



No.19

Handbook Notice

February 2015

Financial Conduct Authority



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Handbook Notice 019

This Handbook Notice introduces the Handbook and other material made by the Financial Conduct Authority (FCA) Board under its legislative powers on 29 January 2015, and 26 February 2015. It also contains information about other publications relating to the Handbook and, if appropriate, lists minor corrections made to previous instruments made by the Board.

Contact names for the individual modules are listed in the relevant Consultation Papers and Policy Statements referred to in this Notice.

General comments and queries on the Handbook can be addressed to

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However, queries on specific requirements in the Handbook should be addressed first to your normal supervisory contact in the FCA. For most firms this will be the FCA's Firm Contact Centre:

Tel: 0845 606 9966

Fax: 020 7066 0991

Email: firm.queries@fca.org.uk

Post: Customer Contact Centre
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

1. Overview

Legislative changes

- 1.1** On 29 January 2015, the FCA Board made changes to the Handbook in the instrument listed below.

CP	Title of instrument	Instrument No.	Changes effective
14/16	Personal Pension Schemes (Independent Governance Committees) Instrument 2015	2015/2	6.4.15

- 1.2** On 26 February 2015, the FCA Board made changes to the Handbook in the instrument listed below.

CP	Title of instrument	Instrument No.	Changes effective
14/24	Personal Pension Scheme (Restrictions on Charges) Instrument 2015	2015/5	6.4.15; 6.4.16
14/8	Collective Investment Schemes Sourcebook (Accounting Amendments) (No 2) Instrument 2015	2015/7	1.3.15
14/27	Building Societies Regulatory Guide (Revocation) Instrument 2015	2015/8	2.4.15
N/A	Conduct of Business (Retirement Risk Warnings) Instrument 2015	2015/10	6.4.15

- 1.3** FCA 2015/6 was also made by the FCA Board and will be published at a later date. The changes will be summarised in the next Handbook Notice.

Summary of changes

- 1.4** The legislative changes referred to above are listed and briefly described in Chapter 2 of this Notice.

Feedback on responses to consultations

- 1.5** Feedback to consultations are either set out in Chapter 3 of this Notice or published in separate Policy Statements.

FCA Board dates for 2015

- 1.6** The table below contains a list of forthcoming FCA board meetings for 2015. These dates are subject to change without prior notice.

March	24
April	23
May	No Board
June	4 and 18
July	2 and 30
August	No Board
September	24
October	22
November	4 and 5
December	3

2. Summary of changes

- 2.1** This chapter briefly describes FCA Handbook changes and changes outside the Handbook made by the Board on 29 January and 26 February 2015. Where relevant, it also refers to the development stages of that material, enabling readers to look back at developmental documents if they wish. For information on changes made by the PRA please see <http://www.bankofengland.co.uk/pr/Pages/publications/default.aspx>

Personal Pension Schemes (Independent Governance Committees) Instrument 2015 (FCA 2015/2)

- 2.2** Following consultation in CP14/16¹, the FCA Board has made changes to the FCA Handbook sections listed below:
- Glossary of definitions**
COBS 19
- 2.3** In summary, the instrument requires the providers of workplace personal pension schemes to establish and maintain independent governance committees. At the same time, the Department for Work and Pensions (DWP) is introducing similar measures to improve the governance of occupational pension schemes.
- 2.4** This instrument comes into force on **6 April 2014**. Feedback to this consultation was published in a separate policy statement.

Personal Pension Schemes (Restrictions on Charges) Instrument 2015 (FCA 2015/5)

- 2.5** Following consultation in CP14/24², the FCA Board has made changes to the FCA Handbook sections listed below.
- Glossary of definitions**
COBS 2, 6, 19
- 2.6** In summary, the instrument implements a cap on charges in automatic enrolment schemes and measures to prevent differential charges across schemes.
- 2.7** Part of this instrument comes into force on **6 April 2015** and the remainder of the instrument comes into force on **6 April 2016**. Feedback to this consultation is provided in Chapter 3 of this Notice.

¹ CP14/16 Proposed rules for independent governance committees (August 2014)

² CP14/24 Charges in workplace personal pension schemes (October 2014)

Collective Investment Schemes Sourcebook (Accounting Amendments) (No 2) Instrument 2015 (FCA 2015/7)

- 2.8** Following consultation in CP14/8³ (Chapter 7), the FCA Board has made changes to the FCA Handbook sections listed below:

**Glossary of definitions
COBS 4, 8, TP 1.1**

- 2.9** In summary, the instrument implements new disclosures for authorised collective investment schemes.
- 2.10** This instrument comes into force on **1 March 2015**. Feedback to this consultation is published in Chapter 3 of this notice.

Building Societies Regulatory Guide (Revocation) Instrument 2015 (FCA 2015/8)

- 2.11** The FCA Board has approved the revocation of the Building Societies Regulatory Guide (BSOG).
- 2.12** This instrument comes into force on **2 April 2015**.

Conduct of Business (Retirement Risk Warnings) 2015 (FCA 2015/10)

- 2.13** The FCA Board has made changes to the FCA Handbook section listed below:
COBS 19
- 2.14** In summary, the instrument introduces new rules that will require firms to give appropriate retirement risk warnings to consumers accessing their pension savings. This is intended to help them consider the implications of the decision they are making and, if necessary, to seek further guidance or financial advice to support their decision.
- 2.15** This instrument comes into force on **6 April 2015**. The policy statement outlining our approach was published separately.

³ CP14/8 *Quarterly Consultation Paper No.5* (June 2014)

3.

Consultation feedback

- 3.1** This chapter provides feedback on consultations that do not have a separate Policy Statement published by the FCA.

Chapter 7 of CP14/8, Quarterly Consultation (No 5)

Collective Investment Schemes Sourcebook (Accounting Amendments) (No 2) Instrument 2015 (FCA 2015/7)

Background

- 3.2** In June 2014, we consulted on some changes to the Handbook glossary and the Collective Investment Schemes sourcebook (COLL). The changes require authorised fund managers (AFMs) to adopt the new 2014 version of the Statement of Recommended Practice (SORP) for authorised funds. The SORP prescribes how AFMs should present the financial statements of authorised funds in annual and half-yearly fund reports.
- 3.3** The SORP is prepared and maintained by the Investment Association (IA)⁴, which has added a requirement to the 2014 version to show a comparative table summarising the financial highlights of each fund over its three most recent financial years. The table will include, in pence per unit, the opening and closing net asset values of the fund, and the returns shown gross and net of operating charges, as well as the operating charges and explicit transaction costs shown as percentages of the closing net asset value.
- 3.4** Our proposals included some changes to existing rules in COLL 4 and COLL 8 on disclosure of comparative information in fund reports, to take account of the introduction of the table and to improve the information given to investors. Specifically, we proposed:
- to require AFMs to comply with the general provisions of the SORP from 31 December 2015, but to adopt the comparative table from April 2015
 - to remove the existing requirement for annual reports to show the highest and lowest unit prices for the last five calendar years, since the comparative table would effectively replace this disclosure
 - to require the comparative table and related information to be also included in reports for qualified investor schemes (QIS) and in short reports for retail funds
 - for umbrella funds, to replace the aggregation of sub-fund accounts in the annual report

⁴ The Investment Association was previously called the Investment Management Association (IMA) and the Statement of Recommended Practice is still referred to in our Handbook as the 'IMA SORP'.

with a table showing details of any holding of units in one sub-fund by another sub-fund of the umbrella, and

- to correct any error by requiring the reports of a QIS to include a portfolio statement.

3.5 We also acknowledged criticism of the IA's comparative table relating to the lack of full disclosure of costs impacting on investors' returns. We said that more could be done to give investors accurate measurements or estimates of the cost of investing. We believed that the comparative table, although lacking in some respects, would benefit investors if introduced as it appears now and then modified at a later stage to present costs more accurately.

Feedback and our response

3.6 We received six responses: two from trade associations, three from asset management firms and one from a third-party administration firm. Most of the responses were broadly in favour of our proposals, although one respondent had significant objections about the comparative table and the extent to which it would represent the costs of investing fairly. This respondent noted in particular that:

- the table does not represent spread-related costs (and so significantly understates the costs of investing in bonds), and does not account for the underlying transaction costs when the fund invests in units of another fund
- the table is misleading for investors because it does not include all significant costs, but has the appearance (owing to its inclusion in the accounts which are audited) of being an authentic measure of full costs
- the gross return before costs may be understated because any performance-related fee is not allowed for in the calculation, and
- the table may become redundant when the cost disclosure requirements of MiFID II⁵ are implemented at the end of 2016.

3.7 It was also noted by some respondents that annual reports are not a suitable vehicle for this kind of disclosure because very few investors ask to see them, and those that do ask for them do not use them to compare the performance of their fund with others.

3.8 Other significant points that respondents made in the feedback included the following:

- Requiring QIS reports to include comparative information would be unnecessary, since QIS investors are not likely to be interested in this information, and also burdensome to implement, as AFMs of QIS have not had to present this kind of information before.
- Requiring comparative tables to be included in short reports would bring benefits in terms of transparency, but could make the reports over-long where the fund has multiple unit classes, each with its own table, which could push up the costs of producing the short report.
- The transitional provisions requiring the table to become compulsory before the rest of the SORP could have unintended consequences by duplicating the old and new disclosure requirements, and the earlier implementation of the table could increase costs for AFMs

⁵ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

because of the limited time in which to manage the transition.

- The proposed table of cross-holdings would not bring any benefit to investors.

- 3.9** The feedback we received on the merits and drawbacks of the comparative table reflects the arguments that were put to us before we consulted. It does not fundamentally change the assessment we made last year that the disclosures introduced by the SORP will benefit investors but cannot be regarded as more than a first step towards full transparency of the costs of investing.
- 3.10** The further steps that will be needed depend to some extent on the outcomes of other pieces of work, such as the conclusion of level 2 measures under MiFID II, the final form of measures for disclosing costs and charges in PRIIPs⁶ from December 2016, and the development of our rules for requiring disclosure of some or all transaction cost information for workplace personal pension schemes. We will shortly be issuing, jointly with the DWP, a call for evidence which will explore more fully the issues relating to transparency of transaction costs in pension funds. However, this will be of wider interest to all asset managers operating collective funds and segregated accounts.
- 3.11** The IA recently published a discussion paper setting out its further work to develop measures for disclosing costs and charges, to support the comparative table disclosures in the SORP.⁷ We are considering this paper with interest and it will influence our thinking on whether cost transparency can be delivered through industry-led initiatives, rules and guidance, or a combination of both.
- 3.12** We have decided not to require AFMs to implement the comparative table in advance of complying with the SORP as a whole. This will avoid the burden on firms of making two sets of changes to the format of fund reports and accounts, within a short time of each other. We have simplified the transitional provisions, so that all the requirements will be compulsory for annual reports relating to annual accounting periods that began on or after 1 January 2015. AFMs will have the option (on a fund by fund basis) to adopt the new SORP, including the comparative table, at an earlier date.
- 3.13** We accept that low demand from investors for copies of annual reports could reduce the expected benefits of improved transparency. However, once the table and accompanying information have been prepared, they may be relatively easy to reproduce (in hard copy or electronic form) in other documents that are more readily accessible to fund investors.
- 3.14** Also, since annual reports are in the public domain, anyone who has a professional or personal interest in examining investment costs can obtain copies of them. The fact that firms will have to be more transparent about fund costs, and that there is increasing scrutiny of this issue by professional investors, academics, journalists and other market commentators, should help to deliver better outcomes for all investors in authorised funds.
- 3.15** We have decided not to introduce the requirement to include comparative information in short reports, at least for the time being. We are giving some further thought to the rules for short reports and have decided that it would be better to complete that work before making any changes to the contents of the short report. We expect to communicate our thinking on short reports to stakeholders in due course. We will ensure that AFMs do not have to produce differing comparative information for the long and short reports of the same fund.

⁶ Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)

⁷ Meaningful disclosure of costs and charges (Investment Association, February 2015)

- 3.16** We continue to believe that it is appropriate for the annual reports of a QIS to include comparative information. As one respondent noted, that information is designed to contribute to the consumer protection objective by satisfying consumers' right to know how much they have paid. In our view, this argument is as valid for a fund designed for professional and sophisticated investors as it is for a fund aimed at the general public. There are not many QIS, and we have not received any specific submissions to show that the cost of preparing this information would be unduly burdensome for managers. So we intend to proceed with the rule we consulted on.
- 3.17** We intend to proceed with the requirement for the reports of an umbrella fund to include a table with details of any cross-holdings between sub-funds. There was no objection to our proposal to drop the requirement for those reports to contain an aggregation of the accounts of the sub-funds, which should result in a cost saving for AFMs. Compared to this saving, the cost of producing the table of cross-holdings is marginal, and we continue to believe it will assist any readers that wish to calculate the financial position of the umbrella as a whole.
- 3.18** In response to other comments on the drafting of the rules, we have:
- adjusted the layout of the requirements for comparative information in COLL 4.5.10R(1A) and corrected the cross-references to that rule in COLL 8.3.5AR
 - added guidance at COLL 4.5.10AG(1) to clarify that the figure in the comparative table for the return before operating charges should include all amounts deducted by way of costs and charges, such as any performance fee, and
 - amended the guidance at COLL 4.5.10AG(2) to reflect the categorisation of types of operating charge correctly.
- Cost benefit analysis and compatibility statement***
- 3.19** Respondents generally agreed with our analysis of the costs and benefits of the proposals although, as noted above, some concerns were raised about the potential additional costs to AFMs of including the new comparative table in reports for QIS and short reports for retail funds. We explain above how we have addressed that feedback.
- Equality and diversity issues***
- 3.20** We did not receive any feedback on our initial assessment. We continue to believe that these measures do not pose any equality or diversity issues.

Chapter 4 of CP14/27, Quarterly Consultation (No 7)

Building Societies Regulatory Guide (Revocation) Instrument 2015 (FCA 2015/8)

Background

- 3.21** The Building Societies Regulatory Guide (BSOG) provides guidance on the Building Societies Act 1986 and on various constitutional and other provisions relating to building societies. When the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) were created, the whole of BSOG was assigned to the FCA, and all but BSOG 1A to the PRA. In practice the

majority of BSOG is relevant only to the PRA as the prudential regulator for building societies, rather than the FCA.

- 3.22** On 5 December 2014 we launched a consultation on revoking BSOG and moving the information in BSOG 1A to the FCA website. This will contribute to streamlining the Handbook by removing non-essential guidance and will more accurately reflect the true division of responsibilities between the FCA and the PRA since their creation. The consultation closed on 5 February 2015.

Feedback

- 3.23** We received one response to the consultation, which was from the Building Societies Association (BSA). Although their preference is for us to retain BSOG, they recognised that several areas of it are not used regularly. They argued that BSOG 1A is useful to stakeholders and should be retained in a permanent form, and if it were moved to the FCA website as we proposed it should be flagged as permanent so that it is not accidentally removed, eg in a future reorganisation of the site.

Our response

- 3.24** We propose to move the content in BSOG 1A to the FCA website and will continue to work with the PRA to ensure that our proposals are aligned with theirs. The PRA are consulting on proposals to move into a single Supervisory Statement all the sections of BSOG that were designated to both the PRA and the FCA when the new regulators were created (BSOG 1, 2, 3). This will ensure that all the information currently in BSOG will continue to be available to firms, and allow us to achieve our aim of Handbook simplification.

Cost benefit analysis and compatibility statement

- 3.25** We did not conduct a (CBA) for this proposal as no rule changes will be made.
- 3.26** The proposal is compatible with our strategic objective of making markets function well, and indirectly advances our operational objectives through the effective use of resources.
- 3.27** The guidance applies only to building societies. We do not expect this proposal to have any significant impact on the behaviour of firms and consumers or on competition.

Equality and diversity issues

- 3.28** We have assessed the likely equality and diversity impacts of this amendment and we do not believe that the proposal gives rise to any concerns.
- 3.29** The changes made by this instrument are shown in Chapter 2 of this Notice.

4. Additional information

Making corrections

- 4.1** The FCA reserves the right to make correctional or clarificatory amendments to the instruments made at the Board meeting without further consultation should this prove necessary or desirable.

Publication of Handbook material

- 4.2** This Notice is published on the FCA website and is available in hardcopy.
- 4.3** The formal legal instruments (which contain details of the changes) can be found on the FCA's website listed by date and reference number at <http://fshandbook.info/FS/InstrumentsByDate.jsp> or listed by module at <http://fshandbook.info/FS/InstrumentsByModule.jsp>. The definitive version of the Handbook at any time is the version contained in the legal instruments.
- 4.4** The changes to the Handbook are incorporated in the consolidated Handbook text on the website as soon as practicable after the legal instruments are published.
- 4.5** The consolidated text of the Handbook can be found on the FCA's website at <http://fshandbook.info>.
- 4.6** Copies of the FCA's consultation papers referred to in this Notice are available on the FCA's website or on request in hardcopy form.

Obligation to publish feedback

- 4.7** This Notice, and the feedback to which paragraph 1.5 refers, fulfil for the relevant text made by the Board the obligations in sections 138I(4) and (5) and similar sections of the Financial Services and Markets Act 2000 ('the Act'). These obligations are: to publish an account of representations received in response to consultation and the FCA's response to them; and to publish (where applicable) details of any significant differences between the provisions consulted on and the provisions made by the Board, with a cost-benefit analysis and a statement under section 138K(4) of the Act if a proposed altered rule applies to authorised persons which include mutual societies.

Comments

- 4.8** We always welcome feedback on the way we present information in the Handbook Notice. If you have any suggestions, they should be sent to Saira Hussain or Melanie Purdie (see contact details at the front of this Notice).

Financial Conduct Authority



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