Policy Statement

PS11/14

Financial Services Authority

Product disclosure:

Retail investments – changes to reflect RDR Adviser Charging – feedback to CP11/3 and final rules

November 2011

Financial Services Authority

Contents

This Policy Statement reports on the main issues arising from Consultation Paper 11/3 (*Product Disclosure: Retail investments – changes to reflect RDR Adviser Charging and to improve pension scheme disclosure*) and publishes final rules.

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Abbreviations used in this paper

BAS	Board of Actuarial Standards
COBS	Conduct of Business sourcebook
CP	Consultation Paper
DWP	Department for Work and Pensions
EoC	Effect of charges table
GPPs	Group personal pension schemes
KFI	Key Features Illustration
KII	Key Investor Information document
MiFID	Markets in Financial Instruments Directive
PRIPs	Packaged Retail Investment Products
PS	Policy Statement
RDR	Retail Distribution Review
RIY	Reduction in yield
SIPPs	Self-invested personal pension schemes
SMPIs	Statutory Money Purchase Illustrations
UCITS	Undertakings for collective investment in transferable securities

1 Overview

Introduction

1.1 Consultation Paper (CP) 11/3 (*Product Disclosure: Retail investments – changes to reflect RDR Adviser Charging and to improve pension scheme disclosure*) covered:

- changes to the key features illustrations (KFIs) that firms must give clients arising from the Retail Distribution Review (RDR) rules on Adviser and Consultancy Charging;
- disclosures relating to personal pension schemes, including self-invested personal pension schemes (SIPPs); and
- the potential replacement of monetary projections by inflation-adjusted projections for personal and stakeholder pensions (both individual and group).

1.2 This Policy Statement (PS) deals only with the first and third issues. In the light of the responses to the first issue, and also following discussion with trade bodies and individual firms, we have made some changes to the rules we consulted on, which are described in Chapter 2.

1.3 The responses to our proposals in relation to the second issue, to change the disclosure requirements applying to personal pension schemes (including SIPPs), showed a wide divergence of views, and raised further issues and concerns. We have reflected on these responses and – in order to best achieve the aim of a fairer, more transparent and competitive personal pension scheme market – we have decided to re-consult on revised disclosure requirements. So, the disclosure rules for personal pension schemes will not alter with effect from April 2012 as originally proposed, but they are likely to be amended later.

1.4 Made rules and guidance on the first issue are contained in Appendix 1.

Equality and diversity issues

1.5 As noted in the CP, we have assessed the equality and diversity impact of our proposals and do not believe they will give rise to any issues. We did not receive any comments on this.

Structure of this PS

1.6 In this paper we summarise the responses to CP11/3, and give our response to the issues raised:

- Chapter 2 – changes to KFIs to reflect the RDR Adviser and Consultancy Charging rules; and
- Chapter 3 – changes to pension illustrations to make an allowance for inflation.

Timetable

1.7 The new rules come into force on 31 December 2012, at the same time as the RDR rules. However, a transitional rule allows firms to take advantage, from 1 October 2012, of a rule for generic key features illustrations for groups or sub-groups of employees in a group personal pension scheme. So firms will be able to take advantage of this revised rule from the start of auto-enrolment.

Who should read this paper?

1.8 The PS will be of interest to product providers whose products include packaged products and firms advising on or arranging these products. It will also be of interest to consumers and consumer bodies.

2

Changes to product disclosure arising from RDR Adviser and Consultancy Charging

Introduction

2.1 In CP11/3, we consulted upon changes to Key Features Illustrations (KFIs) to reflect the impact of adviser and consultancy charges following the implementation of the RDR from the end of 2012. The current rules apply to packaged products, and we said that we did not intend to extend them to all products covered by the new definition of 'retail investment product'. Products that come within the wider definition but are not packaged products (for example, unregulated collective investment schemes and structured investment products), will continue to be subject only to the 'fair, clear and not misleading' requirement in the Conduct of Business sourcebook (COBS 4.2). We also said that the changes we were proposing to the rules on the content of KFIs were limited to personal pensions, as these are not expected to come within the scope of the European Commission's Packaged Retail Investment Products (PRIPs) initiative. We have not changed our approach in these respects.

2.2 This chapter outlines the views of respondents on the CP proposals. We also set out our views on the comments received and how we have decided to proceed.

2.3 The responses to this chapter came largely from pension product providers and trade associations. Given the role of advisers in using and explaining KFIs to their clients, we were surprised by the lack of responses from advisory firms.

Misconceptions around KFIs

2.4 There is a perception by some respondents that numerous changes have been made to KFIs and that the original purpose of the document has been lost. As the only significant change in the rules in recent years was a reduction in mandated text when the current version of the Conduct of Business sourcebook (COBS) replaced the previous version (COB) in 2007, we do not agree that there have been any changes to the original purpose of KFIs. The purpose is still to give potential investors:

a) an idea of the variability of potential outcomes; and

b) an indication of the impact of charges in a way that is comparable with similar products.

2.5 It is not intended that products should be compared or compete on the basis of a).[1] However, the charges information in b) should facilitate price comparisons.

2.6 From the responses, it seems there are a number of misconceptions about the contents of KFIs. Most respondents believe that the mandated contents of KFIs are significantly more comprehensive than is the case. Since 2007 we have required them to include:

- the Keyfacts logo;
- a regulatory statement;
- a description of the charges to be taken;
- three projections using growth rates (subject to maxima) which reflect the investment potential of the product along with certain caveats. We do not mandate the wordings;
- the headings and contents of a table showing the effect of charges in monetary terms (we call this the ‘effect of charges table’ (EoC) in this Policy Statement); and
- the calculation of a summary metric which shows how charges can reduce investment growth. This is commonly called the ‘reduction in yield’ (RIY). We do not mandate how it should be explained.

2.7 It is clear from the responses and from a sample of KFIs that few firms have taken advantage of our more high-level rules introduced in 2007. It also appears that some firms have opted to continue to issue a post-sale personalised KFI. Several respondents seemed to doubt whether they should include charges for ‘external’ funds held inside a product wrapper, within their KFIs, where this is in fact required by our rules.

1 We have noted that where projections are provided below the maxima, some providers prepare an unnecessary additional projection using the maximum rates.

Point-of-sale Key Features Illustrations – individual business

2.8 The proposals in CP11/3 were intended to ensure that the way in which KFIs are prepared is consistent with the aims of the RDR. In particular, our proposals were aimed at making clear the impact of adviser charges where these are facilitated through a product, to enable consumers to understand better the effect of this on the likely returns from the product.

2.9 We said the current wording of the rules will require firms to describe any facilitated adviser charges both for life and pensions business in the same place as they describe their product charges.

2.10 For advised pension business, we proposed changes to the EoC table and RIY information to show the separate effect of product charges and facilitated adviser charges. This would help consumers and their advisers to consider the effect of different facilitation structures.

2.11 We did not propose this change for life insurance products because of the possible impact of the EU's Packaged Retail Investment Products (PRIPs) initiative.

2.12 We took account of previous research into consumer understanding of the EoC table[2] by changing its format. We proposed to:

- introduce a column to show the accumulated fund if there were no charges, so that the effect of both product and adviser charges can be clearly seen; and
- allow firms to change the EoC table column descriptors (e.g. replace 'deductions' with 'charges') and to reduce the length of the table to the first five years and the intended final year of the pension plan. We said this could be done whether or not adviser charges were facilitated. This recognised the changes in charging structures in recent years, while also focusing on the period when facilitated adviser charges are likely to have the most impact.

2.13 We provided a mock-up to show how a KFI might look under our proposed rules.

2.14 We asked:

> **Q1:** *Do you have any comments on the proposed new 'effect of charges' format for personal pensions where providers choose not to facilitate payment of adviser or consultancy charges?*

> **Q2:** *Do you have any comments on the proposed new 'effect of charges' format in COBS 13 Annexes 3 and 4 for investments and personal pensions where providers choose to facilitate payment of adviser or consultancy charges and will need to show the effect of these charges as well as product charges?*

2 For example *Key Features Documents – the practitioner's view* by H2B May 2000 and Chapter 6 of *The development of more effective product disclosure* – www.fsa.gov.uk/pubs/consumer-research/crpr18.pdf

2.15 A common concern was the lack of consistency that would exist between life, pensions and regulated collective investment schemes. This was also linked to requests to:

- make minimum changes until the PRIPs Directive is finalised; and
- wait until a fundamental review of KFIs can be undertaken by the industry, because they believe that KFIs are poorly understood.

2.16 In spite of the above, more than half of respondents agreed with our proposals for point-of-sale illustrations. However, several said that we did not cover situations where payment of adviser charges is facilitated before funds are invested in a product (we will be consulting separately on guidance clarifying that facilitation takes place both where charges are deducted after the investment amount is paid into the product and where the charges are deducted beforehand).

2.17 Respondents asked if the final column of the EoC table could be removed when no adviser charges were being facilitated. Four respondents said that the 'If there were no charges' column was misleading, because such an outcome was not possible. Two respondents thought that the column heading 'Our Charges' was ambiguous, as it was not clear whether it included charges relating to the underlying investments.

2.18 Some respondents asked how facilitated charges should be shown in annuity and income drawdown illustrations. There were also some comments about the terminology used in the mocked-up KFI.

Our response

We believe that our proposals are consistent with the overall aims and objectives for KFIs and of the RDR. We do not see the need to undertake another review of the KFI regime, and we note that few firms have taken advantage of the more high-level rules introduced in 2007.

CP11/3 proposed changes to the EoC table that will address the particular part of the KFI that research shows is often poorly understood. We have now further reduced the length of the EoC table by removing years 2 and 4. We are retaining our proposal to include an 'if there were no charges' column, because it helps illustrate the impact of both product and adviser charges and sets the RIY information in better context. This column is already calculated for the present EoC table, but is not printed.

As noted earlier, we are limiting the changes to the content of the EoC table and RIY information in KFIs for personal pensions, as we believe personal pensions will be outside the PRIPs regime.

We accept that there will be inconsistency between life and pensions products, but firms will now be able to adopt the new EoC table and RIY information for life insurance business if they so wish. The KFI regime did not previously apply to retail collective investment schemes and they are now, in any case, subject to the disclosure requirements in the Markets in Financial Instruments Directive (MiFID) and the UCITS IV Directive.

Firms can now also adopt the revised EoC table for non-advised pension business and life business if they so wish, and so enhance clarity and comparability of KFIs.

We continue to think it is important that consumers are able to see clearly the effect of adviser charges on their pension investments at the outset and we plan to proceed with our proposals for point-of-sale KFIs. We believe that the new structure for the EoC table links it more closely to the RIY, with the movement between each column reflecting the RIY at each stage of the process.

We have amended our rules to give firms flexibility to change the EoC table when no adviser charges are being facilitated or if the table is being used voluntarily for other business.

We have amended COBS 13 Annexes 3 and 4 to require KFIs to show whether any adviser charge is deducted before or after investment into the product.

We consider that our KFI rules already require full disclosure of charges for assets and funds held in a personal pension wrapper.

Firms should note that the mock-up was an example of what can be done within our proposed rules. Apart from the regulatory statement at the beginning, we are not intending to mandate any wordings. The column headings in the tables may be amended when it is appropriate to do so.

We have made no specific rules regarding illustrations for conventional annuities. We may need to review our rules if adviser charges are not facilitated from a pension fund before purchase of an annuity.

We consider that the new EoC table is also applicable to drawdown pension plans.

Firms are reminded of our general requirements to provide information which is clear, fair and not misleading. We believe our rules, while providing a framework for the content, give firms significant flexibility in structure and content. Firms believe that KFIs are not well understood, but we believe it is the implementation which is poor. We urge firms to:

- reduce the length and complexity of their KFIs;
- improve their structure, design and presentation. For example, many firms' KFIs compare unfavourably with the quality of modern personalised utility and credit card bills that consumers have become accustomed to;
- improve the clarity of the language;
- remove background information which belongs either in the key features document or is not necessary at all; and
- remove repetition, particularly of disclaimers and projections.

As with previous disclosure consultations, some firms complain about the costs of improvement and keeping up with change. We note that many still rely on legacy systems that are expensive to maintain as well as being unable to produce modern, more consumer-friendly documents.

Generic illustrations

2.19 Our existing rules do not permit a generic (i.e. example) projection unless there are reasonable grounds for believing that such a projection will be sufficient to enable a retail client to make an informed decision about whether to invest. The number of potential variables for individual pensions that need to be reflected in a KFI means that few generic illustrations are produced.

2.20 In CP11/3 we said that we did not think that generic KFIs would be appropriate where adviser charges are being facilitated and they vary from investor to investor. So we proposed a rule to disallow generic projections where adviser charges are facilitated.

2.21 We asked:

> **Q3:** *Do you agree that a generic KFI will not be appropriate for individual pensions where the product provider facilitates payment of the adviser charge, and our proposal to add a rule to this effect?*

2.22 Of the respondents who answered this question most agreed with our proposed rule change. But some of these, while agreeing in principle, were concerned it might prove to be too inflexible. They thought there could be situations where a generic KFI was appropriate; for example, where advisers use a consistent charges model for all clients.

2.23 One respondent was concerned that we should maintain a level playing field for all products, another requested guidance about the existing 'reasonable grounds' rule, and another suggested a generic KFI might be appropriate where both a consultancy charge and an adviser charge were being facilitated from the same product. But one firm pointed out that it was unlikely that a generic KFI for pensions could meet the current rule, regardless of adviser charges.

Our response

We will introduce the proposed rule for individual personal pensions. While there may be advisers that have a set Adviser Charging model for their clients (or categories of clients), we find it difficult to see how our existing 'reasonable grounds' rule (COBS 13.4.2R (1)) could be met for most individual personal pensions. We also doubt that providers will wish to prepare generic illustrations for each adviser with a homogenous Adviser Charging structure, given that they will have personalised systems which can better meet a retail client's needs.

We comment specifically on the use of generic illustrations in relation to Group Personal Pensions (GPPs) below.

Point-of-sale Key Features Illustrations – Group Personal Pensions

2.24 In CP11/3, we proposed that similar rules should apply to illustrations for members of GPP schemes as for individual business. We did not rule out the use of generic illustrations being appropriate for GPPs in certain circumstances, namely when the structure of the consultancy charge is consistent for all the members of the scheme or a sub-group of members. However, we also noted that the use of generic illustrations for GPPs seems to be limited and sought feedback in more general terms on the need to retain such rules.

2.25 We asked:

> **Q4:** *Do you have any comments on our proposal that, where personalised illustrations are provided for prospective members of GPPs, they should be set out in the same way as for individual personal pensions?*

2.26 Most respondents agreed that members of GPPs should receive illustrations in the same format as if they were purchasing an individual product. Three respondents asked how they should present the effect of charges if both adviser and consultancy charges were being facilitated through the same product.

Our response

We were pleased that most respondents agreed with a consistent approach to individual pension illustrations and those for GPP scheme members.

Facilitation of both consultancy and adviser charges from the same product may occur simultaneously. Where they do, and the charges are for the same adviser, both can be covered in the same KFI along with an appropriate explanation. We have amended the rules in COBS 13 Annex 4 to make this clear.

If individual advice is given to a GPP member after a KFI showing consultancy charges has been provided, or where further charges are being introduced to an existing GPP, the process will be similar to that for an existing business change described in the section on KFIs for existing business below, and will be subject to the same rules.

However, no firms indicated whether they intend to offer facilitation of adviser charges to more than one adviser, and at different times.

If it becomes common for both adviser and consultancy charges to be facilitated from the same product, we will reconsider our approach.

Generic illustrations

2.27 In CP11/3, we noted that there may be circumstances when a generic illustration may be suitable for members of a GPP scheme, for example, if the consultancy charge is structured in a consistent way for all individuals in the arrangement or for sub-groups of scheme members. A generic illustration would not be appropriate where the consultancy charge varies according to the individual characteristics of each member, such as their age or contribution level.

2.28 We asked:

> **Q5:** *Do you agree with our proposal to add a rule to say that generic projections for GPPs will only be appropriate where any consultancy charge is structured such that its effect is consistent across the group of individuals being given the generic projection?*

> **Q6:** *Is there a need to allow generic projections for GPPs in these circumstances and are there any other circumstances in which you consider that generic illustrations should be permitted for prospective GPP members?*

2.29 In general, firms that are not active in the GPP market did not see a need for generic illustrations. However, active market participants, and relevant trade associations and consultants, believed there were circumstances in which there was scope to use generic illustrations. Auto-enrolment, in particular, could lead to an increase in demand for them, because in some cases the tight timeframes may not give enough time to arrange personalised illustrations. Independently of this consultation, we have also been told that the stepped increases in contributions may be difficult and expensive to include in personalised KFIs.

2.30 Two respondents suggested that generic illustrations could be used before the sale, and then personalised illustrations issued afterwards.

2.31 Guidance was sought on what was meant by consultancy charges being taken in a consistent way, with respondents pointing out that flat charges would be consistent but their effect would depend upon the level of contributions. A couple of respondents pointed out that the proposed amendments to our rules (COBS 13.4.2 R(4)) referred to the product rather than the scheme.

Our response

We agree that a more pragmatic approach to KFIs is required for auto-enrolment. In doing so, we recognise that the Department for Work and Pensions (DWP) already requires that charges for schemes used for auto-enrolment are reasonable and, because members will benefit from contributions from their employer, there is less scope for detriment.

The needs for projection and charges information of a member of a GPP scheme receiving an employer's contribution are the same regardless of whether the GPP is used for auto-enrolment. So, we have refined our proposed guidance for when generic KFIs may be suitable.

The suitability of generic projections will therefore depend upon the nature of the product and consultancy charges that providers and advisers choose to adopt.

Under the amended rule, (COBS 13.4.2R(5)), providers will be able to prepare generic KFIs or sets of generic KFIs for groups or sub-groups of members. We have made a transitional provision allowing firms to make use of this rule from 1 October 2012, when the auto-enrolment rules come into effect.

KFIs for existing business

2.32 We proposed that a new KFI should be produced if a new or increased adviser or consultancy charge was to be facilitated through the product. This was intended to enable consumers to see the effect of the new arrangement on their potential benefits. We also discussed the introduction of an intermediate rate projection for existing business, for consistency with the growth rate used for Statutory Money Purchase Illustrations (SMPIs).

2.33 Firms did not object to confirming the revised adviser charges, but there was strong objection to the proposal to do this through a revised KFI. It appears that many providers are unable to produce illustrations for changes to existing business which allow for the current fund value. It was argued that the costs of building systems to allow for new or increased adviser charges would be excessive and beyond the assumptions made in our cost benefit analysis.

Our response

We have carefully considered the feedback. We believe that the principle of issuing a revised illustration in these circumstances is correct. However, we appreciate that, for some firms, the requirement would be burdensome. Instead, we have made a high-level rule that requires firms to give retail clients enough information about the likely effect of the facilitation. A revised KFI reflecting the new charges is one way of meeting this rule.

Life insurance-based structured products

2.34 Our proposals were based on the premise that the nature of structured products will make them an unsuitable vehicle for facilitating adviser charges within the product. Instead, the adviser will take their charge directly or ask the product provider to deduct it before investing the balance into a product.

2.35 KFIs are not required for structured products with other types of underlying investments. So we proposed removing the requirements for structured products with an underlying life policy. Structured products have implicit charges, and the possible outcomes can be adequately explained by use of text and with the help of example scenarios. This is the method used for UCITS Key Investor Information documents (KIIs) and is also likely to be used for structured products under the proposed PRIPs Directive.

2.36 We asked:

> *Q7: Do you agree that we should remove the requirement for a KFI for structured life products? If so, does our proposed rule in COBS 13.1.3R(3)(b) satisfactorily exclude such products?*

2.37 Nearly three-quarters of the respondents to this question agreed with our proposal. Of the remainder, one was concerned at the removal of a level playing field between different types of structured products, when in fact we are creating one. Another respondent suggested we copy over the structured UCITS KII requirement to provide example product scenarios. Two disagreed with our presumption that adviser charges could not be facilitated through structured products, although they did not indicate how it may be done.

2.38 Only one respondent commented on the wording of our proposed rule change: they asked whether it should extend to assets as well as indices.

Our response

We are introducing the proposed rule, which means that there will be a level playing field to the extent that no structured product will require a KFI. We do not propose to copy over the structured UCITS requirement to provide example product scenarios, although firms are free to do so if they believe these are appropriate.

We have received no information which alters our assumption about the way any adviser charges will be facilitated. If we do, we will consider if any changes to our rules are required.

We agree that the proposed rule (now in COBS 13.1.3R(3)(b)) should refer to assets as well as indices and have amended it accordingly.

Draft rules

2.39 We asked:

> *Q8: Do you have any other comments on the draft rules in Appendix 1?*

2.40 Most of the responses to this question raised issues which have been addressed in the earlier questions and responses. Two respondents commented on the timing of the requirements, both with regard to preparation time and in relation to the introduction of the PRIPs Directive. One respondent commented that, given the distinct types of distribution channels and the potential for a variety of 'factory gate prices', the disclosure should also identify the costs of distribution separately.

Our response

We have not seen any evidence that suggests that firms will be unable to make the required changes to systems by the end of 2012, given the overall timetabling of preparations for the implementation of the RDR. We continue to believe that these product disclosure changes are supportive of the general principles of the RDR.

Our proposals were focused on pension products, which are widely expected to fall outside the European Commission's PRIPS initiative. We are satisfied that our new rules will help to protect consumers.

We do not currently require distribution costs to be separated from product charges, and we do not see sufficient advantage to a consumer in doing so.

Money Advice Service Comparison Tables

2.41 Many providers voluntarily submit data for the Comparison Tables published on the Money Advice Service website (previously part of the FSA's website as 'Moneymadeclear'). Unlike the FSA, the Money Advice Service has no regulatory requirement to consult. However, in the light of the close connection between KFIs and the Comparison Tables, we have discussed with the Money Advice Service retaining some consistency between them after the RDR is introduced. Currently, providers submit data to the Tables based on either default commission or the most common commission rate that is paid on a product. Once the RDR rules are in force, product charges will no longer include an allowance for commission. One way forward would be to base the tables on product charges only. We agreed with the Money Advice Service that we would seek opinions from product providers on this and other possible ways forward for the Comparison Tables and share the feedback with them.

2.42 We asked:

> ***Q9:*** *Do you have any comments on the proposal that Moneymadeclear [now Money Advice Service] comparative tables should contain only product charges after the RDR comes into force?*

2.43 Around three-quarters of respondents to this question agreed that the comparison tables should be based on product charges post-RDR. It was additionally suggested that the tables should contain a warning that adviser charges may also be payable, or that an indicator be provided to show which products facilitate adviser charges. A number of respondents commented that there may be more than one 'factory gate price', depending on the distribution channel. They advocated using standardised terms or including a comment that different terms may be available depending on how and where the product is purchased. It was also pointed out that the charges for non-advised business would still include an allowance for commission, which would mean they were not comparable with the terms for advised business.

Our response

We have discussed the responses with the Money Advice Service in addition to providing them with a written summary of the responses. We shall continue to liaise with the Money Advice Service.

Cost benefit analysis

2.44 When proposing new rules, or amendments to rules, we are obliged (under section 155 of the Financial Services and Markets Act 2000 – FSMA) to publish a cost benefit analysis (CBA), unless we consider that the proposals will give rise to no costs or to an increase in costs of minimal significance.

2.45 Fewer than half of the respondents to CP11/3 commented on the CBA for the changes proposed to disclosure to take account of the RDR. One software consultancy company responded in addition to product providers.

2.46 We based our estimate of the compliance cost for firms using both:

- estimates for point-of-sale illustration changes provided by a number of product providers; and
- figures derived from the 2006 PricewaterhouseCoopers (PwC) report *Compliance costs of proposed changes to the investment product disclosure regime*, which were revalued to current day terms.

2.47 We did not consider that there would be increased costs for the FSA or that the costs for firms would significantly affect intended business models.

2.48 We identified benefits which largely focused on increased clarity for consumers, as well as greater consistency between the EoC table and the RIY statement. We also considered that the policy supported the overall aims of the RDR, by meeting a greater need for transparency between product charges and adviser charges.

2.49 We asked:

> *Q10: Do you have any comments on the analysis of costs and benefits as they affect your firm?*

2.50 Firms tended to focus on the compliance costs. Of the medium-sized firms responding, approximately half said the compliance costs were appropriate, while the remainder said they were understated. The focus of the larger firms was around the costs of changing legacy systems in order to implement the rules on mid-term increases in adviser charges. We have acknowledged earlier that we underestimated the work that would be required to implement these rules, and have now replaced the requirement for a new KFI with a less onerous notification.

2.51 We are concerned to note that our efforts to make point-of-sale illustrations clearer are being limited by the inflexibility of firms' systems and the consequent large cost estimates for maintenance. Trade bodies and many firms speak of the need for clearer illustrations that are more beneficial to consumers, but firms' continued use of costly legacy systems appears to prevent them from creating KFIs which are understandable and well-presented. Future changes for gender equality and inflation-adjusted pension illustrations, together with the stated desire by some to make KFIs more effective, means we believe that firms will eventually have to invest in modern systems that are cheaper to maintain and provide higher quality outputs.

2.52 Firms commented on the need for rules to be finalised in this area as soon as possible if the costs were not to escalate further. There were also calls to implement any changes from the gender equality ruling of the European Court of Justice and the introduction of inflation-adjusted illustrations at the same time, to achieve maximum cost-effectiveness, even if that meant delaying introduction of inflation-adjusted illustrations.

Our response

Our proposals for point-of-sale illustrations are based on the same calculation routines as used at present, but with a different presentation of the outcomes. So we were surprised at some of the feedback we received on our cost estimates.

We have redrafted our rules for KFIs for GPPs. They now give greater scope for the use of generic illustrations. This will enable a more streamlined process for providing disclosures for GPPs used for auto enrolment.

The re-drafted rules are also applicable for all GPPs so, subject to the complexity of the charging structures they design, firms will be able to provide RDR-compliant illustrations without necessarily altering their point-of-sale personalised illustration systems. If firms design charging structures that enable them to take advantage of the new rules for GPP illustrations, savings will accrue both in the RDR development costs and in ongoing production and maintenance compared to our previous cost estimates.

We have not taken forward our proposals for existing business projections to always include the intermediate projection rate. We will reconsider this when we consult on inflation-adjusted KFIs for pensions.

We have replaced our requirement for revised KFIs where facilitated adviser or consultancy charges start or increase with a more high-level rule (COBS 13.6.1R). This says that the firm must prepare sufficient information for the retail client to be able to understand the likely effect of that facilitation. Providers intending to offer such changes to facilitated charges for existing business can decide how best to meet this requirement. This may be achieved by adapting existing processes and materials already used to explain premium increases, so that the firm can also explain changes to facilitated charges, or by introducing a new process. We expect firms to comply in the most efficient way, depending on what systems functionality they already have and their expected volumes. Development costs to meet the new, less onerous rule will depend on the number of systems a firm intends to use to facilitate payment of adviser and consultancy charges from existing business. The size of a firm does not necessarily correlate with the number of their systems.

We have used a variety of sources of information to estimate the costs associated with our new rule. In particular, we believe that the changes we are proposing are similar to some of the changes that firms implemented as part of the Treating Customers Fairly (TCF) programme and COBS disclosure changes. Using the underlying data from a LECG study[3], we believe that the development costs of the changes are in the range of £25,000–£325,000 per firm for large and medium sized firms, which is lower than our previous range of estimates in CP11/3. However, this range depends on the approach to compliance taken by firms, which we are not prescribing. These cost estimates include the time taken to consider the approach to be taken, as well as implementation of the approach and preparation of suitable documents. We expect most of the work to be concentrated on developing the approach. The extent of ongoing costs will largely depend upon the functionality of the processes firms choose to develop, but we would not expect ongoing costs to be more than the present value of the above development costs, otherwise it would be more efficient for firms to implement similar types of process to the ones we have described.

3 LECG, *The Regulation of Retail Investment Products: An Initial Assessment of the Impact of Recent Changes* (May 2009): www.fsa.gov.uk/pubs/other/lecg.pdf

Our previous analysis of disclosure costs revealed massive divergence between firms, with the six largest firms making up nearly 70% and the 15 medium firms making up over 10% of the total industry costs. The costs of the 128 smaller firms (largely SIPP operators) were very small in comparison, so we do not expect the new rule to lead to material reductions in our original estimates for these firms.

In summary, we estimate this less onerous requirement for disclosure of the effect of new adviser or consultancy charges or increases in these charges would result in lower compliance costs than for the rule proposed in CP11/3. However, we believe that the benefits will also be reduced to some extent, as consumers could have less clarity regarding the effect of charges on their likely pension fund.

3

Possible future changes to pension illustrations to make an allowance for inflation

3.1 In the final chapter of CP11/3, we discussed fulfilling the commitment we made in 2007 to move to inflation-adjusted pension illustrations. There remains a widespread desire for more consistency between point-of-sale illustrations and the subsequent annual SMPIs. SMPIs illustrate potential retirement income, after inflation (i.e. in real terms), using a fixed set of assumptions laid down in Technical Memorandum 1 (TM1) set by the Board of Actuarial Standards (BAS) on behalf of the DWP.

3.2 Despite the key difference of KFIs being in monetary terms and SMPIs being in real terms, there is some consistency in the other assumptions used in point-of-sale illustrations and SMPIs. However, SMPIs lack the personalisation that KFIs allow in illustrating the potential annuity. There is understandable confusion caused by the differences between the two documents.

3.3 We asked:

> ***Q16:*** *Do you agree that we should be seeking to consult on moving our projection basis for pensions to be more consistent with the SMPI requirements?*

> ***Q17:*** *If the answer to question 15 is 'Yes':*
> *a. should the 2.5% SMPI inflation assumption be used with all three projections; and*

b. do you wish to retain the flexibility to illustrate various spouses' pensions and annuity formats rather than following standard SMPI assumptions?

Q18: *Do you have any comments on the costs and benefits of moving to inflation-adjusted projections for personal pensions and stakeholder pensions? If possible, please provide information on the likely costs and benefits for your firm.*

Q19: *Do you have any comments on the design and content of the examples in Annexes 3.2 and 3.3 we have prepared for future consumer testing?*

3.4 Almost all respondents agreed that there should be more consistency between KFIs and SMPIs, although there was less agreement on the best way to achieve this, because neither of the two methods was seen as the ideal way forward. There was some concern that SMPIs are not well understood. In general terms, and subject to consumer testing, the majority view was to change point-of-sale illustrations to real terms, but that SMPIs should allow greater personalisation. We note that all respondents to the BAS consultation on TM1 who expressed a view wanted our KFI basis to be inflation-adjusted and thus be more consistent with SMPIs. Regardless of this, there is concern that moving to inflation-adjusted KFIs may not be understood and that the apparent smaller retirement income could be a disincentive to save.

3.5 Views were split on whether a point-of-sale projection in real terms should discount a single inflation rate for all three growth rates or use different inflation rates that are more consistent with the economic conditions underlying each growth assumption. One respondent noted that different inflation rates would reduce the effectiveness of the aim of demonstrating variability of outcome.

3.6 Only a few firms provided cost estimates for moving to inflation-adjusted KFIs. These ranged from £100–200k for medium-sized firms up to £2–3m for large firms. It was noted that, if the basis was entirely consistent with that for SMPIs, there would be cost savings in being able to use the same calculation engine for both.

3.7 Respondents found it useful to see the examples we had prepared, although neither of the examples had the support of a clear majority. While some respondents saw the examples as being short and clear, others perceived them as too simplistic. Some respondents thought there was no need to show the EoC table or the pension fund in real terms, as SMPIs only show the pension income in real terms. Some simply commented on the wordings even though these are not mandated. Significant interest was expressed in the outcomes of the planned consumer testing.

3.8 Some firms said they would prefer to make changes at the same time as the RDR, whereas others would prefer to wait.

Our response

We have taken on board the comments we received in progressing this area of work. Disappointingly, some respondents to these questions seemed not to fully understand the purpose of KFIs and of our current rules.

We are concerned at the potential costs estimated by larger firms, which may be a reflection of inflexible legacy systems, as discussed earlier. However, we welcome the majority view that a more consistent approach to point-of-sale illustrations and SMPIs would benefit consumers.

We still believe that the best way to progress this is to develop inflation-adjusted point-of-sale illustrations, but to retain flexibility for annuity formats. On the basis of the feedback, we have drawn up revised KFIs for consumer testing and expect to report the results of such testing to the market at the same time as we consult on the changes. At that stage, we also expect to re-consult on introducing an intermediate projection for existing business projections.

Annex 1

List of non-confidential respondents to CP11/3

Association of British Insurers

Aegon UK

Association of Independent Financial Advisers (AIFA)

AJ Bell

Alliance Trust

Altus

Association of Member-Directed Pension Schemes

Aviva

Axa Sun Life

Capita

Financial Services Consumer Panel

Friends Provident

Heath Lambert

Hargreaves Lansdown

HSBC

Intelligent Pensions

Killik

Liverpool Victoria Friendly Society

Lloyds Banking Group

More to SIPPS

Prudential UK

Rensburg Sheppards Investment Management

Royal Bank of Scotland Group

Scottish Life and Royal London Group

The Society of Pension Consultants

Xafinity SIPP Services

We also received five confidential responses.

Appendix 1

Final Handbook text

RETAIL DISTRIBUTION REVIEW (KEY FEATURES ILLUSTRATIONS) INSTRUMENT 2011

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of:

(1) the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(a) section 138 (General rule-making power);
(b) section 156 (General supplementary powers);
(c) section 157(1) (Guidance); and

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.

B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. (1) Part 2 of Annex B comes into force on 1 October 2012.

(2) The remainder of this instrument comes into force on 31 December 2012.

Amendments to the Handbook

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

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

Citation

F. This instrument may be cited as the Retail Distribution Review (Key Features Illustrations) Instrument 2011.

By order of the Board
22 September 2011

Annex A

Amendments to the Glossary of definitions

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

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

generic key features illustration	(in *COBS*) a *key features illustration* which reflects the terms of a contract which is representative of the type of business normally undertaken by the *firm*, or the type of business it is promoting, rather than the terms of a particular contract with, or that will be offered to, a particular *client*.

Amend the following as shown.

appropriate charges information	(in *COBS*) information about charges which is calculated and presented in accordance with the charges *rules* in *COBS* 13.4.1R and *COBS* 13 ~~Annex~~ Annexes 3 or 4.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

Part 1: Comes into force on 31 December 2012

13.1 The obligation to prepare product information

…

<u>Information on life policies</u>

13.1.2 R …

Exceptions

13.1.3 R A *firm* is not required to prepare:

...

(3) a *key features illustration*<u>:</u>

(a) ...

(b) ...

(c) if it includes the information from the *key features illustration* in a *key features document*; or

<u>(d)</u> <u>for a *packaged product* which, at the end of its fixed term, provides for the return of the initial capital invested and a specified level of growth linked by a pre-set formula to the performance of a specified asset or index or a combination of assets or indices; or</u>

…

…

13.4 Contents of a key features illustration

...

Exceptions

13.4.2 R ~~A *key features illustration* must not include a *generic projection* unless~~ <u>When the *rules* in this chapter require a *key features illustration* to be prepared, it must not take the form of a *generic key features illustration*</u>:

(1) unless there are reasonable grounds for believing that ~~that *projection*~~ it will be sufficient to enable a *retail client* to make an informed decision about whether to invest; or

(2) if it is part of a *direct offer financial promotion* which contains a *personal recommendation*; or

(3) if a *personal pension scheme* or a *stakeholder pension scheme* is facilitating the payment of an *adviser charge*; or

(4) if a *group personal pension scheme* or a *group stakeholder pension scheme* is facilitating the payment of a *consultancy charge* and the combined effect of the *consultancy charges* facilitated by the product and the product charges is not consistent for all investors in the relevant group or sub-group; or

(5) unless it is prepared for groups or sub-groups of employees in a *group personal pension scheme* or a *group stakeholder pension scheme* and it contains:

(a) a *generic projection* which is prepared in accordance with *COBS* 13 Annex 2 paragraph 1.3 and based on a default fund or other commonly selected fund;

(b) an effect of charges table calculated in accordance with *COBS* 13 Annex 4R paragraph 2 and contains additional rows that show a range of typical periods to retirement age; and

(c) reduction in yield information which is calculated in accordance with *COBS* 13 Annex 4R paragraph 3.3(2) and combines the product charge and, if applicable, the *consultancy charge*.

13.4.3 G A *generic* ~~*projection*~~ *key features illustration* is unlikely to be sufficient to enable a *retail client* to make an informed decision about whether to invest if the *premium* or investment returns on the product will be materially affected by the personal characteristics of the investor.

...

After COBS 13.5 insert the following new section. The text is not underlined.

13.6 Preparing product information: changes to adviser and consultancy charges

13.6.1 R A *firm* that agrees to start facilitating the payment of an *adviser charge* or *consultancy charge*, or an increase in such a charge, from an in-force *packaged product*, must prepare sufficient information for the *retail client* to be able to understand the likely effect of that facilitation, in good time before that information has to be provided.

Amend the following as shown.

13 Annex 2 Projections

This annex belongs to *COBS* 13.4.1R (Contents of a key features illustration), *COBS* 13.5.1R (Projections for in-force products) and *COBS* 13.5.2R (Projections: other situations).

...

R		
1.3	(1)	If a *generic projection* is prepared for a *stakeholder pension scheme* or *personal pension scheme* in circumstances where a *generic key features illustration* is permitted under *COBS* 13.4.2R, sufficient separate *projections*, covering a range of different contractual periods and contributions, must be included for a *retail client* to be able to make an informed decision about whether to invest.
	…	

...

R	
1.8	In the case of a *stakeholder pension scheme* in circumstances where a *generic key features illustration* is permitted under *COBS* 13.4.2R, the specimen benefits table, contained within the "Stakeholder pension decision tree" factsheet available on www.moneyadviceservice.org.uk and headed "Pension Table...How much should I save towards a pension?" which sets out initial monthly pension amounts, may be used instead of a *standardised deterministic projection* but only if it is accompanied by an explanation of the caveats and assumptions behind the table.

…

R		
Assumptions: charges		
2.6	The *charges* allowed for in a *standardised deterministic projection*:	
(1)	must properly reflect:	
	(a)	all of the charges, expenses and deductions a *client* will, or may ~~be expected~~ expect to ~~pay~~ be taken after investment into the product;

…

13 Annex 3 Charges information for a packaged product

(except for a personal pension scheme and a stakeholder pension scheme where adviser charges or consultancy charges are to be facilitated by the product)

This annex belongs to *COBS* 13.4.1R (Contents of a key features illustration)

R			
Charges			
1	Appropriate charges information		
1.1	~~Appropriate~~ *Appropriate charges* ~~information~~ *information* comprises:		
	(1)	(a)	a description of the nature and amount of the *charges* a *client* will or may be expected to bear in relation to the product and, if applicable, any investments within the product;
		(b)	if applicable, a description of the nature and amount of the *adviser charges* a *retail client* has agreed may be taken, including whether it is taken before or after investment into the product;
	(2)	an ‘effect of charges’ table; and	
	(3)	‘reduction in yield’ information.	
…			
Exceptions			
1.3	An effect of charges table and reduction in yield information are not required for:		
	…		
	(3)	~~a *stakeholder pension scheme*, if the following is included instead:~~ ~~“There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £500 throughout the year, this means we deduct [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct [£7500 x y/100] that year.”~~ [deleted]	
	(4)	a *stakeholder product* ~~that is not a *stakeholder pension scheme*,~~ or a product that will be held in a *CTF* where the relevant product and the *CTF* levy their *charges* annually, if the following is included instead:	

		"There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £250 throughout the year, this means we deduct [£250 x y/100] that year. If your fund is valued at £500 throughout the year, this means we deduct [£500 x y/100] that year. [After ten years these deductions reduce to [£250 x r/100] and [£500 x r/100] respectively.]" where ~~(in the case of (3) and (4))~~ 'y' is the annual charge and 'r' is the reduced annual charge (if any).
…		

R	
2	Effect of charges table
...	

2.2 The effect of charges table:

(1) for a *life policy*~~, *personal pension scheme*~~ ~~or a~~ ~~*stakeholder pension scheme*~~ must be in the following form <u>unless the firm chooses to adopt the form of the effect of charges table in *COBS* 13 Annex 4</u>:

R					
Note 1A	Note 2	Note 3	Note 4	Note 5	Note 6
At end of year	Total paid in to date	With-drawals	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£	£
1					
…					
5					
10					
...					

(2) for any other *packaged product* must be in the following form:

R				
Note 1B	Note 2	Note 3	Note 5	Note 6

At end of year	Investment to date	Income	Effect of deductions to date	What you might get back
	£	£	£	£
1				
5				
10				
…				

(3) must be completed in accordance with the following notes:

R		
Note 1A	(a)	This column must include the first five years, every subsequent fifth year and the final year of the *projection period*.
	(b)	Figures may be shown for every subsequent tenth year rather than subsequent fifth year where the *projection period* exceeds 25 years, or for whole of life policies.
	(c)	For whole of life policies, should the projected fund reach zero before the end of the *projection period* this must be highlighted.
	(d)	~~For a *drawdown pension* include figures for each of the first ten years, or less if the value of the fund is projected at the *higher rate of return* to reach zero before then.~~ [deleted]
	(e)	If there is discontinuity in the trend of *surrender values*, the appropriate intervening years must also be included.
	(f)	Figures for a longer term may be shown.
Note 1B	(a)	This column must include the first year, the fifth year and every subsequent fifth year of the *projection period*.
	(b)	[deleted]
	(c)	Figures for a longer term may be shown.
Note 2	This column must show the cumulative contributions paid to the end of each relevant year.	
Note 3	This column must show the cumulative withdrawals taken or income paid to the end of each relevant year (if any). The column may be omitted if withdrawals or income are not anticipated or allowed.	
Note	This column is optional. If it is retained, it must show the total actual	

4	deductions to the end of each relevant year calculated using the following method:	
	(a)	apply the *intermediate rate of return* for the relevant product to the figure in the 'effect of deductions to date' column for the previous year;
	(b)	subtract this figure from the figure in the 'effect of deductions to date' column for the year being shown; and
	(c)	add the resulting figure to the figure in the 'total actual deductions to date' column for the previous year (if any).
<u>Note</u> 5	This column may be deleted if the product is a without profits *life policy* with benefits that are guaranteed except on surrender or variation, a *life policy* with a term not exceeding five years, or a *life policy* that will be held in a *CTF*.	
	If this column is not deleted, the 'effect of deductions to date' figure must be calculated by taking the accumulated value of the fund without reference to *charges* and then subtracting from this figure the figure in the 'what you might get back column' for the same year.	
<u>Note</u> 6	This column must show *standardised deterministic projection* of the surrender value, cash-in value or transfer value, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return* to the end of each relevant year.	

...

G	
2.4	The effect of 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract. ~~For instance:~~
	~~The column titled 'What you might get back' might be replaced with 'What the transfer value might be' for personal pensions, or 'Open market value' for *income withdrawals* or *short-term annuities*.~~
	~~The withdrawals column may be called 'Total income taken' for *income withdrawals* or *short-term annuities*.~~
	~~The table may be titled 'What effect will the deductions have?' for *income withdrawals* or *short-term annuities*.~~

…

After Annex 3 insert the following new annex. The text is not underlined.

13 Annex 4 Charges information for a personal pension scheme and a stakeholder pension scheme

(where adviser charges or consultancy charges are facilitated by the product)

This annex belongs to *COBS* 13.4.1R (Contents of a key features illustration)

R			
Charges			
1	Appropriate charges information		
1.1	*Appropriate charges information* comprises:		
	(1)	(a)	a description of the nature and amount of the *charges* a *client* will or may be expected to bear in relation to the product and, if applicable, any investments within the product;
		(b)	if applicable, a description of the nature and amount of the *adviser charges* and *consultancy charges* a *retail client* or employer has agreed may be taken before investment into the product;
		(c)	if applicable, a description of the nature and amount of the *adviser charges* and *consultancy charges* a *retail client* or employer has agreed may be taken after investment into the product;
	(2)	an 'effect of charges' table; and	
	(3)	'reduction in yield' information.	
	Exception		
1.2	An effect of charges table and reduction in yield information are not required for a *stakeholder pension scheme*, where *adviser charges* or *consultancy charges* are not being facilitated by the scheme, if the following is included instead: "There is an annual charge of y% of the value of the funds you accumulate. If your fund is valued at £500 throughout the year, this means we deduct [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct [£7500 x y/100] that year."		

R

2	Effect of charges table	
2.1	Each effect of charges table must be accompanied by:	
	(1)	an explanation of what the table shows;
	(2)	a statement that all relevant guarantees have been taken into account (if there are any);
	(3)	a warning that one effect of the *charges* referred to is that a *retail client* could get back less than they invest (if that is the case); and
	(4)	the rate of return used to calculate the figures in the table.
2.2	Subject to Note 2 below, an effect of charges table must be in the following form:	

Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
At end of year	Total paid in to date	With-drawals	If there were no charges	If only product and investment charges are taken	After all charges are taken
	£	£	£	£	£
1					
…					
5					
At age [xx]					

Note 1	This column must include at least the first, third and fifth year and the intended date of retirement.
	For a *drawdown pension*, figures must be included for each of the first ten years, or less if the value of the fund is projected at the higher rate of return to reach zero before then.
Note 2	This column is optional. If it is retained it must show the cumulative contributions paid to the end of each relevant year.
Note 3	This column must show the cumulative withdrawals intended to be taken to the end of each relevant year. The column may be omitted if withdrawals are not anticipated or allowed.
Note	This column must show a *standardised deterministic projection* of the

4	benefits, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return* to the end of each relevant year, but without taking any *charges* into account.
Note 5	This column must show a *standardised deterministic projection* of the benefits, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return* to the end of each relevant year, but taking into account only the *charges* described in *COBS* 13 Annex 4R paragraph 1.1(1)(a).
Note 6	This column must show a *standardised deterministic projection* of the benefits, calculated in accordance with the *rules* in *COBS* 13 Annex 2 (Projections) at the appropriate *intermediate rate of return* to the end of each relevant year taking into account all charges described in *COBS* 13 Annex 4R paragraph 1.1(1)(a) and (c). Where both *adviser charges* and *consultancy charges* are being facilitated from a product this column should show the combined effect of those charges. This column may be omitted if there are no *adviser charges* or *consultancy charges*.

R	
Exception	
2.3	An effect of charges table may be amended, but only if and to the extent that it is necessary to properly reflect the nature and effect of, for example, the *adviser charges*, *consultancy charges* or the *charges* inherent in a particular product.

G	
2.4	The effect of *COBS* 13 Annex 4 paragraph 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract or the terminology used.
2.5	An effect of charges table must be appropriately titled, for example, ‘How the charges reduce the value of your pension fund’.

R	
3	Reduction in yield
3.1	Product reduction in yield (‘A’) is ‘B’ less ‘C’ where:

	(1)	‘B’ is the *intermediate rate of return* for the relevant product; and	
	(2)	‘C’ is determined by:	
		(a)	carrying out a *standardised deterministic projection* to the *projection date*, but without taking any *adviser charges* or *consultancy charges* into account, using ‘B’; and then
		(b)	calculating the annual rate of return (‘C’) (rounded to the nearest tenth of 1 %) required to achieve the same projection value if *charges* are excluded.
3.2	Total reduction in yield (‘D’) is ‘B’ less ‘E’ where:		
	(1)	‘B’ is the *intermediate rate of return* for the relevant product; and	
	(2)	‘E’ is determined by:	
		(a)	carrying out a *standardised deterministic projection* to the *projection date* taking all *charges* into account, using ‘B’; and then
		(b)	calculating the annual rate of return (‘E’) (rounded to the nearest tenth of 1 %) required to achieve the same projection value if *charges* are excluded.
3.3	(1)	A *firm* must present the product reduction in yield as ‘A%’, as part of a statement which explains that ‘product charges reduce your anticipated rate of returns from ‘B%’ to ‘C%’’, or in some other appropriate way.	
	(2)	If *adviser charges* or *consultancy charges*, or both *adviser* charges and *consultancy charges* are to be facilitated by the product, a *firm* must also present the reduction in yield as ‘D%’, as part of a statement which explains that ‘all charges reduce your anticipated rate of returns from ‘B%’ to ‘E’%’’, or in some other appropriate way and explain the difference between the two reduction in yield figures.	
3.4	If contributions will be invested in more than one fund in a single designated investment or made by an initial lump sum payment that is followed by regular contributions, the reduction in yield must be:		
	(1)	calculated separately for each fund or for the single contribution and the regular contributions, as applicable; and	
	(2)	presented:	
		(a)	on a fund-by-fund, or single contribution and regular contribution, basis, together with a statement which explains the nature and effect of a reduction in yield, the

			reason for the inclusion of more than one reduction in yield figure and the reason for the differences between them; or
		(b)	(if the reduction in yield results are so similar that one figure could reasonably be regarded as representative of the others) as a single figure together with a statement which explains the nature and effect of a reduction in yield, and that the reduction in yield figure given is representative of the reduction in yield figures for each of the funds or for the single and regular contributions, as applicable; or
		(c)	through a single figure combining the separate figures for each fund or contribution in a proportionate manner, with an appropriate description.

Amend the following as shown.

14.2 Providing product information to clients

...

14.2.1B R When the *rules* in this chapter require the offer or provision of a *key features illustration*, a *firm* may provide a *generic key features illustration* if that *generic key features illustration* has been prepared in accordance with *COBS* 13.4.2R.

14.2.1C R A *firm* that arranges to start the facilitation of, or an increase in, an *adviser charge* or *consultancy charge* from an in-force *packaged product*, must provide to the *retail client* sufficient information for the *retail client* to be able to understand the likely effect of that facilitation.

14.2.2 R The documents or information required to be provided or offered by ~~the first provision~~ ~~*rule*~~ ~~(~~*COBS* 14.2.1R and *COBS* 14.2.1CR~~)~~ must be in a *durable medium* or made available on a website (where that does not constitute a *durable medium*) that meets the *website conditions*.

Part 2: Comes into force on 1 October 2012

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
…					
2.5A	*COBS* 13.4.2R	R	A *firm* may rely on *COBS* 13.4.2R(5) (as introduced by the Retail Distribution Review (Key Features Illustrations) Instrument 2011) as if it was in force from 1 October 2012.	1 October 2012 until 31 December 2012	31 December 2012
…					

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