Financial Conduct Authority

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Pension reforms – proposed changes to our rules and guidance (CP15/30 and PS 16/12)

Lead regulator: FCA

Date of assessment: December 2016

Commencement date: 25 April 2016, 10 October 2016 and 6 April 2017.

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? All

Brief outline of proposed new or amended regulatory activity

In the Budget 2014, the Government announced significant reforms giving people more freedom around how they access their pension savings from the age of 55. These reforms came into effect in April 2015. While the freedoms have opened up the options for consumers accessing their pension savings, it also means consumers have to make more decisions about how and when to use these savings.

In addition to changes to our regulatory requirements to support the implementation of the reforms, we also undertook a review of our rules and guidance against our objectives. As a result of this review we consulted on and made a number of changes designed to ensure consumers have access to products and services that are well governed and deliver value for money in competitive markets. In particular by ensuring that consumers are given the right information, at the right time, in the right way to help them make informed decisions.

A brief outline of the various changes introduced is included in Annex A. These took effect on three different dates: 25 April 2016, 10 October 2016 and 6 April 2017. For the purposes of setting out the impact on businesses in the below section, we have split our rule changes by implementation date and policy intervention.

Which type of business will be affected? How many are estimated to be affected?

The majority of the changes introduced through PS16/12 apply to the UK firms providing pensions, annuities and income drawdown - around 180 in total.

In relation to the regulatory requirements for the High Net Worth Investor and Restricted Investor criteria, there are currently 34[1] known unregulated collective investment scheme operators. In February 2015, the total number of firms authorised or seeking authorisation to conduct regulated activity in relation to investment-based crowdfunding market was 35 (*February 2015, Crowdfunding and the promotion of non-readily realisable securities by other media* http://www.fca.org.uk/static/documents/crowdfunding-review.pdf). In October 2014, we estimated that around 150 specialist wealth management firms were likely to consider the promotion of CoCos, CoCo funds and / or mutual society shares.

In relation to the change impacting on UK investment advice firms, this will affect those firms advising on Flexi Access Drawdown arrangements. This will be a maximum of 5,000 firms operating in this market.

Price base year	**Implementation date**	**Duration of policy (years)**	**Business Net Present Value**	**Net cost to business (EANDCB)**	**BIT score**
2016	2016	10	-53.45	5.8	29.0

Please set out the impact to business clearly with a breakdown of costs and benefits

Costs to business

The costs to business of the changes to our rules and guidance cover both one-off and ongoing costs, defined as follows:

- One-off costs are those incurred once to comply with our new regulatory requirements. For example training staff on the new regulatory requirements and changes to disclosure documents.
- Ongoing costs are those incurred every year as a result of the new regulatory requirements. For example where firms are required to provide new or additional personalised information to consumers on an ongoing basis.

We set out below the drivers of the one-off and ongoing costs, along with the benefits, associated with our rule changes. Where we consider there were no costs or benefits to business we also set out our reasoning.

For a more detailed breakdown of the costs to business, see our consultation paper: *CP15/30: Pension reforms – proposed changes to our rules and guidance* https://www.fca.org.uk/publication/consultation/cp15-30.pdf) and the subsequent policy statement *PS 16/12: Pension reforms – feedback on CP15/30 and final rules and guidance* (https://www.fca.org.uk/publication/policy/ps16-12.pdf).

Implementation date – 25 April 2016

Retirement risk warnings

The change gives firms additional options but they are not mandatory. As such we expect firms would only implement the changes if it was cost effective to do so, resulting in no cost to business. Where firms do take advantage of these additional options, we consider there will be an annual benefit to these businesses.

Debt guidance

[1] Based on the number of firms authorised by the FCA to undertake the regulated activity of 'Establishing, operating or winding up an unregulated collective investment scheme'.

The new guidance emphasises requirements that already apply; therefore there are no costs or benefits to business as a result of this guidance.

Attachment order guidance

The guidance emphasises requirements that already apply; therefore there are no costs or benefits to business as a result of this guidance.

Implementation date – 10 October 2016

Communications concerning accessing pension savings

The one-off costs associated with this change include the cost of changing existing disclosure documents and the information given to consumers.

We do not consider there to be additional ongoing costs associated with providing this revised information nor do we consider there to be any benefits to business. As part of these rule changes, we specifically banned firms from including application forms in wake-up packs. We do not consider this will have had any cost or benefit impact on business because:

- the ABI's Code of Conduct on Retirement Choices prevented members from sending annuity application forms with the wake-up pack unless requested by customers. It is unlikely ABI members would consider including application forms for any other decumulation product to be consistent with the spirit of the Code.
- before April 2015, drawdown pensions were the most common alternative to annuities and were largely sold on an advised basis, suggesting that few firms were sending application forms for income withdrawal with the wake-up pack.
- if firms were including application forms in wake-up packs, to comply with the rule change they would have had to stop printing the application form and including it in their packs. This could have be done as part of a regular review of their communications.

We also restricted the use of unrequested illustrations to those that show all (or a representative sample of) the options available to the customer from the firm. We do not consider this would have had any cost or benefit impact on business because the cost of producing and providing illustrations when required by our rules or requested by a customer were costs firms already incur. The rule change did not require illustrations to be provided in other circumstances, but permits firms to provide them so long as they include illustrations for all of the firms' product options or multiple illustrations that are representative of the range of products. We consider that firms would only choose to produce an illustration that is not required or requested where the firm considers it is cost effective.

Certification criteria for High Net Worth Investor and Restricted Investor

The one-off costs associated with this change include the costs of updating systems and controls employed for client certification and assessment processes and training staff about the new criteria.

The certification criteria itself is not new; firms were already undertaking these checks. Therefore there are no ongoing costs associated with this change. This change does not give rise to any benefits to business.

Glossary definitions

The one-off costs associated with the change include:

- ensuring systems or processes correctly report data firms currently report to the FCA
- amending systems to provide consumers, in certain circumstances, with a regulatory disclosure
- amending existing disclosures to provide consumer warnings in certain circumstances.

In the first, and every subsequent year over the life of the policy, we estimate investment advisers will incur costs to prepare suitability reports when advising on Flexi Access Drawdown.

We do not consider there to be any benefits to business associated with these changes.

Implementation date – 6 April 2016

Product communications to customers who take advantage of pension freedoms

The one-off costs associated with this change include updating existing systems that produce point-of-sale disclosures to ensure they cover the new pension freedom options.

Removing the requirement to provide projections of benefits and charges when a customer withdraws all of their pension funds would have had ongoing benefits to business as firms would no longer need to provide documentation to show the projections of benefits and charges when a customer withdraws all of their pension pot.

SIPP retained interest

The one-off cost associated with this change includes updating the way existing point-of-sale disclosures are produced. We do not consider there to be any ongoing costs or benefits to business associated with this change.

Determining maximum projection rates

The one-off cost associated with this change includes updating systems to apply the maximum projection rate at the level of the underlying fund/asset rather than at the level of the product in existing point-of-sale disclosures. We do not consider there to be any ongoing costs or benefits to business associated with this change.

Projections including guarantees

This change mostly applies to firms that prepare existing business projections for customers. We consider firms incurred one-off costs to change the methodology used to prepare their existing communication documents. We do not consider there to be any ongoing costs or benefits to firms associated with this change.

Projecting a future annuity – mortality assumption

Pension providers and those undertaking pension transfer work are already required to update mortality tables with new improvement factors annually. The use of a new mortality table should therefore be straightforward and not incur significant additional upfront or ongoing cost over and above the normal ongoing annual cost. We do not consider there to be any benefits to business associated with this change.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.