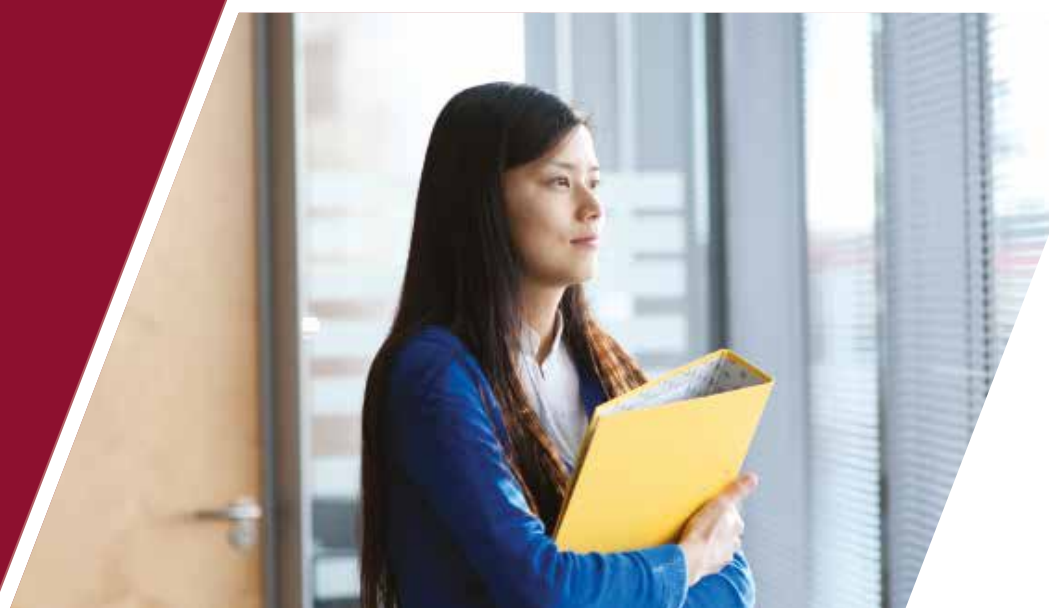


Policy Statement

PS17/4

# Handbook changes to reflect the introduction of the Lifetime ISA: Feedback on CP16/32 and final rules



March 2017



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# Contents

<b>Abbreviations in this document</b>	3
<b>1</b> Overview	5
<b>2</b> The Lifetime ISA (LISA)	8
<b>Annex</b>	
<b>1</b> List of non-confidential respondents	21
<b>Appendix</b>	
<b>1</b> Final rules (legal instrument)	23

In this Policy Statement we report on the main issues arising from Consultation Paper 16/32 *Handbook changes to reflect the introduction of the Lifetime ISA* and publish the final rules.

Please send any comments or queries to:

Donald Cranswick  
Pension and Insurance Policy Department  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

**Email:** [cp16-32@fca.org.uk](mailto:cp16-32@fca.org.uk)

We have developed the policy in this policy statement in the context of the existing UK and EU regulatory framework. We will keep the policy under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

All our publications are available to download from [www.fca.org.uk](http://www.fca.org.uk). If you would like to receive this paper in an alternative format, please call 020 706 60790 or email [publications\\_graphics@fca.org.uk](mailto:publications_graphics@fca.org.uk) or write to Editorial and Digital Department, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

## Abbreviations used in this document

<b>CASS</b>	Client Assets Sourcebook
<b>COBS</b>	Conduct of Business Sourcebook
<b>CP</b>	Consultation Paper
<b>DMD</b>	Distance Marketing Directive
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority
<b>FSMA</b>	Financial Services and Markets Act 2000
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>HM Treasury</b>	Her Majesty's Treasury
<b>IFISA</b>	Innovative Finance ISA
<b>ISA</b>	Individual Savings Account
<b>KFD</b>	Key Features Document
<b>LISA</b>	Lifetime Individual Savings Account
<b>MiFID</b>	Markets in Financial Instruments Directive



# 1. Overview

## Introduction

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- 1.1** The introduction of the Lifetime Individual Savings Account (LISA) was announced in the March 2016 Budget. The LISA will be available to investors from 6 April 2017<sup>1</sup> and is intended to help adults under the age of 40 to save or invest flexibly for two purposes:
- to provide a deposit for a first home and/or
  - to save for retirement
- 1.2** On 16 November 2016 we set out our proposed framework for regulating the promotion and distribution of the LISA in CP16/32: *Handbook changes to reflect the introduction of the Lifetime ISA*.<sup>2</sup>
- 1.3** In CP16/32 we explained that the LISA combines elements of a short-to-medium-term deposit-based savings account with a long-term retail investment. We believe this combination – together with the early withdrawal charge – presents a number of risks to our objectives, and particularly our consumer protection objective.
- 1.4** We proposed addressing these risks through an ‘enhanced ISA’ approach, ie by amending our current Handbook requirements as they relate to ISAs in terms of: communications; information disclosures; cancellation rights; and client assets.
- 1.5** In this Policy Statement we summarise the feedback we received to CP16/32 and provide our final responses. We also publish the resulting rules and guidance.
- 1.6** The introduction of the LISA is being implemented in part through HM Treasury regulations,<sup>3</sup> which will amend the existing Individual Savings Account Regulations 1998.<sup>4</sup> HM Treasury laid those Regulations before Parliament on 20 February 2017.<sup>5</sup>
- 1.7** To allow firms to prepare for the launch of the LISA the rules and guidance accompanying this policy statement have been prepared on the basis of the Regulations as laid. Because the Regulations are subject to the affirmative procedure they need to be approved by Parliament. If changes are made to the Regulations as a result of that Parliamentary process, we will consider whether any consequential changes to our instrument are required.

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1 the relevant primary legislation – the Savings (Government Contributions) Act 2017 – received Royal Assent on 16 January 2017

2 [www.fca.org.uk/publication/consultation/cp16-32.pdf](http://www.fca.org.uk/publication/consultation/cp16-32.pdf)

3 The Individual Savings Account (Amendment) Regulations 2017

4 SI 1998/1870

5 [www.legislation.gov.uk/ukdsi/2017/9780111154618/contents](http://www.legislation.gov.uk/ukdsi/2017/9780111154618/contents)

### Who does this affect?

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- 1.8** This Policy Statement will primarily be of interest to those firms that currently provide ISAs and those planning to offer the LISA. It may also be of interest to:
- consumers and consumer organisations
  - financial advisers
  - trade bodies that represent stakeholders in this market
  - compliance consultants and other firms that assist stakeholders

### Summary of feedback

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- 1.9** We received 29 non-confidential responses to our consultation from a variety of stakeholders including consumer groups, trade bodies and firms. We are grateful for the feedback and would like to thank all those who responded to our consultation.
- 1.10** A significant proportion of the responses included comments relating to the launch date and specific product features of the LISA (eg the early withdrawal charge). These comments are outside of the scope of our consultation and, consequently, are not addressed in this Policy Statement. We have made HM Treasury aware of the issues raised.
- 1.11** In terms of the specific responses to our consultation questions:
- Our Equality Impact Assessment (EIA) and Cost Benefit Analysis (CBA) attracted little negative comment.
  - Our proposals in relation to cancellation rights and client assets attracted very little negative comment.
  - While many respondents commented on our risk categories, most of these comments related to, or flowed from, the product design and did not relate directly to our proposals for the promotion or distribution of the LISA. They are therefore out of scope.
  - Our proposals around adding rules and guidance on information about risks requiring LISA-specific information disclosures attracted the most comments:
    - The main point of contention was the generic table giving an indication of what the investor might get back at age 60. Some respondents felt either that the table should not be required at all or, conversely, should be replaced with more detailed, personalised illustrations. Other respondents liked the table but wanted to extend or amend it.
    - Other comments related to additional specific risks that respondents thought should be included in our proposed risk warnings.



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## Our response

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- 1.12** We are not persuaded that we should drop or significantly amend the generic table because we believe it provides valuable information to consumers about the potential outcomes of saving for retirement in a LISA. Firms who also wish to provide illustrations or more detailed or additional versions of our table are free to do so – as long as they provide the table as set out in CP16/32, and as long as any illustrations or projections they choose to provide are not given more prominence than this table and meet our other information/promotion requirements, eg the fair, clear and not misleading rule.
- 1.13** We do agree that we should amend the risk warnings set out in CP16/32 to address two further specific risks:
- 1.** The risk that investors may also lose out on employer's pension contributions where they have a personal pension and there is an employer matching contribution structure in place.
  - 2.** The risk that investors may not consider the impact of taking out a LISA on means- tested state benefits as opposed to saving in a pension.
- 1.14** We also note one change to the operation of the LISA that was announced after we published CP16/32. For administrative reasons, in the first year following the LISA's launch the government bonus will be paid at the end of the year. In subsequent years it will be paid monthly in arrears. The government recognised that this meant investors could face the early withdrawal charge up to 12 months before they received the bonus and, on 13 December, the Financial Secretary to the Treasury announced that it would be waived for 2017-18.
- 1.15** We do not believe that this change necessitates any changes to our proposals or final rules and guidance, as set out in Appendix 1. This is because firms are already required to provide an explanation to retail clients about the operation of the early withdrawal charge, and can provide details of the relief which is available during 2017-18 if promoting a LISA during this period.

## Next steps

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### What do you need to do next?

#### *Firms*

- 1.16** The rules set out in Appendix 1 will come into force from 6 April 2017 and firms will need to comply with them from that date.

#### *Consumers*

- 1.17** Consumers with questions about these rules can contact our Contact Centre on 0800 111 6768 or email: [consumer.queries@fca.org.uk](mailto:consumer.queries@fca.org.uk).

## 2. The Lifetime ISA (LISA)

### Introduction

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- 2.1** In this chapter we summarise and respond to the feedback received to the proposed changes to our Handbook rules set out in CP16/32 relating to the promotion and distribution of the LISA.

### Context

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- 2.2** In CP16/32 we explained that our Handbook contains relatively few specific rules for ISA wrappers, although many of our general rules that aim to ensure that consumers have the information and protections they need to make appropriate choices apply to firms offering ISA products.
- 2.3** We proposed following a similar approach in relation to LISAs, ie:
- regulated firms must continue to comply with our existing principles and rules in relation to the sale of LISAs
  - firms and individuals involved in the promotion and distribution of LISAs that contain relevant investments will also continue to be subject to our current requirements for those engaged in designated investment business and/or MiFID or equivalent third-country business in relation to those investments
- 2.4** In addition, we proposed addressing the specific risks identified for the LISA wrapper by enhancing our existing approach for stocks and shares and cash deposit ISAs, ie amended or with the addition of further requirements or guidance in the following areas:
- communications with retail clients
  - preparation and provision of product information to retail clients
  - cancellation
  - safeguarding of client money associated with LISA business

## Feedback and our response

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### Equality Impact Assessment

- 2.5** In CP16/32 we explained that we had considered the need to eliminate prohibited/discriminatory conduct, the need to advance equality of opportunity, and the need to foster good relations between those who share a protected characteristic and those who do not.
- 2.6** We noted that, due to Parliament legislating for the LISA through the Savings (Government Contributions) Act, it is exempt from age discrimination legislation.
- 2.7** We concluded that our proposals did not give rise to other equality and diversity concerns.

**Q1: *Do you have any comments about the impact of our proposals on equality and diversity?***

- 2.8** Most respondents offered no response to this question. A few agreed with our conclusion that our proposals did not give rise to other concerns with regard to equality and diversity issues.
- 2.9** Some of the remaining respondents expressed concerns in relation to how the LISA might interact with entitlements to state benefits (eg Universal Credit), arguing that benefit recipients are more likely to exhibit protected characteristics than the general population.
- 2.10** Another concern expressed was that the £450,000 limit on the value of the first home that LISA funds can be used to buy could have a disproportionate impact on those in more expensive areas of the country.

### Our response

The matter of the £450,000 limit on the purchase of a first home refers to the design of the LISA product and is outside the scope of our consultation.

We acknowledge the concerns expressed in relation to how the LISA might interact with entitlements to state benefits. We address this issue by amending the risk warnings set out in CP16/32 to include a warning that investors should consider the impact of taking out a LISA in preference to saving in a pension on their eligibility for means-tested state benefits.

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### Risks for investors

- 2.11** The LISA combines elements of a short-to-medium-term deposit-based savings account with a long-term retail investment. We believe this combination – together with the early withdrawal charge – presents a number of risks to our objectives, particularly our consumer protection objective.
- 2.12** In CP16/32 we concluded that these risks fall into the five broad categories:
- 1.** Complexity
  - 2.** Contributions
  - 3.** Investments

## 4. Access

## 5. Tax

**2.13** We went on to provide example risks for each category, eg investors may not understand the purpose, features and restrictions of a LISA as these are more complex than the existing cash ISA and stocks and shares ISAs.

**Q2: *Do you agree that the risk categories we have identified capture all of the relevant risks the LISA poses to our objectives? If not, which categories or risks would you add to or remove from our list?***

**2.14** Most respondents addressed this question in some detail, either expanding on the risk categories we identified or offering further risks we should add to our list.

**2.15** However, significant proportions of these responses related to specific product features of the LISA and are therefore out of the scope of our consultation. These included concerns that LISA holders would not benefit from governance arrangements (including charge caps), which protect those saving in workplace and other pension arrangements; differences in the income tax and inheritance tax treatment applied to LISAs compared with pensions savings, including potential changes to this treatment over time; the availability of salary sacrifice arrangements for pension savings but not for LISA investments; and differences in the age at which savers can access their retirement savings without penalty.

**2.16** Other responses related to risks that are not specific to LISA investors eg they could be targeted by investment scams in the same way as individuals with pension savings. We consider that these concerns are addressed by existing requirements in our Handbook<sup>6</sup> and our supervision work.

**2.17** Many of the other risks that respondents thought we should add were framed in comparison with more traditional retirement savings vehicles, eg:

- the lack of a requirement for LISA providers to provide information to savers as they approach age 60
- the risk that LISA investors are unable to opt back into a pension after the purchase of a property, once they reach 50, etc.

**2.18** A number of respondents identified concerns around the interaction of the LISA with the last year of the Help to Buy: ISA. These included investors transferring money from a Help to Buy: ISA into a Lifetime ISA, then needing to keep the LISA open for 12 months before being able to make a withdrawal without incurring an early withdrawal charge.

**2.19** A few respondents wanted us to remove risks. One did not think that failing to upscale other savings at 50 is a risk (as this is a choice to be made by the investor) and that a comparison with pensions is counterproductive as they don't believe that the products are alternatives.

**2.20** Another queried why we had treated some issues as risks in our proposed rules. They argued that it is inappropriate to include guidance on the provision of information regarding eligibility

<sup>6</sup> We also note that the Government published their *Pensions scams: consultation* on 5 December 2016. It proposes further measures to protect consumers from pensions-related scams.

to subscribe to a LISA, and the process for transferring a LISA, as they don't believe that these issues are risks.

### Our response

We are grateful for the volume of responses we received to this question. Unfortunately, a significant proportion of these responses related to issues that are either outside the scope of our consultation, or to more general issues that are not specific to the LISA.

We consider that our approach in relation to consumers not saving further after 50 is proportionate. We have not mandated a specific disclosure on this aspect. Our rules require firms to explain the different savings objectives and qualifying investments for a LISA and our guidance suggests that, in complying with this rule, firms should encourage retail clients to think about the LISA in the context of their overall financial situation (including provision for retirement) and remind them that these aspects may change over time and should be regularly reviewed.

We consider that there may be risks to consumers if they do not understand the eligibility or transfer requirements for a LISA. The limits on annual contributions, age restrictions and eligibility for the government bonus may have an impact on the (continuing) suitability of the LISA for the client's savings objectives, and a failure to transfer an ISA using the correct process could result in the early withdrawal charge being applied. Therefore, we propose to retain our guidance on communications to retail clients on these aspects.

We acknowledge that a number of respondents expressed concerns around the interaction of the launch of the LISA with the last year of the Help to Buy: ISA. The availability of these two accounts to consumers saving for house purchase is outside the scope of our consultation. Our disclosure rules and guidance already include a requirement on firms to explain the circumstances in which the early withdrawal charge could apply to a LISA, including in the event of a withdrawal for house purchase within 12 months of opening a LISA. Given the reasonably short period of time for which these products will both be available and the Government's waiving of the early withdrawal charge for 2017-18, we were not persuaded that concerns around interactions with the Help to Buy ISA merited any further intervention on our part.

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### Communication with retail clients

- 2.21** Our Handbook currently requires firms to include information about the risks of an investment, as well as the benefits, when communicating with retail clients in relation to investment business.
- 2.22** In CP16/32 we explained that we believed that investors would also need information about how a LISA works, eg eligibility, government bonus, early withdrawal charge, etc.
- 2.23** We also proposed adding guidance to the Conduct of Business Sourcebook (COBS) to help firms highlight the risk factors that are likely to be relevant to investors when considering their obligations under our existing rules, specifically in relation to disclosure of risks in communications with retail clients.

- 2.24** We proposed that investors in those LISAs that include a relevant investment should also receive specific risk warnings about:
- incurring the early withdrawal charge, which may mean that they receive less from their LISA than they paid in
  - potentially losing an employer contribution to a workplace pension for which they may be eligible, where they choose to open a LISA instead
- 2.25** While this guidance would not apply to communications about cash-only LISAs, the proposals we made for information to be provided at the point of sale for cash-only LISAs would provide equivalent warnings about relevant risks.
- Q3: *Do you agree with our proposal to add guidance on information about risks that should be included when communicating with retail clients in relation to a LISA?***
- 2.26** Almost half of the respondents agreed with our proposals, or offered no response to this question. The majority of the remaining respondents supported our proposals, but wanted us to provide further clarification or to go further generally. One respondent felt our proposals were insufficient to mitigate the risks to consumer protection presented by the LISA.
- 2.27** Some respondents asked questions that are outside of the scope of our consultation, eg the treatment of zero-balance LISA accounts. Others suggested that some or all of our proposed guidance should be provided by the Government rather than the LISA provider.
- 2.28** Requests for further clarification included whether:
- the LISA can be sold in a non-advised environment to retail customers
  - there is a need to specifically mention the withdrawal penalty
  - guidance should be provided to LISA investors to help them determine whether to invest in cash or in stock and shares
  - there is an obligation on providers to review customer circumstances on an ongoing basis
  - providers of workplace and personal pensions will have to alert their investors to the existence of the LISA
  - the guidance applies in the same way to cash-only LISAs
- 2.29** Requests that we go further mainly related to our providing explicit guidance that LISA providers should recommend to potential LISA investors that they consider financial advice or any appropriate public financial guidance. Concerns were also raised about investors not understanding the potential impact on eligibility for means-tested state benefits of saving in a LISA as opposed to saving into a pension.
- 2.30** More specific requests included mandating further explanation in relation to the operation of the early withdrawal charge, and adding a risk warning around prompting the LISA investor revising their savings strategy beyond age 60.

- 2.31** Finally, we were asked if we would extend the wording of our risk warning in respect of potentially losing an employer contribution to cover instances where the investor has a personal pension and there is an employer matching contribution structure in place.

### Our response

While we acknowledge the range and the depth of the responses provided to this question, we do not believe that these justify our going significantly beyond the proposals set out in CP16/32.

We did not propose mandating that all LISA sales be advised or that firms should be required to specifically signpost financial advice when selling a LISA. This is because we consider that high quality information disclosure by firms – coupled with appropriate risk warnings – provide an appropriate and proportionate means of providing consumers with the ability to make good decisions about the suitability of the LISA for their own individual circumstances. Consumers can choose to take financial advice about investing in a LISA. Accordingly, our expectation is that firms may wish to make the LISA available for non-advised sales. Our proposals relating to disclosure for a LISA apply to non-advised sales, including contracts for a LISA concluded at a distance. We confirm that our rules and guidance on disclosures at point of sale apply for all LISAs (including cash-only LISAs). Guidance on the content of ongoing communications with retail clients apply only in relation to LISAs which contain relevant investments.

We clarify that this disclosure regime requires firms to refer specifically to the circumstances in which the early withdrawal charge applies and to explain its operation. However, firms have the flexibility to choose how best to bring this charge to the attention of consumers appropriately and we do not propose to mandate a standardised illustration showing the level of this charge.

As explained above, we do not consider that we need to mandate further disclosures in relation to savings by older consumers after the age of 50. We also do not believe that the consumer protection benefits of asking pension providers to flag the existence of the LISA are persuasive. Under our disclosure requirements, firms are required to explain to retail clients in general terms the different savings objectives for which a lifetime ISA is intended and the qualifying investments which are available to be placed in a LISA. This would not include a specific obligation on firms either to provide guidance or financial advice on the most suitable investments to be held by the retail client in the LISA when a LISA is sold, nor an obligation to regularly review the client's circumstances. We remind firms of their existing obligations in relation to communicating with retail clients and treating them fairly.

We acknowledge there may be circumstances where a retail client is saving into a personal pension plan to which their employer contributes, and that choosing to save into a LISA in preference to such a scheme might cause that consumer to forfeit employer contributions to that scheme. Therefore, we have extended our suggested risk warning about the potential loss of employer contributions to include personal pension schemes.

In addition, because of the possibility that investors may not consider the impact of taking out a LISA on means-tested state benefits we have also extended our suggested risk warning to address this point.

### Preparing and providing product information

- 2.32** We proposed that investors should – in good time before a firm sells a LISA – be provided with an explanation of the different savings objectives for which it can be used (house purchase and retirement saving) and the types of investments that can be held in the LISA offered by the firm. This explanation should encourage investors to think about their investment choices in relation to their individual savings objective, their proposed investment horizon, and their financial circumstances as a whole.
- 2.33** They should also be given a warning that if they opt out of a workplace pension in favour of saving in a LISA, they may lose out on an employer contribution.
- 2.34** We also proposed that investors be given an indication of what they might get back from a LISA at age 60 through the inclusion of a generic table in the current point-of-sale disclosures.
- 2.35** Finally, for a cash-only LISA we proposed requiring that the above disclosures should be provided in a Key Features Document (KFD), the provision of which is already required for a cash deposit ISA.

**Q4: *Do you agree with our proposals to require LISA-specific information disclosures? If not, please explain why.***

- 2.36** Most respondents broadly supported our proposals, albeit with some reservations, particularly in relation to the generic table, and some requests that we should go further.
- 2.37** Some respondents questioned whether our proposed approach was consistent with other disclosure regimes, eg MiFID II and the summary box requirement for deposit accounts in relation to the cash-only LISA. Others expressed concerns about the addition of any further disclosure requirements, believing that investors are likely to be confused by them. A few respondents felt that our proposed disclosures were too prescriptive.
- 2.38** By contrast, other respondents felt that we should replace the generic table with a requirement to provide pension-type illustrations. More detailed comments about the generic table included:
- questions as to the usefulness of the column showing the outcome in real terms where the nominal investment return is 0%
  - questions as to its relevance for investors who take out a LISA when they are young to support house purchase as it shows a projected value at age 60
  - a concern that including the table in a cash-only LISA could be seen as endorsing its use for retirement saving
  - a request that we exclude the effect of inflation column to make the effect of charges clear
  - a point that the generic table would not reflect any investments held within the LISA, which may also attract disclosure requirements



- a request that the £4,000 annual contribution rate be replaced by one nearer to the anticipated contribution rates of the target market
  - a view that it is predicated on a paper-based disclosure regime
- 2.39** Respondents also offered a number of comments on the other LISA-specific disclosures we proposed:
- 2.40** A common theme in these responses was that we should mandate a more detailed and explicit comparison between the government bonus and any tax relief available on similar levels of pension contribution.
- 2.41** Other comments were largely similar to those made in response to the previous question, eg mandating a worked example of the impact of the early withdrawal charge, requiring providers to encourage investors to have a retirement savings strategy beyond age 60 etc. A particular concern was that there should be specific risk warnings in relation to the sale of a cash-only LISA, particularly concerning the suitability of the cash-only LISA as a vehicle for retirement savings.
- 2.42** Finally, some respondents wanted us to require more disclosures illustrating the interaction between the LISA and other products. One respondent asked that we carry out an early Post Implementation Review of the effectiveness of our proposals.

### Our response

We are pleased that respondents broadly supported our proposals. Overall, we believe that the disclosures required provide helpful information to retail clients.

We do not consider that concerns around inconsistency with other disclosure regimes are borne out by our analysis. We also consider that firms' disclosure obligations in respect of the deposit summary account are compatible with disclosures for the cash-only LISA, particularly as firms have the flexibility to include the summary box in a key features document for a cash-only LISA.

We note that the generic table attracted most comment, but there was no real consensus among respondents as to how its aims might be better achieved.

Consumers are generally reluctant to invest without some idea of what they might get back. The purpose of the generic table is to give investors a general indication of what they might get back from a LISA at age 60. In particular, the table helps to indicate to consumers that holding lower yielding investments such as cash deposits in a LISA may not lead to appropriate outcomes in terms of retirement savings. It also gives information on charges of the LISA wrapper – intended to help investors compare different LISAs and allow them to make a comparison with charges on personal pensions.

We are not persuaded that we should drop or significantly amend the table.

We appreciate that there are a variety of different investments that a consumer may be able to hold within a LISA and that these may attract specific disclosure requirements which directly relate to the consumer's specific investment choices. However, given the unique features of the LISA we still consider that

the disclosures specific to the LISA wrapper, including the table, should be provided.

Providers who also wish to provide illustrations or more detailed or alternative versions of the table are free to do so – as long as they provide the table as set out in our rules and that any further projections they choose to provide are not given more prominence than this table and meet our other information/promotion requirements, eg the fair, clear and not misleading rule.

Providers may wish to include versions of the table, with different contribution levels, tailored to the consumer's age, with charges and inflation effects on returns shown separately, indicating the effect of adviser charges, showing impacts of potential early withdrawal, assuming withdrawal after the age of 60 etc..

We are already asking firms to include an explanation to retail clients about the fact that the table is not intended to necessarily be relevant to those saving for a house purchase. We do not consider it would be proportionate to mandate the inclusion of a second table showing returns to those saving for a home purchase over a shorter timeframe. However, subject to the requirement to also include the generic table showing outcomes at age 60, firms may include such a table if they wish.

Neither are we persuaded that we should mandate further and/or more detailed disclosures, as we believe that our existing Handbook requirements already address the issues identified.

We will, however, amend the risk warnings set out in CP16/32<sup>7</sup> to include two further specific points. We are proposing to replicate the extension of the risk warning about loss of employer contributions for personal pension schemes in communications with clients in our proposed point-of-sale disclosures. We are also including a new risk warning concerning the potential impact on eligibility for means-tested state benefits of saving in a LISA rather than saving into a pension.

Therefore, point-of-sale disclosures (COBS 14 Annex 1, 2.2R) will now include revised risk warnings:

1. making it clear that investors may also lose out on employer's pension contributions where they have a personal pension and there is an employer matching contribution structure in place
2. warning investors to consider the impact of taking out a LISA on means-tested state benefits

We also agree it would be appropriate for the FCA to keep our approach to the LISA under review as the market for this new ISA develops. We therefore confirm that we shall continue to monitor the operation of the LISA market so that we are in a position to promptly identify any risks to our objectives which may emerge after the LISA goes on sale. We would consult on any further

<sup>7</sup> See COBS 14 Annex 1, 2.2R in our draft Handbook text in CP16/32

proposals which we may put forward in response to our assessment of the maturing LISA market.

### **Cancellation**

- 2.43** We proposed that an investor be given 30 days to cancel when they open a LISA, except where the LISA is opened at a distance. In the latter circumstance, we proposed to apply a 14-day cancellation right, consistent with requirements in the distance marketing directive (DMD).
- 2.44** We noted that our existing cancellation rules allow an ISA manager to replace the 14-day right to cancel a stocks and shares ISA with a pre-contract right to withdraw of 7 days. We proposed allowing a pre-contract right to withdraw of 14 days for a LISA in place of the 30-day cancellation period. Given the risk of being locked into a LISA until age 60, or triggering the early withdrawal charge, we also proposed excluding LISAs from an exemption in place for stocks and shares ISAs that would remove cancellation rights in some circumstances.

#### **Q5: *Do you agree with our proposals on cancellation rights for LISAs?***

- 2.45** Most respondents agreed with our proposals or offered no comment.
- 2.46** The few respondents who did provide comments on our proposals mainly asked for clarification that cancellation will not trigger the early withdrawal penalty and the reasoning behind the 14-day cancellation period for sales at a distance.
- 2.47** One respondent asked that the cancellation rights be referred to as 'cooling off' rights as they have no impact on the future entitlement to ISA benefits.
- 2.48** Another asked that, where a LISA is opened via a transfer, a provider should be required to operate a pre-contract right to withdraw of 14 days. Otherwise, they believe, if a provider chooses to operate a cancellation period rather than a pre-contract right to withdraw, an investor would immediately lose their ability to unravel the arrangement without incurring the early withdrawal charge upon setting up the LISA.

### **Our response**

We are pleased that respondents supported our proposals.

We confirm that the 14-day cancellation rights for LISAs sold at a distance are consistent with the cancellation period required under the Distance Marketing Directive (DMD). No changes were proposed to the general exemptions for distance contracts, so any exemptions which apply in relation distance contracts involving ISAs will continue to apply in relation to the LISA where relevant.

Where a contract for the transfer of an ISA is cancelled the funds would need to remain in a LISA wrapper to avoid the early withdrawal charge. We consider that, where a consumer wishes to exercise his right to cancel the transfer of a LISA, they would be able to do so by transferring the ISA back to the old ISA manager or transferring the ISA to another ISA manager. This should allow cancellation of a LISA transfer without incurring an early withdrawal charge.

We do not believe that it would be consistent with our general approach of largely mirroring the requirements for other types of ISA to rename LISA cancellation rights or mandate the operation of a pre-contract right to withdraw of 14 days.

### Safeguarding client money

- 2.49** In CP16/32 we proposed that all monies received or held by an investment firm for, or on behalf of, a client in the course of or in connection with a LISA should be held by the firm in accordance with the client money rules. This would align our client money rules with the changes to the ISA regulations with minimal impact and remove the potential ambiguity as to the status of money held in a LISA.
- 2.50** Without making any amendment to the client money rules to address the changes to the ISA regulations, investment firms would be required to separate client money from non-client money within the LISA. This may have resulted in ambiguity as to the status of the monies investment firms hold within the LISA wrapper.

**Q6:** *Do you agree with our proposal to require all money held within a LISA to be held as client money under the client money rules? If not, please explain why.*

- 2.51** The majority of respondents offered no response to this question. Those who did were broadly supportive. Two respondents requested clarification on the application of the client money chapter (CASS 7) to long-term insurers and friendly societies who intend to offer a LISA and are currently using the exemption for those firms.<sup>8</sup>

### Our response

We are pleased that respondents supported our proposals.

We are proceeding with the proposed rule change as set out in CP16/32. This rule change will affect investment firms who manage LISAs.

Long-term insurers and friendly societies using the relevant exemption in CASS can continue to rely on that rule. The client money rules do not apply to the permitted activities of a long-term insurer or a friendly society, unless it is a MiFID investment firm that receives money from or holds money for or on behalf of a client in the course of, or in connection with, its MiFID business.

Similarly, credit institutions that currently use the banking exemption<sup>9</sup> in the client money rules may continue to do so following these rule changes. This is consistent with the policy approach set out in PS14/10 for stocks and shares ISAs.

### Cost benefit analysis

- 2.52** In CP16/32 we emphasised that:

<sup>8</sup> CASS 7.10.29R

<sup>9</sup> CASS 7.10.16R

- markets for new products are particularly prone to information asymmetries – where investors find it difficult to assess how products may match their needs
- these problems tend to be more pronounced where any benefits are realisable over the longer term – as is the case for the LISA

**2.53** We identified those behavioural biases – given the design of the LISA – most likely to pose risks to investors, before explaining how we expected our proposals to mitigate these or any resultant impacts. We also provided an indication of the modest costs to firms that we believed would result from our proposed changes to our disclosure rules.

**Q7: Do you agree with the data and assumptions used in this CBA? If not, please explain why.**

**2.54** The majority of respondents offered no response to this question. Some agreed with our approach, whereas others conceded that it is difficult to make assumptions or find relevant data about a market that doesn't yet exist.

**2.55** The remaining respondents pointed out that the number of LISAs sold will depend not only on customer demand, but also on supply. Some argued that the assumption of 800,000 LISA accounts by the end of tax year 2020/21 might be an over-estimate.

**2.56** Some also provided commentary around our behavioural assumptions and/or where they think our assumptions/proposals have gaps in terms of addressing the attendant risks identified. None of these respondents offered any suggestions around further rules or guidance.

**2.57** Finally, one respondent cited our paragraph 24, suggesting that our reference to a lower cost of credit implied that LISA investors should consider borrowing to stay invested.

**Our response**

We note that the majority of respondents either supported or did not comment on the data and assumptions used in our CBA.

While we are grateful for the other comments, we do not believe that any of them justify changing our data or assumptions. We can confirm that paragraph 24 was not intended to imply that LISA investors should consider borrowing to stay invested.

**Q8: Do you agree with the description of the costs and benefits in our CBA? If not, please explain why.**

**2.58** As with the previous question, the majority of respondents either offered no response or agreed with our description. Again, some conceded that it is difficult to make estimates in relation to a market that does not yet exist.

**2.59** Of the remaining respondents:

- some argued that we underestimated the costs

- others felt we failed to take account of the potential impact of the LISA on the broader savings market
- a few cast doubts on the benefits we identified

**2.60** In each case the respondent didn't provide any replacement cost or benefit estimates.

**2.61** Finally, one respondent made the point that, for higher rate taxpayers in retirement as well as pre-retirement, "the value of the LISA bonus and untaxed withdrawal exceeds the value of 40% tax relief and an effective tax rate of 30%".

#### **Our response**

We note that the majority of respondents either offered no response to this question or agreed with our description.

While we acknowledge the level of uncertainty over estimates of costs in relation to a market that does not yet exist, we do not believe that any of the responses provides a compelling reason to change our CBA.

We also acknowledge that, while the LISA may have a significant impact on the broader savings market, these issues are outside of the scope of our consultation.

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# Annex 1

## List of non-confidential respondents to CP16/32

Aegon  
Age UK  
AJ Bell  
Altus Consulting  
Association of British Insurers  
Association of Professional Financial Advisers  
Association of Consulting Actuaries  
British Bankers' Association  
Building Societies Association  
Council of Mortgage Lenders  
Eversheds LLP  
Fidelity International  
Financial Services Consumer Panel  
Hargreaves Lansdown  
Low Incomes Tax Reform Group  
Metropolitan Police Friendly Society Limited  
MoneySavingExpert.com  
Nucleus Financial  
Open Retirement Club  
Pensions and Lifetime Savings Association  
Pitmans Trustees Limited  
Richard Ramsay  
Royal London

SimplyBiz Group

Skipton Building Society

Society of Pension Professionals

Standard Life

Tax Incentivised Savings Association

Which?



# Appendix 1

## Final rules (legal instrument)

**CONDUCT OF BUSINESS AND CLIENT ASSETS (LIFETIME INDIVIDUAL SAVINGS ACCOUNT) INSTRUMENT 2017**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
  - (2) section 137B (FCA general rules: clients’ money, right to rescind etc);
  - (3) section 137R (Financial promotion rules);
  - (4) section 137T (General supplementary powers); and
  - (5) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 6 April 2017.

**Amendments to the Handbook**

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

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Banking: Conduct of Business sourcebook (BCOBS)	Annex C
Client Assets sourcebook (CASS)	Annex D

**Notes**

- E. In Annexes B and C to this instrument, the “notes” (indicated by “**Note:**”) are intended for the convenience of readers but do not form part of the legislative text.

**Citation**

- F. This instrument may be cited as the Conduct of Business and Client Assets (Lifetime Individual Savings Account) Instrument 2017.

By order of the Board  
6 March 2017

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical positions. The text is not underlined.

<i>cash-only lifetime ISA</i>	a <i>lifetime ISA</i> which can include only those qualifying investments prescribed in paragraphs 8(2)(a), (b), (h), (j) and (n) to (q) of the <i>ISA Regulations</i> .
<i>lifetime ISA</i>	an <i>individual savings account</i> as prescribed in regulation 4(1ZB) of the <i>ISA Regulations</i> .
<i>lifetime ISA business</i>	a <i>firm's</i> activities, in its capacity as an <i>ISA manager</i> , in connection with a <i>lifetime ISA</i> which is not either or both <i>MiFID business</i> and <i>designated investment business</i> .
<i>lifetime ISA charges</i>	any fee or charge made to a <i>retail client</i> in connection with the opening or operation of a <i>lifetime ISA</i> , whether levied by the <i>firm</i> or any other <i>person</i> , but excluding any fees or charges: <ul style="list-style-type: none"> <li>(a) payable by or on behalf of a <i>retail client</i> to a <i>firm</i> in relation to the provision of a <i>personal recommendation</i> by the <i>firm</i> in respect of the <i>lifetime ISA</i>; and</li> <li>(b) relating to the qualifying investments held in the <i>lifetime ISA</i> (including in relation to the provision of a <i>personal recommendation</i> in respect of those investments).</li> </ul>
<i>lifetime ISA government bonus</i>	has the meaning given to “government bonus” in paragraph 1 of the Schedule to the <i>ISA Regulations</i> .
<i>lifetime ISA government withdrawal charge</i>	has the meaning given to “withdrawal charge” in paragraph 9(4) of Schedule 1 to the Savings (Government Contributions) Act 2016.

Amend the following definition as shown.

<i>client money</i>	...
	(2A) ...

(bc) that a *firm* receives or holds for, or on behalf of, a *client* in the course of, or in connection with, its *lifetime ISA business*; or

...

...

## 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.

#### 1 Application

##### 1.1 The general application rule

...

- 1.1.1A R This sourcebook does not apply to a *firm* with respect to the activity of *accepting deposits* carried on from an establishment maintained by it, or its *appointed representative*, in the *United Kingdom*, except for *COBS 4.6* (Past, simulated past and future performance), *COBS 4.7.1R* (Direct offer financial promotions), *COBS 4.10* (Systems and controls and approving and communicating financial promotions), *COBS 13* (Preparing product information), ~~and~~ *COBS 14* (Providing product information to clients) and *COBS 15* (Cancellation) which apply as set out in those provisions, *COBS 4.1* and the Banking: Conduct of Business sourcebook (*BCOBS*).

...

#### 4 Communicating with clients, including financial promotions

...

##### 4.5 Communicating with retail clients

...

- 4.5.10 G ...

###### Lifetime ISA

- 4.5.11 G Information about relevant risks (*COBS 4.5.2R*) that a *firm* should give a *retail client* in relation to a *lifetime ISA* may include:

(1) an explanation of:

- (a) a *retail client's* eligibility to subscribe to a *lifetime ISA* (including annual subscription limits) and to claim the *lifetime ISA* government bonus;
- (b) the *lifetime ISA* government withdrawal charge and the circumstances in which it might arise; and
- (c) the process by which a *retail client* can transfer a *lifetime*

ISA; and

- (2) warnings that, if the *retail client*:
- (a) incurs a *lifetime ISA government withdrawal charge*, the *retail client* may get back less than they paid in to a *lifetime ISA*;
  - (b) saves in a *lifetime ISA* instead of enrolling in, or contributing to a *qualifying scheme, occupational pension scheme, or personal pension scheme*:
    - (i) the *retail client* may lose the benefit of contributions by an employer (if any) to that scheme; and
    - (ii) the *retail client's* current and future entitlement to means tested benefits (if any) may be affected.

...

#### 4.7 Direct offer financial promotions

- 4.7.1 R (1) Subject to (3) and (4), a *firm* must ensure that a *direct offer financial promotion* that is addressed to, or disseminated in such a way that it is likely to be received by, a *retail client* contains:

...

...

- (4) If a communication relates to a *firm's* business that is not *MiFID* or *equivalent third country business*, this section does not apply:
- (a) to the extent that it is an *excluded communication*;
  - (b) to the extent that it is a prospectus advertisement to which *PR 3.3* applies;
  - (c) if it is *image advertising*;
  - (d) to the extent that it relates to a *deposit* that is not a *cash deposit ISA, cash-only lifetime ISA* or *cash deposit CTF*;
  - (e) to the extent that it relates to a *pure protection contract* that is a *long-term care insurance contract*.

...

...

## 13 Preparing product information

### 13.1 The obligation to prepare product information

- 13.1.1 R A *firm* must prepare:
- (1) a *key features document* for each *packaged product, cash-deposit ISA, cash-only lifetime ISA* and *cash-deposit CTF* it produces; and
  - (2) a *key features illustration* for each *packaged product* it produces;
- in good time before those *documents* have to be provided.

...

### 13.3 Contents of a key features document

#### General requirements

- 13.3.1 R A *key features document* must:
- (1) include enough information about the nature and complexity of the product, how it works, any limitations or minimum standards that apply and the material benefits and risks of buying or investing for a *retail client* to be able to make an informed decision about whether to proceed; ~~and~~
  - (2) explain:
 

...

    - (e) (for a *personal pension scheme* that is not an *automatic enrolment scheme*) clearly and prominently, that *stakeholder pension schemes* are generally available and might meet the *client's* needs as well as the scheme on offer; ~~and~~
  - (3) (for a *cash-only lifetime ISA*) include the information set out in *COBS 14 Annex 1*.

...

## 14 Providing product information to clients

### 14.1 Interpretation

- 14.1.1 R In this chapter:
- (1) '*retail client*' includes the trustee or *operator* of a *stakeholder pension scheme* or *personal pension scheme* and the trustee of a *money-purchase occupational pension scheme*; and
  - (2) 'sell' includes 'sell, personally recommend or arrange the sale of' in relation to a *designated investment* and equivalent activities in relation to a *cash-deposit ISA, cash-only lifetime ISA* and *cash-*

*deposit CTF.*

## 14.2 Providing product information to clients

The provision rules

14.2.1 R A *firm* that sells:

...

(4) a *cash-deposit ISA*, *cash-only lifetime ISA* or *cash-deposit CTF* to a *retail client*, must provide a *key features document* to that *client*;

(4A) a *lifetime ISA*, which is not a *cash-only lifetime ISA*, to a *retail client* must provide to that *client* the information in *COBS 14 Annex 1*;

...

...

After COBS 14.4 (Provision of information by an intermediate Unitholder) insert the following new Annex. The text is not underlined.

## 14 Lifetime ISA information Annex 1

	This Annex belongs to <i>COBS 13.3.1R(3)</i> and <i>COBS 14.2.1R(4A)</i> .	
	Information which comprises the following:	
1	Features of a lifetime ISA	
1.1	R	An explanation to the <i>retail client</i> of the key features of a <i>lifetime ISA</i> , including:
	(1)	eligibility criteria to open and subscribe to a <i>lifetime ISA</i> ;
	(2)	annual <i>lifetime ISA</i> subscription limits;
	(3)	tax treatment of qualifying investments held in a <i>lifetime ISA</i> ;
	(4)	process for transferring a <i>lifetime ISA</i> ;
	(5)	eligibility for the <i>lifetime ISA government bonus</i> ; and
	(6)	the <i>lifetime ISA government withdrawal charge</i> and the circumstances in which this might be incurred.
1.2	R	The explanation in <i>COBS 14 Annex 1 1.1R(6)</i> should include a warning



		that:
	(1)	the <i>lifetime ISA government withdrawal charge</i> recovers any <i>lifetime ISA government bonus</i> and any investment growth on that bonus plus an additional amount; and
	(2)	if the <i>lifetime ISA government withdrawal charge</i> is incurred, the <i>retail client</i> could receive back less than they paid in.
2		Additional factors for a retail client to consider when deciding whether to invest in a lifetime ISA
2.1	R	An explanation to the <i>retail client</i> of:
	(1)	the different savings objectives for which the <i>lifetime ISA</i> is intended, being house purchase and/or saving for retirement, either in the alternative or in combination; and
	(2)	the types of qualifying investments which can be held in the <i>lifetime ISA</i> being sold by the <i>firm</i> .
2.2	R	A warning that if a <i>retail client</i> saves in a <i>lifetime ISA</i> instead of enrolling in, or contributing to, a <i>qualifying scheme, occupational pension scheme</i> or <i>personal pension scheme</i> :
	(1)	the <i>retail client</i> may lose the benefit of contributions by an employer (if any) to that scheme; and
	(2)	the <i>retail client's</i> current and future entitlement to means tested benefits (if any) may be affected.
2.3	G	The explanation in <i>COBS 14 Annex 1 2.1R</i> should:
	(1)	encourage a <i>retail client</i> to consider their <i>lifetime ISA</i> subscription level and choice of qualifying investment in relation to their savings objectives, their expected investment horizon and their financial circumstances as a whole, including other provision for retirement; and
	(2)	inform the <i>retail client</i> that the factors in (1) may change over time and that the <i>retail client</i> should regularly review their <i>lifetime ISA</i> subscription and/or qualifying investments.
3		Example outcome of retirement saving by a retail client in a lifetime ISA
3.1	R	A descriptive heading such as ‘What a lifetime ISA might be worth at age 60?’
3.2	R	A completed version of the table in <i>COBS 14 Annex 1 3.5R</i> .
3.3	R	An explanation, positioned adjacent to this table on the same page, stating

		that:	
		(1)	the table is designed to:
		(a)	help the <i>retail client</i> understand what the value of a <i>lifetime ISA</i> might be at age 60, depending on the age at which saving starts and assuming the maximum annual subscription at the beginning of each tax year up to age 50 and receipt of the <i>lifetime ISA government bonus</i> ; and
		(b)	provide information for a <i>retail client</i> who is saving for retirement in a <i>lifetime ISA</i> and so may not be relevant to a <i>retail client</i> whose saving objective for a <i>lifetime ISA</i> is house purchase; and
		(2)	the estimated outcomes in Columns 4 and 5:
		(a)	are based on standardised rates of return which may not reflect:
		(i)	actual or expected returns; or
		(ii)	the <i>retail client's</i> choice of qualifying investment for a <i>lifetime ISA</i> (accompanied by an indication of how the <i>retail client</i> can access information relating to the qualifying investments which the <i>retail client</i> may purchase from the <i>firm</i> ); and
		(b)	include the effect of <i>lifetime ISA charges</i> and inflation on estimated outcomes from a <i>lifetime ISA</i> ; and
		(3)	Column 6 shows the effect of <i>lifetime ISA charges</i> and inflation on the returns from a <i>lifetime ISA</i> which the <i>retail client</i> can use to compare the <i>lifetime ISA charges</i> applicable to other <i>lifetime ISAs</i> and charges applicable to longer-term savings products.
3.4	R	The explanations in <i>COBS 14 Annex 1 3.3R(2)</i> and <i>COBS 14 Annex 1 3.3R(3)</i> must include a statement that <i>lifetime ISA charges</i> taken into account in the table:	
		(1)	may vary over time; and
		(2)	exclude any fee or charge:
		(a)	payable by or on behalf of a <i>retail client</i> to a <i>firm</i> in relation to the provision of a <i>personal recommendation</i> by the <i>firm</i> in respect of the <i>lifetime ISA</i> ; and
		(b)	relating to the qualifying investments held in the <i>lifetime ISA</i> (including in relation to the provision of a <i>personal recommendation</i> in respect of those investments).

3.5	R	This table belongs to <i>COBS</i> 14 Annex 1 3.2R.					
		1	2	3	4	5	6
		Age saving in a lifetime ISA started	Total amount paid in by lifetime ISA saver/ investor	Total amount paid in, plus lifetime ISA government bonus	Estimated outcome at age 60 from 0% return	Estimated outcome at age 60 from x% return	Charges and estimated inflation would reduce a x% return to
			£	£	£	£	%
		18					
		25					
		30					
		35					
		40					
3.6	R	In preparing the table in <i>COBS</i> 14 Annex 1 3.5R, <i>firms</i> must:					
		(1)	Round all sterling amounts down to the nearest whole pound.				
		(2)	Complete Column 2 on the basis of:				
		(a)	the <i>retail client</i> attaining each age listed in Column 1 in the tax year in respect of which the <i>retail client</i> is proposing to make a <i>lifetime ISA</i> subscription; and				
		(b)	a maximum annual <i>lifetime ISA</i> subscription being made on 6 April of that tax year and each subsequent tax year, up to and including the tax year in which the <i>retail client</i> would reach age 50 (based on each assumed age in (a)).				
		(3)	Complete Column 3 on the basis of:				
		(a)	subscriptions as calculated in Column 2; and				
		(b)	receipt by the <i>retail client</i> of the <i>lifetime ISA government bonus</i> on:				
		(i)	5 April 2018 for the tax year 2017/18 (where relevant); and				
		(ii)	6 April of each subsequent tax year, up to and				

					including the tax year in which the <i>retail client</i> would reach age 50 (based on each assumed age in 2(a)).
		(4)	Complete Columns 4 and 5 on the basis of:		
			(a)	investment of the <i>retail client's</i> assumed subscriptions and the <i>lifetime ISA government bonus</i> , as calculated for the purposes of Columns 2 and 3;	
			(b)	(for Column 4) a nominal annual rate of return of 0%;	
			(c)	(for Column 5) a nominal annual rate of return equal to the maximum intermediate rate of return 'x' given in <i>COBS 13 Annex 2 2.3R</i> ; and	
			(d)	the outcome in sterling in real terms:	
			(i)	based on the nominal annual rate of return in the relevant column;	
			(ii)	net of the intermediate rate of price inflation given in <i>COBS 13 Annex 2 2.5R</i> ;	
			(iii)	net of the effect of any <i>lifetime ISA charges</i> ; and	
			(iv)	compounded annually at the end of each tax year, up to and including the tax year in which the <i>retail client</i> would reach age 60 (based on each assumed age in 2(a)).	
		(5)	Complete Column 6 on the basis of a percentage rate 'y' (rounded to the nearest tenth of 1%), where 'y' is the annual rate of return which must be applied to each amount shown in Column 3 and compounded annually over the relevant period to achieve the sterling amount shown in Column 5.		
4	Projections				
4.1	R	Where a <i>firm</i> chooses to provide a <i>projection</i> , including a <i>personal projection</i> , in relation to investing in a <i>lifetime ISA</i> in addition to the information in <i>COBS 14 Annex 1 3</i> (Example outcome of retirement saving by a retail client in a lifetime ISA), a <i>firm</i> must ensure that:			
		(1)	the information in <i>COBS 14 Annex 1 3</i> is displayed at least as prominently as the <i>projection</i> ;		
		(2)	where a <i>firm</i> that communicates a <i>projection</i> for a <i>lifetime ISA</i> in relation to its <i>MiFID or equivalent third country business</i> , the <i>projection</i> complies with the future performance rule in <i>COBS 4.6.7R</i> ; and		

		(3)	where a <i>firm</i> that communicates a <i>projection</i> for a <i>lifetime ISA</i> which is not in relation to its <i>MiFID</i> or <i>equivalent third country business</i> , the <i>projection</i> must be either a <i>standardised deterministic projection</i> or a <i>stochastic projection</i> in accordance with <i>COBS 13 Annex 2</i> .
5	Qualifying investments		
5.1	G	The information which a <i>firm</i> provides to a <i>retail client</i> in accordance with this Annex is intended to inform the <i>retail client</i> about the implications of that <i>retail client</i> saving and/or investing in a <i>lifetime ISA</i> (as opposed to saving and/or investing outside a <i>wrapper</i> or in a different <i>wrapper</i> or <i>pension wrapper</i> ). A <i>firm</i> must still take into account and comply with any other requirements of this sourcebook in connection with the sale by the <i>firm</i> of qualifying investments to be held in a <i>lifetime ISA</i> .	

Amend the following as shown.

## 15 Cancellation

...

### 15.2 The right to cancel

Cancellable contracts

15.2.1 R A *consumer* has a right to cancel any of the following contracts with a *firm*:

Cancellable contract	Cancellation period	Supplementary provisions
<b>Life and pensions:</b>		
<ul style="list-style-type: none"> <li>• a <i>life policy</i> (including a <i>pension annuity</i>, a <i>pension policy</i> or within a <i>wrapper</i>)</li> <li>• a contract to join a <i>personal pension scheme</i> or a <i>stakeholder pension scheme</i></li> <li>• a <i>pension contract</i></li> <li>• a contract for a <i>pension transfer</i></li> <li>• a contract to vary an existing <i>personal</i></li> </ul>	30 calendar days	<p>For a <i>life policy</i> effected when opening or transferring a <i>wrapper</i>, the 30 calendar day right to cancel applies to the entire arrangement</p> <p>For a contract to buy a <i>unit</i> in a <i>regulated collective investment scheme</i> within a <i>pension wrapper</i>, the cancellation right for 'non-life/pensions (advised but not at a distance)' below may</p>

<i>pension scheme or stakeholder pension scheme by exercising, for the first time, an option to make income withdrawals;</i>		apply Exemptions may apply (see COBS 15 Annex 1)
<b><u>Lifetime ISAs (advised but not at a distance):</u></b>		
• a <u>non-distance contract to open or transfer a lifetime ISA</u>	30 calendar days	These rights arise only following a <u>personal recommendation</u> of the contract (by the <u>firm</u> or any other <u>person</u> ).  <u>Exemptions may apply</u> (see COBS 15 Annex 1)
<b>Cash deposit ISAs:</b>		
• a contract for a <i>cash deposit ISA</i>	14 calendar days	Exemptions may apply (see COBS 15 Annex 1)
<b>Non-life/pensions (advised but not at a distance):</b> a <i>non-distance contract</i>		
<ul style="list-style-type: none"> <li>• to buy a <i>unit</i> in a <i>regulated collective investment scheme</i> (including within a <i>wrapper</i> or <i>pension wrapper</i>)</li> <li>• to open or transfer a child trust fund (CTF)</li> <li>• to open or transfer an <i>ISA (other than a lifetime ISA)</i></li> <li>• for an <i>Enterprise Investment Scheme</i></li> </ul>	14 calendar days	<p>These rights arise only following a <i>personal recommendation</i> of the contract (by the <i>firm</i> or any other <i>person</i>).</p> <p>For a <i>unit</i> bought when opening or transferring a <i>wrapper</i> or <i>pension wrapper</i>, the 14 calendar day right to cancel applies to the entire arrangement.</p> <p>Exemptions may apply (see COBS 15 Annex 1).</p>
<b>Non-life/pensions (at a distance):</b> a <i>distance contract</i> , relating to ... :		
<ul style="list-style-type: none"> <li>• <i>accepting deposits</i></li> <li>• <i>designated investment business</i></li> <li>• <i>issuing electronic money</i></li> </ul>	14 calendar days	Exemptions may apply (see COBS 15 Annex 1)

...

...

### 15.3 Exercising the right to cancel

...

#### Record keeping

- 15.3.4 R The *firm* must make adequate records concerning the exercise of a right to cancel or withdraw and retain them:
- (1) indefinitely in relation to a *pension transfer, pension opt-out* or *FSAVC*;
  - (2) for at least five years in relation to a *life policy, pension contract, personal pension scheme, stakeholder pension scheme* or *lifetime ISA*; and
  - (3) for at least three years in any other case.

### 15.4 Effects of cancellation

...

#### Payment for the service provided before cancellation

- 15.4.2 R
- (1) This *rule* applies in relation to a *distance contract* that is not a *life policy, personal pension scheme, cash deposit ISA, cash-only lifetime ISA* or *CTF*.
  - (2) When the *consumer* exercises ~~his~~ their right to cancel ~~he~~ they may be required to pay, without any undue delay, for the service actually provided by the *firm* in accordance with the contract. The performance of the contract may only begin after the *consumer* has given ~~his~~ their approval. The amount payable must not:
    - (a) exceed an amount which is in proportion to the extent of the service already provided in comparison with the full coverage of the contract; and
    - (b) in any case be such that it could be construed as a penalty.
  - (3) The *firm* may not require the *consumer* to pay any amount on the basis of this *rule* unless it can prove that the *consumer* was duly informed about the amount payable, in conformity with the distance marketing disclosure rules. However, in no case may the *firm* require such payment if it has commenced the performance of the contract before the expiry of the cancellation period without the *consumer's* prior request.

[**Note:** article 7(1), (2) and (3) of the *Distance Marketing Directive*]

...

## 15 Exemptions from the right to cancel Annex 1

	...	
	Exemptions for ISAs, CTFs and EISs (non-distance)	
1.9	R	There is no right to cancel a non- <i>distance contract</i> :
	(1)	to open or transfer an <i>ISA</i> (mini or maxi and including all components whatever the underlying investment, but not a <i>cash deposit ISA</i> or an <i>ISA</i> containing a <i>life policy</i> ); or
	(2)	to open or transfer a <i>CTF</i> ; or
	(3)	[deleted]
	(4)	for an <i>EIS</i> ;
		provided that:
	(5)	(for an <i>EIS</i> or <i>ISA</i> which is not a <i>lifetime ISA</i> ) the right to cancel is replaced with a seven calendar day, pre-contract right to withdraw the <i>consumer's</i> offer; or
	(5A)	<u>(for a <i>lifetime ISA</i>) the right to cancel is replaced with a fourteen calendar day, pre-contract right to withdraw the <i>consumer's</i> offer; or</u>
	(6)	the contract relates to an <i>EIS</i> or a non-packaged product <i>ISA</i> (which is not a <i>lifetime ISA</i> ) or <i>CTF</i> and is entered into following an explanation that neither a right to cancel nor a right to withdraw will apply given in accordance with the relevant rules on pre-contractual disclosure; or
	(7)	(for an <i>ISA</i> or <i>EIS</i> ) the contract entered into is a second or subsequent <i>ISA</i> or <i>EIS</i> on substantially the same terms (such as mini-to-mini <i>ISA</i> or maxi-to-maxi <i>ISA</i> ) as an <i>ISA</i> or <i>EIS</i> purchased from the same <i>ISA manager</i> or <i>EIS manager</i> in the previous tax year.
	...	



## Annex C

### Amendments to the Banking Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text.

## 2           **Communications with banking customers and financial promotions**

### 2.4           **Structured deposits, cash deposit ISAs and cash deposit CTFs**

...

- 2.4.2       G    If a *financial promotion* relates to a *cash deposit ISA*, *cash-only lifetime ISA* or *cash deposit CTF*, COBS 4.7.1R (Direct offer financial promotions) also applies.

...

## 4           **Information to be communicated to banking customers**

### 4.1           **Enabling banking customers to make informed decisions**

...

- 4.1.2       G    ...

(2A) ...

- (c)    In the case of a *savings account* that is a *cash deposit ISA*, *cash-only lifetime ISA* or a *cash deposit CTF*, the *firm* may include the summary box in a *key features document* provided to the *banking customer* in line with the *rules* and *guidance* in COBS 13 and COBS 14.

- (d)    In preparing the summary box, a *firm* should have regard to the provisions of BCOBS 2.2A.1R as if they were *guidance*.

...

...

- 4.1.7       G    If the *retail banking service* is a *cash deposit ISA*, *cash-only lifetime ISA* or a *cash deposit CTF*, the rules in COBS 13.1 (Preparing product information) and COBS 14.2 (Providing product information to clients) also apply.

...

## 6           **Cancellation**

## 6.1 The right to cancel

### Introduction

- 6.1.1 R Except as provided for in *BCOBS* 6.1.2R, a *banking customer* has a right to cancel a contract for a *retail banking service* (including a *cash deposit ISA* but excluding a *cash-only lifetime ISA*) without penalty and without giving any reason, within 14 calendar days.

[**Note:** article 6(1) of the *Distance Marketing Directive* in relation to *distance contracts*]

...

- 6.1.3 G ...

- 6.1.3A G *Firms are reminded that the cancellation rules in COBS 15 apply to the cancellation by a banking customer of a cash-only lifetime ISA.*

...

**Annex D****Amendments to the Client Assets sourcebook (CASS)**

In this Annex, underlining indicates new text.

**7 Client money rules**

...

**7.10 Application and purpose**

7.10.1 R This chapter applies to a *firm* that receives *money* from or holds *money* for, or on behalf of, a *client* in the course of, or in connection with, its:

...

(4) *innovative finance ISA business*; and/or

(5) *lifetime ISA business*,

unless otherwise specified in this section.

...

Financial Conduct Authority



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© Financial Conduct Authority 2017  
25 The North Colonnade Canary Wharf  
London E14 5HS  
Telephone: +44 (0)20 7066 1000  
Website: [www.fca.org.uk](http://www.fca.org.uk)  
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