

Product governance: additional provisions for pathway investments

Chapter 6

Product governance:
additional provisions for
pathway investments and
default options

6.3 Distribution of pathway investments

6.3.1 **R** A *firm* must not *distribute* a *pathway investment* unless it is compatible with the needs, characteristics and objectives of those *retail clients* that fall within the *pathway investment's* target market, taking into account the *investment pathway* options in ■ COBS 19.10.17R(1).

6.3.2 **R** When carrying out the compatibility assessment referred to in ■ PROD 6.3.1R, *firms* must take into account:

- (1) the price and complexity of the *pathway investment*; and
- (2) where the *firm* is referring *retail clients* to be transferred to the *personal pension scheme* or *stakeholder pension scheme* operated by another *firm*, they must also take into account:
 - (a) the charges and other product features of that other *firm's* drawdown product;
 - (b) the financial strength of that other *firm*; and
 - (c) the reliability and efficiency of that other *firm* in relation to its dealings with *retail clients*.

6.3.3 **R** A *firm* must review the distribution arrangements for the *pathway investments* it distributes at least on a two-yearly basis to ensure:

- (1) the distribution arrangements are still valid and up to date; and
- (2) the *pathway investments* remain compatible with, and are being *distributed* to, their target market in accordance with ■ PROD 6.3.1R.

6.3.4 **G** A *firm* to which the record-keeping rules in ■ SYSC 3 or ■ SYSC 9 apply should maintain, in relation to its *distribution of pathway investments*, a record of the process undertaken to select each *pathway investment*, and of the review conducted for each *pathway investment* to comply with ■ PROD 6.3.3R.

Obligations on firms where retail clients are not acting in their interests

6.3.5 **R** Where a *firm* (A) refers *retail clients* to another *firm* (B), where B can offer a *pathway investment* to the *retail client* if the *retail client* transfers to the *personal pension scheme* or *stakeholder pension scheme* operated by B, both A and B must comply with ■ PROD 6.3.6R.

6.3.6

R

Where:

- (1) A becomes aware of a pattern of *retail clients* choosing to stay with A and not transferring to B; and
- (2) A considers that this choice is unlikely to be in the interests of those *retail clients*, having regard to their objectives and characteristics; then
- (3) A must promptly inform B of its concerns in (1) and (2); and
- (4) A and B must each take reasonable steps to minimise the potential harm to *retail clients*.

6.3.7

G

Reasonable steps for the purposes of **■ PROD 6.3.6R** may include A and B making it easier for *retail clients* to transfer to the *personal pension scheme* or *stakeholder pension scheme* operated by B.

6