13 1.2 with COBS 19.5A.15R(1)(e) is:

- (1) the following information about the *firm* providing the *in-scope arrangement*:
 - (a) name of the *firm*;
 - (b) FCA firm reference number;
 - (c) total number of *active in-scope savers* on 31 December of the previous calendar year;
 - (d) total number of *deferred in-scope savers* on 31 December of the previous calendar year; and
 - (e) *total in-scope assets* of the *firm* on 31 December of the previous calendar year;
- (2) the following information about the *in-scope arrangement*:
 - (a) a unique identifier of the *in-scope arrangement*;

- (b) confirmation the *firm* obtained and considered advice from a third party in accordance with COBS 19 Annex 10 4.4R, and the name of that third party;
- (c) whether the arrangement is a *firm-designed in-scope arrangement*;
- (d) whether the arrangement is an *in-scope default arrangement* or an *in-scope legacy arrangement*;
- (e) whether the arrangement is commercially available for use by employers new to the provider;
- (f) total number of *active in-scope savers* on 31 December of the previous calendar year;
- (g) total number of *deferred in-scope savers* on 31 December of the previous calendar year;
- (h) *invested assets* on 31 December of the previous calendar year;
- (i) whether the arrangement was a *vertically integrated arrangement* on 31 December of the previous calendar year; and
- (j) whether there are employer subsidies;

(3) the following information about the demographics of the *in-scope arrangement* on 31 December of the previous calendar year:

- (a) total number of employers in relation to *in-scope savers*;
- (b) the average number of *in-scope savers* per employer;
- (c) the average total contribution by or on behalf of an *in-scope active saver* who is invested in the *in-scope arrangement*;
- (d) the average pot value of all *in-scope savers*; and
- (e) the number of *in-scope savers* that have switched or transferred all of their pension contributions from the *in-scope arrangement* during the previous calendar year as a percentage of the total number of *in-scope savers* at 31 December; and

(4) any features of the *in-scope arrangement* not reflected in the metrics that can reasonably be expected to be relevant to the assessment of whether the *in-scope arrangement* is providing value for money.

19 Annex 13 1.3	G The types of features that may be disclosed in accordance with <i>COBS</i> 19 Annex 13 1.2R(4) include any additional benefits and/or legacy features provided through the <i>in-scope arrangement</i> . This may include, but is not limited to, life insurance lump sums, <i>guaranteed annuity rates</i> and dependent pension upon death.
19 Annex 13 1.4	G When complying with <i>COBS</i> 19 Annex 13 1.2R(4) in relation to an <i>in-scope arrangement</i> that is used by more than one employer with a single charge, a <i>firm</i> should disclose the characteristics of employers using the arrangement, such as if the size of employers is skewed towards large or small employers.
19 Annex 13 1.5	G If a <i>firm</i> discloses additional benefits and/or legacy features when complying with <i>COBS</i> 19 Annex 13 1.2R(4), it should set out the percentage of <i>in-scope savers</i> of the <i>in-scope arrangement</i> that are currently entitled to that benefit and/or feature.

Example of the features table

19 G The following table illustrates the features information that must be
Annex disclosed.
13 1.6

Provider details	
Name of provider	
<i>FCA</i> firm reference number (FRN)	
Total number of active savers	
Total number of deferred savers	
Total contract-based pension assets in accumulation	
In-scope arrangement summary	
Identification of <i>in-scope arrangement</i>	
Confirmation and name of external FLM advisor	
Firm-designed	Yes / No
Automatic enrolment or legacy	
Open for use by new employers	Yes / No

Total number of active savers	
Total number of deferred savers	
Total <i>invested assets</i> in accumulation	
Vertically integrated / estimated <i>investment charges</i>	Yes / No
Any employer subsidies	Yes / No
The following relate to the demographics of the in-scope arrangement	
Number of employers	
Average number of savers per employer (active and deferred)	
Average contribution of savers (active only)	
Average pot size of savers (active and deferred)	
Average turnover rate of savers (active and deferred)	
Description of any features not reflected in disclosed metrics that should be considered in assessing value	
<p>Features may include guarantees associated with some legacy arrangements such as life insurance lump sums, <i>guaranteed annuity rates</i> and dependent pensions upon death. Descriptions should draw reference to the proportion to the members that currently hold the benefit or feature.</p> <p>For multi-employer arrangements with a single charge, the characteristics of employers using the arrangement should be disclosed – for example, if skewed towards large or small employers.</p>	

19
Annex
14

Asset allocation for firm-designed in-scope arrangements

Introduction

19 G Firms are required by COBS 19.5A.15R(2) to prepare asset allocation
 Annex information for their *firm-designed in-scope arrangements*. This Annex
 14 1.1 provides firms with the methodology of how to prepare that information,

which is referred to as the ‘asset allocation information’ throughout this Annex.

Definitions

19 R In addition to the definitions set out below, the definitions in *COBS*
 Annex 19.5A.14R apply to this Annex.
 14 2.1

19 R In this Annex:

14 2.2

- (1) ‘bond’ means an instrument creating or acknowledging indebtedness, issued by:
 - (a) a *company*;
 - (b) His Majesty’s Government in the *United Kingdom*; or
 - (c) the government of any country or territory other than the *United Kingdom*;
- (2) ‘buyout or leveraged buyout funds’ means investment in a business, which is often a relatively mature business compared to that in growth equity, where a controlling interest is taken;
- (3) ‘cash’ means cash and assets that offer low-risk alternatives to cash, such as money market funds, treasury bills, or insurance funds linked to these or cash-like assets;
- (4) ‘growth equity’ means investment in a business, which is often a relatively mature business compared to that in venture capital, that is going through a transformational event in its lifecycle, with potential for growth;
- (5) ‘infrastructure’ means physical structures, facilities, systems or networks that provide or support public services, including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals and prisons;
- (6) a ‘listed’ asset is an asset which is admitted to trading on a *regulated market*;
- (7) ‘listed equities’ means *shares* admitted to trading on a *regulated market*;
- (8) an ‘unlisted’ asset is an asset which is not admitted to trading on a *regulated market*;
- (9) ‘private debt’ means an instrument creating or acknowledging indebtedness which is not a bond;

- (10) ‘private equity’ means *shares* not admitted to trading on a *regulated market*; and
- (11) ‘venture capital’ means investment in a business, generally one which is small and at an early stage, that is expected to have high growth potential but with access to other forms of financing.

Asset allocation information

19 R The asset allocation information that a *firm* must prepare and disclose is:
 Annex
 14 3.1

- (1) asset allocation calculated in accordance with COBS 19 Annex 14 6.1R to 6.4R; and
- (2) any other information relating to asset allocation that the *firm* considers material to investment performance.

Identification of arrangements and retirement age cohorts

19 R A *firm* must identify each of its *firm-designed in-scope arrangements* and each *retirement age cohort* within those arrangements.
 Annex
 14 4.1

19 R The *firm* must then prepare and disclose asset allocation information for:
 Annex
 14 4.2

- (1) each *retirement age cohort* of each of its *firm-designed in-scope arrangements*; and
- (2) all *in-scope savers* of each of its *firm-designed in-scope arrangements*.

Timing

19 R A *firm* will undertake its calculation of asset allocation information using the data as at 31 December of the previous calendar year.
 Annex
 14 5.1

Calculating asset allocation information

19 R To calculate asset allocation information, a *firm* must:
 Annex
 14 6.1

- (1) calculate the share of assets allocated to each of the asset classes listed in COBS 19 Annex 14 7.1R, expressed as a percentage of:
 - (a) assets invested for the benefit of those *in-scope savers* of the relevant *retirement age cohort* as at 31 December of the

previous calendar year, if calculating asset allocation for each *retirement age cohort*; or

- (b) *invested assets*, if calculating asset allocation for the *firm-designed in-scope arrangement*;
- (2) apportion the percentage figure in (1) to show the percentage of those assets allocated to each of the asset classes which are listed and unlisted;
- (3) apportion the percentage figures from (2) to show the percentage of those assets which are invested in the *UK* and not invested in the *UK*; and
- (4) apportion the percentage figures from (3) to show the percentage of those assets which are allocated to each sub-asset class listed in *COBS* 19 Annex 14 7.2R.

19 Annex 14 6.2 R The percentages referred to in *COBS* 19 Annex 14 6.1R must be expressed to 1 decimal place and must add up to 100%.

19 Annex 14 6.3 G The table at *COBS* 19 Annex 14 10.3G illustrates the asset allocation information that is to be prepared in accordance with this Annex.

19 Annex 14 6.4 R For the purposes of the calculations in *COBS* 19 Annex 14 6.1R:

- (1) contributions received by the *firm* in relation to *in-scope savers* that have not yet been allocated by the *firm* are not assets that have been allocated; and
- (2) cash is not an asset that has been allocated if it is cash held by the *firm* to meet operating expenses.

Asset classes and sub-asset classes

19 Annex 14 7.1 R The asset classes referred to in *COBS* 19 Annex 14 6.1R(1) are:

- (1) listed equities;
- (2) bonds;
- (3) private equity;
- (4) private debt;
- (5) infrastructure;

- (6) real estate which does not fall within (5);
- (7) cash; and
- (8) any other assets which do not fall within (1) to (7).

19 R The sub-asset classes referred to in COBS 19 Annex 14 6.1R(4) are:
 Annex
 14 7.2

- (1) for listed equities:
 - (a) shares located in a developed market;
 - (b) shares located in an emerging market; and
 - (c) shares located in another market;
- (2) for bonds:
 - (a) fixed-interest government bonds;
 - (b) indexed-linked government bonds;
 - (c) investment-grade corporate bonds;
 - (d) non-investment-grade corporate bonds;
 - (e) securitised bonds; and
 - (f) other bonds; and
- (3) for private equity:
 - (a) venture capital;
 - (b) growth capital;
 - (c) buyout or leveraged buyout funds; and
 - (d) other private equity.

Guidance on asset allocation

19 G Where an asset is allocated to a listed investment vehicle, the asset
 Annex allocation information should show:
 14 8.1

- (1) that asset as a listed asset; and
- (2) the asset class and the sub-asset class of the underlying asset in
 which the vehicle is invested.

19
Annex
14 8.2

G When calculating asset allocations, some assets may reasonably be allocated to more than 1 asset class. To avoid double counting, *firms* should consider the primary purpose of an asset when deciding to which asset class it should be allocated. Often, this will be clear from the mandate of the fund, with specialist managers for infrastructure, real estate, private equity and private debt. Where there is uncertainty, *firms* should apply the following order:

- (1) infrastructure;
- (2) real estate;
- (3) private equity; and
- (4) private debt.

Guidance on UK and non-UK assets

19
Annex
14 9.1

G When determining whether an asset is a *UK* or non-*UK* asset for the purposes of *COBS* 19 Annex 14 6.1R(3), *firms* should categorise the assets as follows:

- (1) subject to (2) below, a listed asset is a *UK* asset if it has its primary listing on a *UK* market and constituents of *UK* market indices;
- (2) where an asset is an *investment* via a pooled fund, whether the asset is a *UK* asset or not should reflect any *UK* allocation within the fund and would include, for example, *UK* market exposure within global equity funds;
- (3) private equity is a *UK* asset if it relates to *shares* in a *UK*-registered private company or partnership;
- (4) infrastructure and property is a *UK* asset if it is located in the *UK*; and
- (5) private debt is a *UK* asset if the borrower is located in the *UK*.

19
Annex
14 9.2

G Where a listed asset is an *investment* in a listed investment vehicle, the asset is a *UK* asset if the underlying asset in which the vehicle is invested is a *UK* asset.

19
Annex
14 9.3

G Where a *firm-designed in-scope arrangement* has assets that do not use a physical allocation, such as *derivatives*, a *firm* should state what their synthetic allocation would provide in physical asset terms, distinguishing between *UK* and non-*UK* exposure. Where that is not possible, the assets should be classed as ‘other’, so that the total asset allocation percentage remains at 100%, and an explanation should be provided. *Firms* may provide this explanation as part of their compliance with *COBS* 19 Annex 14 3.1R(2).

Guidance on information material to investment performance

19 Annex 14 10.1 G In relation to *COBS* 19 Annex 14 6.1R(1), the *FCA* expects that in most cases there will be no other information relating to asset allocation that is material to investment performance.

19 Annex 14 10.2 G For the purposes of *COBS* 19 Annex 14 6.1R(1), information that a *firm* might consider material to investment performance could include:

- (1) durational information regarding fixed income *investments*;
- (2) the particular structure, stage or sector of unlisted equity *investments*;
- (3) information on the extent to which listed equities are focused on small or large cap stocks; and
- (4) any hedging or use of derivatives.

19 Annex 14 10.3 G The following table illustrates the asset allocation calculation that is to be completed in accordance with *COBS* 19 Annex 14 6.1R to 6.4R.

Asset allocations		Listed		Unlisted		Hedged
Asset class	Sub-asset class splits	UK %	Non-UK %	UK %	Non-UK %	£ Hedged as a % of asset class
Listed equities	Developed markets					
	Emerging markets					
	Other markets					
Bonds	Fixed-interest government bonds					
	Index-linked government bonds					
	Investment-grade					

	corporate bonds					
	Non-investment-grade corporate bonds					
	Securitised bonds					
	Other bonds					
Private equity	Venture capital					
	Growth equity					
	Buyout/leveraged					
	Other types of private equity					
Private debt/credit						
Infrastructure						
Property/real estate						
Cash						
Other	[Asset type]					
Total						
Where applicable, anything else that is material to performance: this could relate, but is not limited, to durational information regarding fixed income <i>investments</i> , the particular structure/stage/sector of private equity <i>investments</i> (for example where initially low returns are reasonably expected to increase over time), or information on the extent to which listed equities are focused on small/large cap stocks.						

Amend the following as shown.

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 provisions : coming into force
...					
2.36
2.36A	<u>COBS 19 Annex 9</u> <u>12.2R</u>	R	<u>The rule in column (2) does not apply until [Editor's note: insert commencement date of rules] to [Editor's note: insert date 3 years after commencement date of rules] and is replaced by the rule in COBS TP 2.36B.</u>	<u>From [Editor's note: insert commencement date of rules] to [Editor's note: insert date 3 years after commencement date of rules]</u>	<u>[Editor's note: date to follow]</u>
2.36B	<u>COBS 19 Annex 9</u> <u>12.2R</u>	R	<p>A <i>firm</i> is not required to chain-link where the <i>in-scope arrangement</i> into which members are transferred:</p> <p>(1) would have been an <i>in-scope arrangement</i> for each of the previous 3 calendar years had the <i>rules</i> in this part been in force during those years; and</p>	<u>From [Editor's note: insert commencement date of rules] to [Editor's note: insert date 3 years after commencement date of rules]</u>	

			(2)	had pension contributions invested in it by or on behalf of at least 5% of the total members of the <i>relevant scheme</i> of which the arrangement is part in each of the previous 3 calendar years.		
...						



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