No.40

Handbook Notice

January 2017

Financial Conduct Authority

1. Overview

Legislative changes

1.1 On 25 January 2017, the Financial Conduct Authority made changes to the Handbook in the instruments listed below.

1.2 The instruments can be found online here: www.handbook.fca.org.uk/instrument.

CP	Title of instrument	Instrument No.	Changes effective
N/A	Handbook Administration (No 44) Instrument 2017	2017/1	26.1.17 and 27.3.17
16/21	Conduct of Business (Lifetime Mortgages) Instrument 2017	2017/2	26.1.17
16/17	Alternative Investment Fund Managers Directive (Reporting) Instrument 2017	2017/3	29.6.17
16/10	Decision Procedure and Penalties Manual and Enforcement Guide (Review) Instrument 2017	2017/4	31.1.17 and 1.3.17

Summary of changes

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

Feedback on responses to consultations

1.4 Consultation feedback is published in Chapter 3 of this Notice or in a separate Policy Statement.

FCA Board dates for 2017

1.5 The table below contains a list of forthcoming FCA board meetings. These dates are subject to change without prior notice.

February	23
March	30
April	27
May	25
June	22
July	20
September	11 and 12
October	19
November	8 & 9
December	6 and 7

2. Summary of changes

2.1 This chapter briefly describes FCA Handbook changes made by the Board on 25 January 2017. 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 Prudential Regulation Authority (PRA) please see http://www.bankofengland.co.uk/PRA/Pages/publications/default.aspx

Handbook Administration (No 44) Instrument 2017 (FCA 2017/1)

2.2 The Board has made minor administrative changes to various modules of the FCA Handbook, as listed below. These correct or clarify existing provisions. They were not consulted on because they are regarded either as falling within the scope of previous consultations or as being so minor that they do not warrant consultation. None of these changes represents any alteration in FCA policy.

Glossary
TC App 6
GEN 2 and 6
IPRU(INV) 5,12 and 13
COBS 3, 6, 14, 18, 22 and TPs
MCOB 3A
SUP 6, 10A, 12, 13, 15 and 16
CREDS 3A
LR App 1
EG 19
PERG 4

2.3 In summary, the amendments made this month are as follows:

- the deletion of the 'ONA' abbreviation as the defined term for the online notification and application system, and its replacement with a wider alternative
- a consequential change to the definition of 'competent employees rule' to reinstate lost links to the category 'every other firm' in SYSC as applicable
- updating of the definition of the 'Market Abuse Regulation' in the Glossary and at LR App 1 as a consequence of the earlier deletion of 'Market Abuse Directive'
- correction of a drafting error at TC 6.1.1G(14) from 2015/43 to ensure the meaning is clear
- updating of GEN 2 to clarify the scope of FCA powers where there are commensurate PRA provisions
- updating of GEN 6 to remove references to 'appropriate regulator' and replacing instances

with 'FCA' where appropriate and minor grammatical improvements

- a minor correction to IPRU(INV) 5.1.4G to create a link to the relevant cross reference
- updating of the defined terms in IPRU(INV) 12 to clarify the relationship with the local Glossary terms in IPRU(INV) 12 App 1
- correction of subheadings and notes in IPRU(INV) 13.1 to bring them into line with Handbook style following conversion to html in 2016
- clarification of the heading of IPRU(INV) 13.1A and conversion of the style used for cross references in this chapter to bring them into line with Handbook style
- tidying of the spelling of 'EEA State' at COBS 3.6.2R to bring it into line with the version in the Glossary definition
- updating of a cross reference at COBS 6.2A.3R(2) following the deletion of COBS 6.3 by instrument 2016/59
- insertion of new sub-headings in COBS 14.2 to facilitate understanding
- consequential deletion of references in COBS 18.1, 18.2, 18.3 and 18.4 to COBS 6.3 which was deleted by instrument 2016/59
- marking the remainder of COBS 22.1 as expired to bring it into line with the expiry date of the instrument (2014/48) which created these provisions
- marking of transitional provisions at COBS TP 2 as expired
- correction at MCOB 3A to create the correct links to defined terms in MCOB 3A.5.1R(1)(a) and to bring the Handbook into line with the wording of the RAO
- updating of reference to the old defined term 'ONA' to the new term 'online notification and application system' throughout SUP
- correction of historic and drafting errors in 2016/67 at SUP 16 Annex 18BG to ensure accurate links via cross references
- correction of an out-of-date URL reference to the European Commission's website in SUP 16 Annex 33BG(3)(a)
- correction of drafting errors in 2016/77 to insert cross references at CREDS 3A.5.8R(1) and (2)
- replacement of an out-of-date URL at EG 19.5.6G to the RIPA codes on the Home Office website
- corrections at PERG 4.10B.5G(1)(A)(iii) to bring the wording into line with that of the RAO

2.4 These changes come into force on **26 January 2017** except for the changes to COBS 6.2A, 18.1, 18.2, 18.3 and 18.4 which come into force on **27 March 2017**.

Conduct of Business (Lifetime Mortgages) Instrument 2017 (FCA 2017/2)

2.5 Following consultation in CP16/21[1], the FCA Board has made changes to the FCA Handbook sections listed below:

Glossary
MCOB 9, 11 and TP 4
SUP 16

2.6 In summary, this instrument makes changes to remove barriers to the development and take-up of lifetime products and ensure that the mortality data referenced in MCOB is updated.

2.7 This instrument comes into force on **26 January 2017**. Feedback to this consultation is published in Chapter 3 of this Notice.

Alternative Investment Fund Managers Directive (Reporting) Instrument 2017 (FCA 2017/3)

2.8 Following consultation in CP16/17[2], the FCA Board has made changes to the FCA Handbook sections listed below:

FUND 3 and 10

2.9 In summary, this instrument makes changes to close a significant information gap on the activities and risks incurred by alternative investment fund managers that have a large presence in the UK financial markets. The changes will also improve our monitoring of potential supervisory and systemic risks posed by the sector.

2.10 This instrument comes into force on **29 June 2017**. Feedback to this consultation is published in Chapter 3 of this Notice.

Decision Procedure and Penalties Manual and Enforcement Guide Instrument 2017 (FCA 2017/4)

2.11 Following consultation in CP16/10[3], the FCA Board has made changes to the FCA Handbook sections listed below:

Glossary
DEPP 1, 3, 5 and 6
EG 2 to 6

2.12 In summary, this instrument makes changes to implement the recommendations of the HMT Review and Green Report, and make our enforcement process more open and improve public confidence in the regulatory system.

2.13 Part of this instrument comes into force on **31 January 2017**, and the remainder on **1 March 2017**. Feedback to this consultation will be published in a separate Policy Statement.

1 CP16/21 'Quarterly Consultation Paper No. 14' (September 2016)
2 CP16/17 'Quarterly Consultation Paper No. 13' (July 2016)
3 CP16/10 'Proposed implementation of the Enforcement Review and the Green Report' (April 2016)

3. Consultation feedback

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

CP16/21 Quarterly Consultation No. 14 – Minor changes to our equity release rules

Conduct of Business (Lifetime Mortgages) Instrument 2017

Background

3.2 In CP16/21[4] we proposed some minor changes to our Mortgages and Home Finance: Conduct of Business (MCOB) rules to make it easier for providers to offer a type of lifetime mortgage that allows consumers to choose when to stop making interest payments. We also proposed to update our rules on how firms should determine the length of term when illustrating equity release products.

Products where the consumer can switch to interest roll-up

3.3 We proposed disapplying the requirement to carry out an affordability assessment where the specific lifetime mortgage allows the consumer to exercise, at any time, an option to convert the product to interest roll-up. We also proposed changes to the way firms must disclose the risks and features of these loans and changes to clarify and make consistent the reporting requirements for firms. Finally, we proposed a minor change to the drafting in MCOB and the Glossary to ensure a consistent description of interest roll-up lifetime mortgages.

Estimating the term for product illustrations

3.4 The open-ended nature of equity release products means that firms need to use an assumed term in disclosure materials. This assumed term is based on the use of standard mortality tables and the MCOB cross-reference to these is out of date. We proposed an update to refer to tables more recently produced. In making this change we also proposed to give firms the option of estimating the term on a different basis where their view is that this would be more appropriate.

Feedback

3.5 We received seven industry responses, including three from trade bodies.

Products where the consumer can switch to interest roll-up

3.6 Respondents generally welcomed the aim of our consultation. However, they suggested the following changes to our proposed disclosure rules:

- The Key Facts Illustration (KFI) should be based solely on the consumer choosing to convert

4 CP16/21 'Quarterly Consultation Paper No. 14' (September 2016)

to interest roll-up at a notional point in time, rather than also showing a scenario in which the customer continues to make interest payments.

- The KFI should display the interest roll-up on the basis of 'a worst case scenario' ie interest roll-up from the start of the term.
- We should allow the interest roll-up information to be displayed at the end of the KFI or in a separate document.
- We should clarify the expected form of the KFI where the consumer is only paying part of the interest.
- Section 7 of the illustration (MCOB 9.4.132DR) should require lenders to make explicit where no fees or charges apply.

3.7 Respondents also suggested a number of minor drafting changes.

Estimating the term for product illustrations

3.8 Most respondents acknowledged the need to use updated mortality information. However, three firms opposed the proposal to allow the use of a different term. They suggested that this may prevent consumers using the illustration to compare products on a like-for-like basis. One of these respondents also suggested that commercial pressures may lead to unreasonably short terms being used in illustrations.

3.9 Four respondents commented on the source of mortality information. Two highlighted the existence of publicly available information, such as from the Office of National Statistics (ONS), while two others suggested that we could publish mortality information. One respondent also suggested that rather than relying on mortality tables we could simply specify a standard term for use in all illustrations.

Our response

Products where the consumer can switch to interest roll-up

3.10 We think it is important that the KFI sets out what will happen if the consumer does not convert to roll-up alongside information on what will happen in the event of conversion. We believe that basing all the KFI cost information on a notional conversation date may mislead the consumer into thinking they have no option other than to convert at a particular time. We do not propose to adopt the suggested approach and we did not agree with the suggestion that the interest roll-up should be displayed on the basis of a 'worst case scenario'. This product is designed for consumers who want to make payments for a period of time before interest roll-up. It makes sense to require a disclosure that reflects this.

3.11 We have added MCOB 9.4.132EG(2) to allow firms to display the illustration of interest roll-up costs either in its current location (after the interest payment costs), at the end of the KFI document or in a separate document.

3.12 We have changed MCOB 9.4.132CG to clarify how part payments of interest should be displayed.

3.13 We did not agree that Section 7 of the illustration (MCOB 9.4.132DR) should make explicit where there are no fees or charges applied. This section of the illustration relates to risks for consumers. The absence of fees and charges is not a risk.

3.14 We also accepted minor drafting changes where they clarified the text or removed inconsistencies, including better aligning MCOB 9 Annex 1R with the relevant rules. We have also amended that Annex, MCOB 9.4.4R(1)(a) and MCOB 9.4.36G to simplify the language used. Additionally, we have made a minor drafting change to MCOB 9.4.63R to make Section 10 of the KFI appropriate for lifetime mortgages that are convertible from interest-paying to interest roll-up, in line with our policy intent.

3.15 A mocked-up example of the KFI is included in the Appendix to this Handbook Notice on page 16.

3.16 Finally, because there is an existing 'Modification by Consent for a Hybrid Lifetime Mortgage' granted to some firms in respect of lifetime mortgages that are convertible from interest-paying to interest roll-up, we have added a new transitional provision (MCOB TP 4). This allows firms with the modification a further six months in which they can comply with the old rules as modified rather than the new rules, giving them time to change their disclosure documentation.

Estimating the term for product illustrations

3.17 We have thought about the comments from firms that disagreed with allowing flexibility over the term used for product illustrations. However, MCOB 9.4.10R(1)(a) states that the estimate must be reasonable and based on evidence, preventing firms from giving estimates based on unreasonably short terms while allowing flexibility to reflect individual customer circumstances. Given that estimates must be reasonable and based on evidence, any differences in projected mortality by different firms should be small and so not impair the consumer's ability to make comparisons. Consumers are also able to ask for a KFI based on a particular estimate if they find this helpful for comparison purposes.

3.18 We have considered the feedback on the source of mortality information and have amended MCOB 9.4.10R to clarify that it is acceptable to use ONS mortality data. We decided against both an FCA-published mortality table and a standard term for illustrations. An FCA-supplied table would need regular updating to remain current, adding to the costs of regulation. An illustration based on a standard term would be less relevant for consumers than one based on mortality data.

Cost benefit analysis and compatibility statement

3.19 We received two responses concerned at the cost of accessing mortality data from private sources. We have addressed this by clarifying that alternative sources of mortality data, such as from the ONS, would also be appropriate. Both respondents were also concerned at the cost of presenting cost information on interest payments and interest roll-up in the KFI. We have minimised these costs by giving firms flexibility to display the interest roll-up costs after the interest payment costs (its current location), at the end of the KFI document or in a separate document.

3.20 The compatibility statement from CP16/21 remains unchanged.

Equality and diversity issues

3.21 The equality and diversity assessment in CP16/21 remains unchanged. We did not receive any responses challenging our view that the proposals do not give rise to discrimination. The changes should have a positive impact on some older consumers. This is because the changes are intended to make it easier for providers to offer access to loans that better suit the needs of such consumers.

3.22 The changes made by this instrument appear in Chapter 2 of this Notice.

CP16/21 Quarterly Consultation No. 13 – Transparency reporting requirements for AIFMs

Alternative Investment Fund Managers Directive (Reporting) Instrument 2017

Background

3.23 In Quarterly Consultation Paper No. 13, Chapter 10 (CP16/17) we made two proposals to expand the current reporting requirements that apply to full-scope UK alternative investment fund managers (UK managers) and non-EEA alternative investment fund managers (non-EEA managers). The first proposal required above-threshold, full-scope UK managers to report on their non-EEA alternative investment funds (funds), even if those funds are not marketed in the EEA. The second proposal required above-threshold non-EEA managers to report on their master funds that are not marketed in the UK, if a relevant feeder fund is marketed in the UK.

Feedback

3.24 The consultation received seven feedback responses; six from trade associations and one from an UK asset management firm. These responses related to the proposed changes for UK managers as well as the proposed changes for non-EEA managers.

3.25 Two responses welcomed the decision to limit the additional reporting obligations to those managers that are required to report on a quarterly basis.

3.26 Four responses raised concerns that our requirements may go beyond ESMA's recommendation on additional reporting. This is because we are asking non-EEA managers to report on their master fund additionally to their currently-reported feeder fund, even when the master fund and feeder fund are managed by different legal entities within the same group.

3.27 Three responses provided suggestions to reduce the number of funds impacted. These suggestions include limiting the proposals to most leveraged funds, or funds that have a net asset value greater than 500m euros.

3.28 Three responses suggested giving firms a transitional period of at least six months to implement the new reporting requirements and two responses raised concerns about the new requirements being retrospective.

3.29 Five responses challenged our cost estimates and stated that our cost benefit analysis underestimates the cost of providing Alternative Investment Fund Managers Directive (AIFMD) returns. These responses also suggested that we quantify the systemic risk reduction benefits achieved. No responses provided any alternative evidence or cost estimates.

3.30 Two responses disagreed with the re-interpretation of regulation 59(3) of the Alternative Investment Fund Managers Regulations 2013 (AIFM Regulations) in relation to master fund reporting. One response raised a concern that a revised interpretation cannot be applied selectively to reporting obligations under article 24 of the AIFMD.

3.31 Two responses questioned why we should amend the current reporting rules, given the possible withdrawal of the UK from the EU. Two responses raised concerns about the potential negative impact on the competitiveness of the UK asset management industry.

3.32 Three responses queried how article 24(2) of the AIFMD helps us to monitor the build-up of systemic risks.

3.33 One response suggested we wait for the outcome of the European Commission's forthcoming review of the AIFMD before altering reporting obligations.

3.34 Two responses suggested we should continue working with other regulators to create greater convergence in reporting requirements.

3.35 One response highlighted data security and the need for confidentiality, given the sensitivity of the data.

3.36 Another suggested that we should, at a minimum, adopt a grandfathering provision to permit a non-EU manager that no longer markets to UK investors under article 42 to continue Annex IV reporting only for feeder funds or other funds that are marketed in the UK.

Our response

3.37 We have decided to remove the reference to other legal entities in the same group as non-EEA managers. Instead, we will require above-threshold non-EEA managers to report on their master funds not marketed in the UK, only if:

- the relevant feeder fund is marketed in the UK, and
- both the feeder fund and master fund are managed by the same entity

3.38 We have decided to align the requirements for UK and non-UK managers by reducing the current reporting requirements for some UK-domiciled managers. This will also reduce the overall number of affected firms. At present, our rules require all UK-domiciled managers, regardless of size, to report in full on their master funds.[5] In future we will require only those above-threshold UK-domiciled managers that report quarterly[6] to include information on their non-EEA master funds. This means dis-applying the existing rule requiring reporting from UK-domiciled managers that report at a half-yearly or annual frequency. Making this change will reduce the overall impact on firms and limit the additional reporting requirement to only those funds that we believe can potentially contribute to the build-up of systemic risk. We consider that any further reductions in reporting requirements would hinder our objective of identifying build-up of systemic risks.

3.39 We have accepted the proposal for a six-month transitional provision. The revised requirements will be effective as of 29 June 2017, requiring firms to report under them by 15 August 2017 for a fund of funds and 31 July 2017 for all other fund types. The new requirements will not be retrospective.

3.40 We believe that our approach is the correct interpretation of regulation 59(3) of the AIFM Regulations and that it is supported by the amended relevant ESMA Q&A.[7] We also believe that only the reporting requirement under article 24 is relevant because of FUND 3.4.6AR(2). This is because since we have applied the ESMA opinion on additional reporting by UK managers in relation to master funds, it applies to non-EEA managers as well.[8] The re-interpretation would not be relevant to the obligations under articles 22 and 23 about disclosure of information to investors.

5 If the master fund is a non-EEA AIF that is not marketed in the EEA, is a master AIF of a feeder AIF that the AIFM also manages and the feeder AIF is an EEA AIF or a non-EEA AIF that is marketed in the EEA (see FUND 3.4.6AR(2)).

6 The reporting changes apply to UK managers and non-EEA managers which report on a quarterly basis under either article 110(3)(b) or (c) of the AIFMD level 2 regulation.

7 https://www.esma.europa.eu/sites/default/files/library/2016-1669_qa_on_aifmd.pdf (see in particular question 1 in section III).

8 This is also supported by the ESMA Q&A.

3.41 We believe that regardless of the UK's future relationship with the EU, the additional data collected will be critical for our objectives.

3.42 Information provided under article 24(2) provides details about the actual leverage profile of a fund, as well as information on the exposures and positions associated with it. This information would be helpful in monitoring systemic risk.

3.43 We believe that the additional data collected is critical for the monitoring and supervision of activities in the alternative fund sector. We would not be fulfilling our supervisory objectives if we delayed changing the reporting requirements to take account of any future revisions to the AIFMD.

3.44 We closely coordinate our work on the alternative fund sector with the other regulators in ESMA and international organisations, including IOSCO. We will continue to seek consensus within those organisations on standards that result in the focused and proportionate reporting of information relevant to systemic risk concerns.

3.45 Data security and confidentiality are of paramount importance to us and we have systems and procedures to ensure the security of data reported to us.

3.46 Under our current regulations, managers that have previously marketed their funds to UK investors will remain subject to the AIFM Regulations as long as those investors continue to hold their funds. This will be the case even if the manager decides in the future to stop marketing to UK investors or taking part in activities that would make them subject to the AIFM Regulations. Due to this we are unable to provide a grandfathering provision for non-EEA managers that no longer market to UK investors.

Cost benefit analysis and compatibility statement

3.47 We provided average cost estimates in our cost benefit analysis (CBA) and realise that the cost for large funds which trade in multiple asset classes and use sophisticated trading models could be higher. The responses to the consultation did not provide any alternative evidence or cost estimates.

3.48 We are now reducing the reporting requirement for UK managers that report on a half-yearly or annual basis. This means that the actual costs for these managers will be lower than those presented in the CBA at consultation stage. We have also eliminated the reference to other legal entities in the same group as non-EEA managers. Doing so has led to further reductions in costs compared to those presented in the CBA at consultation stage.

3.49 We consider that the additional data we will collect will result in improved monitoring and supervision of the activities in the alternative fund sector, also benefiting the investors in these alternative funds. The additional data collected will also help us to monitor build-up of systemic risk.[9] As these funds are either managed by UK-based managers or are marketed (via feeder funds) in the UK, there is a connection to the UK financial system and to our duties to ensure market integrity and protect UK investors. Given the nature of macro-prudential risk and market integrity, the benefits identified above are difficult to quantify. However, we still believe that,

9 The FSB consultation paper published in June 2016 provides some details of vulnerabilities inherent in the design of different types of funds and/or services offered by asset managers that potentially could pose a risk to financial stability: http://www.fsb.org/wp-content/uploads/FSB-Asset-Management-Consultative-Document.pdf .

considering the size of the assets under management and the importance of the managers involved in these proposals and their interconnectedness, the benefit of a reduction in risk is such that it will balance the recurring cost of the new requirements.

Equality and diversity issues

3.50 In the Consultation Paper we stated that the proposals do not adversely impact any of the groups with protected characteristics ie age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. We did not receive any responses on this matter and we believe this statement remains valid.

3.51 The changes made by this instrument are listed 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, reference number or module at https://www.handbook.fca.org.uk/instrument. 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 https://www.handbook.fca.org.uk/. A print version of the Handbook is available from The Stationery Office's shop at https://www.tsoshop.co.uk/Financial-Conduct-Authority-FCA/.

4.6 Copies of the FCA's consultation papers referred to in this Notice are available on the FCA's website.

Obligation to publish feedback

4.7 This Notice, and the feedback to which paragraph 1.4 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.

Update on CP15/28 (Chapter 2) offshore bonds proposals

4.8 In Chapter 2 of CP15/28 (the September 2015 Quarterly CP)[10] - we consulted jointly with the Financial Ombudsman Service on rule changes designed to give policyholders receiving advice or a discretionary management service as agent of an offshore insurer some of the same protections as consumers receiving advice or a discretionary management service directly. The rule changes would have brought these policyholders within the scope of the suitability rules and would also have brought them within the definition of 'eligible complainant' for the purpose of making a complaint to the Ombudsman.

4.9 Since publishing our consultation, the MiFID II Delegated Regulation has been published and it now makes specific reference to the identification of the subject of a firm's suitability assessment where the firm's client is a legal person (article 54(6) of the Delegated Regulation). The final text of the article refers to this determination being made by reference to a policy established by the firm itself. The UK is not permitted to impose additional requirements in relation to its transposition of this article. We concluded that it would not be possible (post-MiFID II) for the FCA to maintain a rule requiring suitability to be assessed in relation to the policyholder of an offshore bond.

4.10 In view of this, we are not taking forward any changes to our rules following the September 2015 consultation.

Comments

4.11 We always welcome feedback on the way we present information in the Handbook Notice. If you have any suggestions, they should be sent to handbookproduction@fca.org.uk (or see contact details at the back of this Notice).

10 CP15/28 'Quarterly Consultation Paper No. 10' (September 2015)

5.
Appendix – Key facts illustration

keyfacts®

about this lifetime mortgage

MOLE EQUITY RELEASE

Personalised information on a lifetime mortgage for Mrs S Tote

Date produced: 1 February 2017 – and is valid for 7 days from this date

This is not a legally binding mortgage offer and it does not oblige Toad Mortgages to provide you with the mortgage described in this illustration.

1. About this information

- We are required by the Financial Conduct Authority (FCA) – the independent watchdog that regulates financial services - to provide you with this illustration.
- All firms selling lifetime mortgages are required to give you illustrations like this one, that contain similar information presented in the same way.
- Ask for other illustrations if you want to compare this lifetime mortgage with lifetime mortgages from other lenders.
- The Money Advice Service provides useful information on lifetime mortgages and other ways of releasing equity from your home in a booklet called 'Equity Release Schemes, Lifetime Mortgages and Home Reversion Plans'. You can get this free through the Money Advice Service website www.moneyadviceservice.org.uk or by calling 0300 500 5000.

2. Which service are we providing you with?

✓	**We recommend,** having assessed your needs, that you take out this lifetime mortgage.
	We are not recommending a particular lifetime mortgage for you. However, based on your answers to some questions we are giving you information about this lifetime mortgage so that you can make your own choice, or find out about other ways in which you may be able to release equity from your home.

3. What is a lifetime mortgage?

Important information from the Financial Conduct Authority:

- A lifetime mortgage is a special type of loan which is usually designed to run for the rest of your life, and which means that you borrow money that is secured on your home to give you a lump sum and/or a regular income. The amount you owe to the lender is usually paid back from the proceeds of the sale of your home after your death. If you are borrowing with someone else, this would be after the death of the last borrower. Any money left over would be paid to your beneficiaries.
- If you buy a new home, you may be able to transfer your lifetime mortgage to your new home, or you may be able to get a new lifetime mortgage. Otherwise you will usually have to repay the amount you owe to the lender from the money you get from the sale of your home. Any money left over belongs to you.

- If you move into sheltered accommodation or long-term care you will usually have to repay the amount you owe to the lender from the money you get from the sale of your home. Again, any money left over belongs to you. If you are borrowing jointly with someone else and one of you needs to move into long-term care, you don't usually have to sell your home until the last borrower either dies or moves into long-term care or another property.
- If you decide that you simply don't want the lifetime mortgage any more, you can repay the amount you owe to the lender at any time, but the lender may make an early repayment charge if you do. Section 13 of this illustration will tell you if any early repayment charges apply to this mortgage.
- Some lifetime mortgages are linked to an investment - this means you borrow a lump sum which is invested (for example in an annuity) to give you a regular income. If this happens the full details of the investment will be shown in a separate document and it is important to read both documents together.

4. What you have told us

- You want to get a lump sum of £100,000. No fees have been added to this amount but the fees you need to pay are shown in Section 11. For details of any insurance charges, see Section 12.
- Your home is worth about £400,000.
- You own your home freehold.
- Your home is unmortgaged, is your main residence, and is of standard construction.
- You are 74 years old.

The valuation that will be carried out on the property, and changes to any of the information you have given us, could alter the information in this illustration. If this is the case, please ask for a revised illustration.

5. Description of this mortgage

This illustration is for a Toad Mortgages 'Value Release' lifetime mortgage providing you with a lump sum payment. This is a fixed rate lifetime mortgage that allows you to make monthly interest-only payments for as long as you wish. Doing so will mean the amount you owe will stay the same over the life of the mortgage unless fees or charges have to be added. At any point you can choose to stop making these monthly payments and the interest owed will be added to the amount outstanding for as long as you continue to have the lifetime mortgage. The mortgage will be repaid from the sale of your home on your death or if you move home (either into another property or into sheltered accommodation or residential care).

The interest rate on this mortgage is a fixed rate of 6.5%.

We have based this illustration on an estimated term of 15 years, but remember that the term of this lifetime mortgage is not fixed and could be longer or shorter than 15 years. If you are still living in your home at the end of 15 years, the lifetime mortgage will continue to run.

Using Toad Mortgages' current lending terms you could apply to borrow up to £145,000. So you may be able to borrow more in future if the value of your home stays the same or increases.

6. Benefits	
This lifetime mortgage will provide a lump sum of:	**£100,000**

Other benefits and incentives

This mortgage has a ‘no-negative equity’ guarantee. This means that:

- if the amount you owe to Toad Mortgages ever becomes more than the value of your home, you can still carry on living there; and
- when the lifetime mortgage is repaid (if you move home or on your death) you or your beneficiaries will not have to repay more than the amount your home is sold for, even if this is less than what you owe to Toad Mortgages.

7. Risks – important things you must consider

1. Toad Mortgages has the right to take legal action to repossess your home if:
    - in the event of your death, the property has not been sold within 12 months by the executors of your estate; OR
    - someone else moves into the property with you, without the consent of Toad Mortgages.
2. Should negative equity arise, the ‘no negative equity’ guarantee will apply as set out in Section 6 above.
3. If you move home and want to transfer this lifetime mortgage to the new property, you can do so if the new property meets Toad Mortgages' lending conditions at the time. If your new home is of a lower value, you may have to repay part of the amount outstanding on the lifetime mortgage.
4. If you move out of your home into long-term care, residential care or sheltered accommodation, your home must be sold and the lifetime mortgage repaid. There are no early repayment charges in these circumstances.
5. If you want someone else to move into your home to live with you, for example a member of your family, you must first get Toad Mortgages to agree.
6. You must keep your home in good repair. If you do not keep your home in good repair, Toad Mortgages has the right to inspect the property and get the repairs done, but they will tell you first if they intend to do this. The cost of any repairs will be added to the amount you owe and your monthly payments will increase.
7. Taking out this mortgage may affect your ability to claim social security benefits, and may also affect your tax position. If you are worried about this and need further advice you should contact the HM Revenue and Customs, Benefits Agency or another source of advice such as a Citizens’ Advice Bureau.
8. You can have another mortgage from a different lender secured on your property in the future. Toad Mortgages may be willing to lend you more in the future.

CHECK THAT THIS MORTGAGE WILL MEET YOUR NEEDS IF YOU WANT YOUR FAMILY OR OTHERS TO INHERIT YOUR HOME. IF YOU ARE IN DOUBT, SEEK INDEPENDENT LEGAL AND FINANCIAL ADVICE

8. What you will owe and when (A) details of mortgage payments	Monthly Payments
This shows the amounts you will pay if you keep up mortgage payments throughout the estimated life of the lifetime mortgage. Under the terms of this mortgage, you can choose at any time to stop making payments and instead have interest added to the amount you owe. The illustration in Section 8(B) shows an example of how choosing to stop making payments could affect the amount you would owe under this lifetime mortgage.	
These payments are based on a lifetime mortgage of £100,000 and assume that the lifetime mortgage will start on 1st June 2017. 180 payments at a fixed rate, of 6.5%.	£542

8. What you will owe and when (B) projection of roll-up of interest

This shows how the amount(s) paid to you and the interest and any fees that we charge mount up over 15 years. It has been calculated based on the assumption that the mortgage converts to an interest roll-up basis after 5 years. The amounts are calculated using the current interest rate of 6.5%. After conversion to interest roll-up, interest is added to the amount you owe every month. Remember that you may choose to convert to interest roll-up earlier than after the 5 years assumed, and that the mortgage could run for a longer time than 15 years. If you decide to convert earlier, or if the mortgage runs for longer than assumed, the amount you owe will be more than the amount shown in this illustration.

Year	Balance at start of year	Interest charged at 6.5%	Fees charged during the year	What you owe at the end of the year
1 -5	See Section 8A above			
6	£100,000	£6,495.41	0	£106,495.41
7	£106,495.41	£6,917.31	0	£113,412.72
8	£113,412.72	£7,366.62	0	£120,779.34
9	£120,779.34	£7,867.29	0	£128,646.64
10	£128,646.64	£8,356.13	0	£137,002.76
11	£137,002.76	£8,898.89	0	£145,901.65
12	£145,901.65	£9,476.91	0	£155,378.56
13	£155,378.56	£10,121.01	0	£165,499.57
14	£165,499.57	£10,749.87	0	£176,249.44
15	£176,249.44	£11,448.12	0	£187,697.56

9. Will the interest rate change?
The interest rate on this mortgage is fixed. This means that your monthly payments will not change, unless you choose to stop making them.

10. How the value of your home could change
When you look at how the amount you owe may go up, remember that property prices can go up or down, and this can affect the amount of money left over for you or your estate after the mortgage is repaid to Toad Mortgages. Based on the estimated value of your home now of £400,000, this example shows what the value of your home would be after 15 years if the value went up by 1% each year or went down by 1% each year. Remember also that the mortgage may run for more or less than 15 years. This is an example only and gives no guide to how much the value of your home will actually change. If your home went up in value by 1% each year – it would be worth £464,388 after 15 years If your home went down in value by 1% each year - it would be worth £344,023 after 15 years.

11. What fees must you pay?	Fee amount
<u>Fees payable to Toad Mortgages:</u>	
Arrangement fee – charged at the start of the contract. This fee is not refundable.	£400
Valuation fee – charged when you apply for the lifetime mortgage. This fee is not refundable unless you cancel your application before the valuation has taken place.	£275
<u>Other fees</u>	
Estimated legal fees – you must pay this to Toad Mortgages' solicitors at the start of the contract. The amount may change but the fee is not refundable.	£300
Mole Equity Release - fee for arranging a lifetime mortgage for you. You must pay this fee when you apply for a lifetime mortgage through us. We will refund half if you cancel your application.	£500
You may have to pay other taxes or costs in addition to any fees shown here.	

12. Insurance	Monthly Payments
Insurance you must take out through Toad Mortgages or Mole Equity Release	
You do not have to take out any insurance through Toad Mortgages or Mole Equity Release as a condition of this lifetime mortgage.	N/A

Insurance you must take out as a condition of this lifetime mortgage but that you do not have to take out through Toad Mortgages or Mole Equity Release

You are required to have buildings insurance. You do not have to take it out through Toad Mortgages or Mole Equity Release. If you wish, Mole Equity Release can arrange cover under our Home Cover policy. Full details of the policy are in our booklet 'Insuring your home'.

Home Cover – based on an estimated rebuilding cost of £300,000	£25.75

13. What happens if you do not want this mortgage any more?

Early repayment charges

Early repayment charges only apply if you choose to repay this lifetime mortgage during the first five years after the start of the mortgage for reasons other than those shown below. The charge would be 5% of £100,000 during year one, 4% during year two, 3% during year three, 2% during year four and 1% during year five.

You must pay an administration fee (currently £150) if you repay this lifetime mortgage in full.

Cash examples (including current fee)

- Early repayment charge during year one - £5,150
- Early repayment charge during year three - £3,150
- Early repayment charge during year five - £1,150

THE MAXIMUM EARLY REPAYMENT CHARGE YOU COULD PAY IS £5,000 PLUS A FEE, WHICH IS CURRENTLY £150.

Circumstances in which early repayment charges do not apply

Early repayment charges will not apply if the lifetime mortgage is repaid because you are moving home, or moving into long-term care, residential or sheltered accommodation, or if the mortgage is repaid from the sale of your home after your death.

If you move home and want to transfer this lifetime mortgage to the new property, you can do so if the new property meets our lending conditions at the time. If the new property is of a lower value, we may ask you to repay part of the amount outstanding.

14. Additional features

Overpayments

You can make lump sum overpayments or pay extra each month if you wish. There are no charges if you do this.

If you make any overpayments we will reduce the amount on which we calculate interest from the following day. You can ask us to change your monthly payments immediately. Otherwise we will adjust your monthly payments on the anniversary of you taking out this lifetime mortgage.

15. Overall cost of this mortgage

The APR helps you to compare lifetime mortgages by giving you one rate that shows the overall cost of the mortgage. It takes into account some fees and charges as well as the interest due, and this means that the APR may be higher than the interest rate shown in Sections 5 and 8. Only use the APR to compare lifetime mortgages of the same type, and where the same example term is used.

The overall cost takes into account the payments in Sections 8 and 11 above.

If you make the monthly payments shown in section 8A throughout the estimated 15 year term of the mortgage, the total amount you would pay back including the amount borrowed is:	£198,754
The overall cost for comparison is:	6.9% APR

16. Using a mortgage intermediary

Toad Mortgages will pay Mole Equity Release an amount of £500 in cash and benefits if you take out this lifetime mortgage.

Contact details

If you wish to discuss this lifetime mortgage illustration please contact Ken I F Graham at Mole Equity Release, 2 The Burrow, Talpa Street, Molesey M0 1ES or on 01987 654321

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This Handbook Notice introduces the Handbook and other material made by the Financial Conduct Authority (FCA) Board under its legislative powers on 25 January 2017. It also contains information about other publications relating to the Handbook.

Contact names for the individual modules are listed in the relevant Consultation Papers and Policy Statements referred to Chapter 1 of this Notice.

General comments and queries on the Handbook can be addressed to:

Emily How
Tel: 020 7066 2184
Email: emily.how@fca.org.uk

Emma Elder
Tel: 020 7066 0284
Email: emma.elder@fca.org.uk

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 Contact Centre:

Tel: 0300 500 0597
Fax: 020 7066 0991
Email: firm.queries@fca.org.uk
Post: Contact Centre
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Financial Conduct Authority