Chapter 13

Preparing product information

13.1 The obligation to prepare product information

Non-PRIIP packaged products, cash-deposit ISAs and cash-deposit CTFs

13.1.1 R A *firm* must prepare:

(1) a *key features document* for each *non-PRIIP packaged product*, *cash-deposit ISA*, *cash-only lifetime ISA* and *cash-deposit CTF* it produces; and

(2) a *key features illustration* for each *non-PRIIP packaged product* it produces;

in good time before those *documents* have to be provided.

PRIIPs

13.1.1A G (1) The *PRIIPs Regulation* requires the manufacturer of a *PRIIP* to draw up a *key information document* in accordance with the *PRIIPs Regulation* before that *PRIIP* is made available to retail investors (as defined in the *PRIIPs Regulation*).

[**Note:** article 5 of the *PRIIPs Regulation*]

(2) Since the *PRIIPs Regulation* imposes directly applicable requirements in relation to the preparation of product information for *PRIIPs*, the *rules* in COBS 13.1 to COBS 13.4 do not apply to a *firm* in relation to the manufacture of a *PRIIP* (except where applicable to *Solvency II Directive information*). COBS 13.5 and COBS 13.6 continue to apply where relevant.

Application of the PRIIPs regulation to funds

13.1.1B G (1) A *UCITS management company* is exempt from the *PRIIPs Regulation* until 31 December 2019 (see article 32(1) of the *PRIIPs Regulation*). These *firms* should continue to publish a *key investor information document* until that date (see COLL 4.7).

(2) (a) A manager of a *fund* offered to retail investors, other than a *UCITS*, is able to benefit from this exemption where a Member State applies rules on the format and content of the *key investor information document* in articles 78 to 81 of the *UCITS Directive* to that *fund* (see article 32(2) of the *PRIIPs Regulation*).

(b) The *FCA* has made *rules* for *authorised fund managers* of *non-UCITS retail schemes* to give them the choice of benefiting from this exemption (see COLL 4.7).

(c) An *authorised fund manager* of a *non-UCITS retail scheme* offered to *retail clients* may, until 31 December 2019, draw up either:

(i) a *key information document* in accordance with the *PRIIPs Regulation*; or

(ii) a *NURS-KII document*.

Information on life policies

13.1.2 R A *firm* must prepare the *Solvency II Directive information* for each *life policy* it effects:

(1) in a clear and accurate manner and in writing; and

(2) in an official language of the *State of the commitment*, or in another language if the *policyholder* so requests and the law of the *State of the commitment* so permits or the *policyholder* is free to choose the law applicable;

in good time before that information has to be provided.

[**Note:** article 185(1) and (6) of the *Solvency II Directive*]

13.1.2A G A *firm* that effects *life policies* which are also *PRIIPs* should consider whether it is also required to draw up a *key information document* in respect of those *life policies* in accordance with the requirements of the *PRIIPs Regulation*.

Exceptions

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

(1) a *document*, if another *firm* has agreed to prepare it; or

(2) a *key features document* for:

(a) a *unit* in a *regulated collective investment scheme*; or

(b) [deleted]

(c) [deleted]

(d) a *stakeholder pension scheme*, or *personal pension scheme* that is not a *personal pension policy*, if the information appears with due prominence in another *document*; or

(e) an interest in an *investment trust savings scheme*; or

(3) a *key features illustration*:

(a) for a *unit* in a *regulated collective investment scheme*; or

(b) [deleted]

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

(d) [deleted]

(e) for an interest in an *investment trust savings scheme*.

(4) [deleted]

13.1.4 R [deleted]

13.2 Product information: production standards, form and contents

13.2.1 G When a *firm* prepares *documents* or information in accordance with this chapter, the *firm* should consider the *rules* on providing product information (COBS 14). Those *rules* require a *firm* to provide the product information in a *durable medium* or via a website that meets the *website conditions* (if the website is not a *durable medium*).

[**Note:** article 29(4) of the *MiFID implementing Directive*]

13.2.1A G When a *firm* prepares *documents* or information for a *life policy*, *personal pension* or *stakeholder pension* in accordance with this chapter, the *firm* should:

(1) consider the *rules* on communicating with clients (COBS 4). Those *rules* require a *firm* to ensure that a communication is fair, clear and not misleading. In particular, a *firm* should:

(a) take into account its target market's understanding of financial services when preparing *documents* and information;

(b) present information in a logical order;

(c) use clear and descriptive headings, and where appropriate, cross references and sub-headings to aid navigation;

(d) where possible, use plain language and avoid the use of jargon, unfamiliar or technical language;

(e) if it is necessary to use jargon, unfamiliar or technical language, provide accompanying explanations in plain language;

(f) use short sentences;

(g) (if the *key features illustration* is separate from the *key features document*) clearly cross-reference between the two and avoid duplication where possible;

(h) concentrate on key product information, cross reference to background information, detailed explanations and information about how to apply for the product; and

(i) avoid duplication and unnecessary disclaimers;

(2) taking into account the means of printing or display, consider whether the following can be used to improve the *client's* understanding of the product, in particular:

(a) design devices such as side annotations, shading, colour, bulleted lists, tables and graphics; and

13

(b) the type size, line width, line spacing, and use of white space; and

(3) ensure that the use of colour in a *document* does not disguise, diminish or obscure important information if that *document* is printed or photocopied in black and white.

13.2.2 R A *key features document* and a *key features illustration* must also:

(1) (if it is a *key features document*) be produced and presented to at least the same quality and standard as the sales or marketing material used to promote the relevant product;

(2) (if it is a *key features document*) display the *firm*'s brand at least as prominently as any other;

(3) (if it is a *key features document* or a *key features illustration* which does not form an integral part of the *key features document*) include the 'Key facts' logo in a prominent position at the top of the *document*; and

(4) (if it is a *key features document* or a *key features illustration* which does not form an integral part of the *key features document*) include the following statement in a prominent position:

"The Financial Conduct Authority is a financial services regulator. It requires us, [provider name], to give you this important information to help you to decide whether our [product name] is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference".

13.2.3 G The *Solvency II Directive information* can be included in one or more of a *key features document*, a *key features illustration*, (where permitted by the *PRIIPs Regulation*) a *key information document* or any other *document*.

13.2.4 R The *documents* and information prepared in accordance with the *rules* in this chapter must not include anything that might reasonably cause a *retail client* to be mistaken about the identity of the *firm* that produced, or will produce, the product.

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;

(2) explain:

(a) the arrangements for handling complaints about the product;

(b) that compensation might be available from the *FSCS* if the *firm* cannot meet its liabilities in respect of the product (if applicable);

(c) that a right to cancel or withdraw exists, or does not exist, and, if it does exist, its duration and the conditions for exercising it, including information about the amount a *client* may have to pay if the right is exercised, the consequences of not exercising it and practical instructions for exercising it, indicating the address to which any notice must be sent;

(d) (for a *CTF*) that *stakeholder CTFs*, *cash-deposit CTFs* and *security-based CTFs* are available and which type the *firm* is offering; and

(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.

13.3.1A G When preparing a *key features document* for *pension annuity* and *drawdown pension* options *firms* should consider the information requirements for *firms* communicating with *clients* about their pension decumulation product options in COBS 19.4.12R and COBS 19.4.14R.

Additional requirements for non-PRIIP packaged products

13.3.2 R Table

A *key features document* for a *non-PRIIP packaged product* must:

13

(1)	Include the title: 'key features of the [name of product]';
(2)	describe the product in the order of the following headings, and by giving the following information under those headings:

Heading	Information to be given
'Its aims'	A brief description of the product's aims
'Your commitment' or 'Your investment'	What a *retail client* is committing to or investing in and any consequences of failing to maintain the commitment or investment
'Risks'	The material risks associated with the product, including a description of the factors that may have an adverse effect on performance or are material to the decision to invest
'Questions and Answers'	(in the form of questions and answers) the principle terms of the product, what it will do for a *retail client* and any other information necessary to enable a *retail client* to make an informed decision.

[**Note:** in respect of 'Risks', article 185(4) of the *Solvency II Directive*]

13.3.3 R [deleted]

13.3.4 R [deleted]

13.3.5 G [deleted]

13.4 Contents of a key features illustration

13.4.1 R A *key features illustration* must include *appropriate charges information*, information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank account and, if it is a *non-PRIIP packaged product* which is not a *financial instrument*:

(1) must include a *standardised deterministic projection*;

(2) the projection and charges information must be consistent with each other so that:

(a) the same intermediate growth rate and assumptions about regular contributions are used;

(b) a *projection* in nominal terms is accompanied by an effect of charges table and reduction in yield information in nominal terms; and

(c) a *projection* in real terms is accompanied by an effect of charges table and reduction in yield information in real terms;

(3) it may also include *stochastic projections* if there are reasonable grounds for believing that a *retail client* will be able to understand the *stochastic projection* except that the most prominent *projection* must be a *standardised deterministic projection*.

Exceptions

13.4.2 R 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*:

(1) unless there are reasonable grounds for believing that 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 4 R 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 4 R paragraph 3.3(2) and combines the product charge and, if applicable, the *consultancy charge*.

13.4.3 G A *generic 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.

13.4.4 R There is no requirement under ■ COBS 13.4.1 R to include a *projection* in a *key features illustration*:

(1) for a single *premium life policy* bought as a pure investment product, a product with benefits that do not depend on future investment returns or any other product if it is reasonable to believe that a *retail client* will not need one to be able to make an informed decision about whether to invest; or

(2) if the product is a *life policy* that will be held in a *CTF* or sold with *basic advice* (unless the *policy* is a *stakeholder pension scheme*); or

(3) if a *retail client* proposes to withdraw the funds in full from their , *personal pension schemestakeholder pension scheme* or *drawdown pension* reducing the value of their rights to zero.

13

13.4.4A R Where ■ COBS 13.4.4R(3) applies, if a *retail client* subsequently does not withdraw the funds in full from their *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* reducing their rights to zero, the *firm* must provide the *client* with a *standardised deterministic projection*.

13.4.5 G Although there may be no obligation to include a *projection* in a *key features illustration*, where a *firm* chooses to include one, the *projection* should:

(1) Comply with the requirements in this section unless the *projection* relates to an investment that is a *financial instrument*.

(2) Where the *projection* relates to a *financial instrument*, the *firm* should comply with either:

(a) the requirements in article 44(6) of the *MiFID Org Regulation* (see ■ COBS 4.5A.14EU) where the *firm* is carrying on *MiFID, equivalent third country or optional exemption business*); or

(b) the requirements in ■ COBS 4.6.7R where the *firm* is not carrying on *MiFID, equivalent third country or optional exemption business*.

13.5 Preparing product information: other projections

Projections for in-force products

13.5.1 R A *firm* that communicates a *projection* for an in-force *packaged product* which is not a *financial instrument*:

(1) must include a *standardised deterministic projection*;

(2) may also include a *stochastic projection* except that the most prominent *projection* must be a *standardised deterministic projection*; and

must follow the *projection rules* in COBS 13 Annex 2.

13.5.1A R The requirement in COBS 13.5.1R does not apply where a *retail client* proposes to withdraw the funds in full from their *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* reducing the value of their rights to zero.

Projections: other situations

13.5.2 R (1) A *firm* that communicates a *projection* for a *packaged product* which falls within (2) must ensure that the *projection* is either a *standardised deterministic projection* or a *stochastic projection* in accordance with COBS 13 Annex 2.

(2) This *rule* applies to a *packaged product* which is:

(a) not a *financial instrument* or an in-force *packaged product*; and

(b) either:

(i) a non-*PRIIP packaged product* for which a *key features illustration* is not required to be provided; or

(ii) a *PRIIP* where the *projection* is not in the *key information document*.

13.5.2A R The requirement in COBS 13.5.2R does not apply where a *retail client* elects to withdraw the funds in full from their *personal pension scheme* or *stakeholder pension scheme* or *drawdown pension* reducing the value of their rights to zero.

13.5.2B G Where a *firm* communicates a *projection* for a *packaged product* that is a *financial instrument*, the following future performance requirements are likely to apply:

(1) article 44(6) of the *MiFID Org Regulation* (see COBS 4.5A.14EU) where the *firm* is carrying on *MiFID, equivalent third country or optional exemption business*; or

(2) COBS 4.6.7R where the *firm* is not carrying on *MiFID, equivalent third country or optional exemption business*.

Exceptions to the projection rules: projections for more than one product

13.5.3 R A *firm* that communicates a *projection* of benefits for a *packaged product* which is not a *financial instrument*, as part of a combined *projection* where other benefits being projected include those for a *financial instrument* or *structured deposit*, is not required to comply with the projection rules in COBS 13.4, COBS 13.5 and COBS 13 Annex 2 to the extent that the combined *projection* complies with the future performance requirements in either:

(1) article 44(6) of the *MiFID Org Regulation* (see COBS 4.5A.14EU) where the *firm* is carrying on *MiFID, equivalent third country or optional exemption business*; or

(2) COBS 4.6.7R where the *firm* is not carrying on *MiFID, equivalent third country or optional exemption business*.

13.5.4 G The general requirement that communications be fair, clear and not misleading will nevertheless mean that a *firm* that elects to comply with the future performance rule in COBS 4.6.7 R, or, if applicable, the requirement in article 44(6) of the *MiFID Org Regulation* (see COBS 4.5A.14EU), will need to explain how the combined *projection* differs from other information that has been or could be provided to the client, including a *projection* provided under the *projection rules* in COBS 13.4, COBS 13.5 and COBS 13 Annex 2. In particular, the *firm* should identify where a *projection* in real terms is required under COBS 13.

13.6 Preparing product information: adviser and consultancy charges

13.6.1 R A *firm* that agrees to facilitate the payment of an *adviser charge* or *consultancy charge*, or an increase in such a charge, from a new or 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 it takes effect.

13.6.2 G Where a *firm* agrees to facilitate the payment of an *adviser charge* or *consultancy charge* for a new *non-PRIIP packaged product*, it will satisfy the *rule* in COBS 13.6.1R by including the *appropriate charges information* in the *key features illustration*.

Solvency II Directive Information

This annex belongs to COBS 13.1.2 R (The Solvency II Directive information)

Information about the firm	
(1)	The *firm's* name and its legal form;
(2)	The name of the *EEA State* in which the head office and, where appropriate, agency or branch concluding the contract is situated;
(3)	The address of the head office and, where appropriate, agency or branch concluding the contract; and
(3A)	A concrete reference to the *firm's SFCR* allowing the *policyholder* easy access to this information.
Information about the commitment	
(4)	Definition of each benefit and each option;
(5)	Term of the contract;
(6)	Means of terminating the contract;
(7)	Means of payment of *premiums* and duration of payments;
(8)	Means of calculation and distribution of bonuses;
(9)	Indication of surrender and paid-up values and the extent to which they are guaranteed;
(10)	Information on the *premiums* for each benefit, both main benefits and supplementary benefits, where appropriate;
(11)	For unit-linked *policies*, the definition of the units to which the benefits are linked;
(12)	Indication of the nature of the underlying assets for unit-linked *policies*;
(13)	Arrangements for application of the cancellation period or right to withdraw;
(14)	General information on the tax arrangements applicable to the type of *policy*;
(15)	The arrangements for handling complaints concerning contracts by *policyholders*, lives assured or *beneficiaries*under contracts including, where-appropriate, the existence of a complaints body (usually the Financial Ombudsman Service), without prejudice to the right to take legal proceedings; and
(16)	Law applicable to the contract where the parties do not have a free choice or, where the parties are free to choose the law applicable, the law the *insurer* proposes to choose.
[**Note:** article 185(2) and (3) of the *Solvency II Directive*]	

Projections

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

R

Projections

1 Calculating standardised deterministic projections

1.1 A *standardised deterministic projection* must:

(1) include a *projection* of benefits at the lower, intermediate and *higher rates of return*;

(2) be rounded down; and

(3) show no more than three significant figures.

R

1.2 Calculating projections: additional requirements for a *personal pension scheme*and *stakeholder pension scheme*

(1) A *standardised deterministic projection* must be in real terms and be accompanied by information explaining why price inflation has been taken into account and that price inflation reduces the worth of all savings and investments.

(2) A *standardised deterministic projection* in real terms must be calculated using:

(a) the appropriate *lower*, *intermediate* and *higher rates of return*;

(b) the intermediate rate of price inflation, in accordance with COBS 13 Annex 2 2.5R; and

(c) an annuity calculated in accordance with COBS 13 Annex 2 3.1R.

(3) The *standardised deterministic projection* must show only the numeric value of the three real rates of return after the appropriate price inflation assumption has been taken into account, that is, the real rate of projected growth which has been applied to the real value of the contributions.

G

1.2A A *firm* is not prevented from providing a *retail client* with a *projection* of the fund or pension commencement lump sum in nominal terms for planning purposes (for example for a pension mortgage) if it is prepared in a way which is consistent with the *standardised deterministic projection*.

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 13.4.2 R, 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.

(2) A *projection* prepared on that basis may omit projections at the *lower* and *higher rates of return* and only show a range of benefits in real terms at the *intermediate rate of return*.

G

1.4 A *firm* will provide sufficient separate *projections* if it prepares a table that shows *projections* in real terms for a variety of periods to maturity and a variety of contribution levels, taking into account the *charges* and other material terms that apply to the *stakeholder pension scheme* or *personal pension scheme*. Such a table could be laid out like a specimen benefits table (see COBS 13 Annex 2 1.8).

R

Providing a stochastic projection

1.5 A *stochastic projection* may only be provided if:

(1) [deleted]

(2) [deleted]

[deleted]

(3)

[deleted]

(4) it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data;

(5) it is accompanied by enough information for the *retail client* to be able to understand the difference between the *stochastic projection* and the *standardised deterministic projection* being provided; and

(6) it is presented in real terms where the accompanying *standardised deterministic projection* is required to be in real terms.

1.6 [deleted]

R

Exceptions

1.7

A *projection* for an in-force product that will mature in six *months* or less may be prepared and presented on any reasonable basis.

1.7A If a *projection* is prepared in connection with an offer for or conclusion of a *personal pension scheme*, three different rates of return must be used.

[**Note:** article 185(5) of the *Solvency II Directive*]

13

R

1.8 In the case of a *stakeholder pension scheme* in circumstances where a *generic key features illustration* is permitted under COBS 13.4.2 R, 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

1.9 The *rules* in this Annex do not apply to:

(1) a *projection* for an in force product which is consistent with the *statutory money purchase illustration* requirements; and

(2) a *safeguarded-flexible benefits risk warning*.

R

1.10 A *standardised deterministic projection* for an in force product may omit the *intermediate rate of return* except for *personal pension scheme* and *stakeholder pension scheme* contracts taken out after 5 April 2014.

R

2 Assumptions to follow when calculating projections.

Assumptions: projection date

2.1 A *standardised deterministic projection* must be calculated to the *projection date* described below:

	Product	Projection date
(1)	A contract which is a *whole life assurance* the *premiums* under which are regular *premiums*	The anniversary of the commencement date: (a) which first falls after the seventy-fifth birthday of the life assured; or (b) (if there is more than one life assured) the anniversary of the commencement date which falls after the seventy fifth birthday of: (i) (if benefits are payable on the first death) the oldest life assured; or (ii) (in all other cases) the youngest life assured; subject to a minimum *projection date* of ten years.
(2)	A contract that is not in (1): (a) where the relevant marketing refers to a surrender value or an option to take benefits before they would otherwise be paid; or (b) that is open-ended, or linked to one or more lives, which is not a *personal pension scheme* or *stakeholder pension scheme*	An appropriate date which highlights the features of the product
(3)	A contract that is not in (1) or (2) and has a specified maturity date	The maturity date specified in the contract
(4)	A contract that is not in (1) or (2) or (3)	The tenth anniversary of the commencement date

R

Assumptions: contributions

2.2 A *standardised deterministic projection* must:

(1) take account of all contributions due during the *projection period*;

(2) be calculated on the basis that contributions are accumulated, net of *charges*, at the appropriate rate of return compounded on an annual basis;

(3) (if it includes assumptions about contribution increases in line with an index) be based on an assumption that contribution increases are consistent with any assumptions regarding that index in this annex; and

(4) deduct from contributions any rider benefits or extra *premium* which may be charged for an increased underwriting risk.

R

Assumptions: rates of return

2.3 A *standardised deterministic projection* must be calculated as follows:

(i) the *intermediate rate of return* must accurately reflect the investment potential of each of the product's underlying investment options;

(iii) the *lower* and *higher rates of return* must maintain a differential of 3% relative to the *intermediate rate of return*; and

(iii) the rates of return for each underlying investment option must not exceed the following maximum rates:

Nominal rates	Lower rate	Inter-mediate rate	Higher rate
tax-exempt business held in a *wrapper* or by a *friendly society* *personal pension schemes*, *stakeholder pension schemes* and investment-linked annuities	2%	5%	8%
all other products	1½%	4½%	7½%

R

Exceptions

2.4 A *standardised deterministic projection*:

(1) [deleted]

(2) may be calculated using a lower rate of return if a *retail client* requests it; and

(3) where there is a contractual obligation to provide a minimum rate of return that exceeds any one or more of the *lower*, *intermediate* or *higher rates of return*, the *standardised deterministic projection* must be calculated by substituting the obligated rate of return for the *lower*, *intermediate* or *higher rate of return*, as appropriate.

R

Assumptions: inflation

2.5 If inflation is taken into account, the *standardised deterministic projection* must be calculated using the following rates:

	Lower rate	Inter-mediate rate	Higher rate
Price inflation	0.50%	2.50%	4.50%
Earnings inflation	≥2%	≥4%	≥6%

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 expect to be taken after investment into the product;

(b) the tax relief available to the *firm* in respect of so much of the *firm*'s gross expenses as can properly be attributed to the contract; and

(c) the fact that certain *charges* will be fully or partially off-set, but only to the extent that the *firm* can show that the off-set funds will be available when the relevant *charges* arise; and

(2) must not include the *firm*'s dealing costs incurred on the underlying portfolio; and

(3) must include the retained interest *charges* specified in COBS 13 Annex 3 1.1R(4) or COBS 13 Annex 4 1.1R(4), where relevant.

G

2.7 (1) Development and capital costs should normally be written off in the year in which they are incurred. However, some costs (for example, exceptional new business expenses) may be amortised and previous years' costs may then be brought into account.

(2) If it is reasonable to assume that higher expenses will be incurred in the future, appropriate allowances should be made, and any inflation assumptions should be consistent with those prescribed in these rules.

(3) Expenses should be apportioned appropriately between products so that scales of expenses can be calculated and applied.

(4) Where appropriate, mortality and morbidity should be allowed for on a best estimate basis. The basis for annuities should allow for future improvements in mortality.

(5) A projection should not assume that *charges* will fall over time to a rate that is lower than the rate currently being charged on the relevant product (or, if there is no such charge, on a similar product).

(6) A projection of surrender value, cash-in value or transfer value should take into account any specific current surrender value basis and penalties which may be applied.

(7) If a *personal pension scheme* is invested in assets that are volatile or difficult to value, the *standardised deterministic projection* should be prepared using the best available reasonable assumptions.

(8) The methodology for a projection including retained interest *charges* should:

(a) take account of any required minimum cash balances;

(b) be based on reasonable assumptions such that the overall charges in relation to the product and the investments are unlikely to be understated; and

(c) have regard to the overall level of retained interest *charges* across all relevant business.

R

Additional requirements: with-profits policies

2.8 (1) A *standardised deterministic projection* for a *with-profits policy* must properly reflect the deductions from asset share which a *firm* expects to make in accordance with its *deductions plan*.

(2) A *standardised deterministic projection* for a *with-profits policy* where bonus rates apply must assume that the bonus rates supported by the relevant premium and rate of return apply throughout the term of the contract.

R

Additional requirements: drawdown pensions and regular *uncrystallised funds pension lump sum* payments

2.9 (1) A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments must be based on the requirements contained in (2) to the extent that they impose additional or conflicting requirements to the balance of the *rules* in this section.

(2) A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments must include:

(a) where relevant the maximum initial income specified in the tables published by the Government Actuaries Department for a *drawdown pension*;

(b) the assumed level of income;

(c) for a *short-term annuity*, where subsequent *short-term annuities* are assumed, a statement reflecting that fact;

(d) (under 'What the benefits might be' or similar heading, either:

(i) the amount of income and the projected value of the fund at five yearly intervals to age 99 for the *lower*, *intermediate* and *higher rate of return* for as long as the fund is projected to exist (at the *higher rate of return*); or

(ii) a description of the income and a projection of the age at which the fund will cease to exist for the *lower*, *intermediate* and *higher rate of return*; and

(e) [deleted]

(f) the amount of annuity that could be secured using an immediate annuity rate available in the market.

(3) A *standardised deterministic projection* for a *drawdown pension* or regular *uncrystallised funds pension lump sum* payments may also include the projected open market values and the amounts of annuity that might be purchased at some point in the future.

(4) A *standardised deterministic projection* for a *drawdown pension* entered into before 6 April 2015 must, where relevant, be based on an assumption that the current gilt index yield will continue to apply throughout the relevant term.

R

Drawdown Pension: Exception

2.10 A *standardised deterministic projection* can be prepared in nominal terms, rather than real terms for a:

(1) *drawdown pension*; or

(2) *personal pension scheme* or *stakeholder pension scheme* from which there has been an election to take regular, ad-hoc or one-off *uncrystallised funds pension lump sum* payments.

R

3 How to calculate a projection for a future annuity

3.1 A *projection* for a future annuity must:

(1) be calculated by rounding all factors to three decimal places before applying them to the relevant retirement fund;

(2) use a mortality rate based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projection models, in equal parts;

(3) [deleted]

(4) (for an annuity where two lives are concerned):

(a) reflect the age difference between the two lives; or

(b) be based on the assumption that the male life is three years older than the female (if the genders differ) or the two lives have the same age (if the genders are the same);

(5) include an expenses allowance of 4%;

(6) be based on the following rates of return as appropriate:

R

	Lower rate	Intermediate rate	Higher rate
Level or fixed rate of increase annuities	Y+1.5%	Y+3.5%	Y+5.5%
RPI or LPI linked annuities	Y-1%	Y	Y+1%

R

where:

'Y' is 0.5* (ILG0 + ILG5)-0.5 rounded to the nearest 0.2%, with an exact 0.1% rounded down; and

'ILG0' and 'ILG5' are the real yield on the FTSE Actuaries Government Securities Index-linked Real Yields over 5 years, assuming 0% and 5% inflation respectively, updated every 6 April to use the ILG0 and ILG5 which applied on or, if necessary, the *business day* immediately before, the preceding 15 February; and

(7) (in the case of a future annuity with less than one year to maturity) be calculated using annuity rates that are no more favourable than the *firm's* relevant current immediate annuity rate or (if there is no such rate) the relevant immediate annuity rate available in the market; and

(8) be assumed to be payable monthly in advance with a guaranteed period of 5 years, unless it is unreasonable to do so.

E

3.1A For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY-2)_M_[1.25%] and CMI (20YY-2_F)_[1.25%], where YY-2 is the year of the Model used, will tend to show compliance with COBS 13 Annex 2 3.1 R (2).

R

3.3 A projection for an annuity with a *guaranteed annuity rate* must:

(1) show an additional projection of the income that could be provided where that *guaranteed annuity rate* provides higher rates of return than those otherwise shown; and

(2) calculate the income that could be provided on the basis of the rates in the *guaranteed annuity rate*, using a projection of the fund calculated using the *intermediate rate of return*.

G

3.4 When providing an additional projection for an annuity with a *guaranteed annuity rate*, a *firm* should:

(1) [deleted]

(2) take account of multiple *guaranteed annuity rates* on the fund or non-guaranteed elements of the fund on a proportionate basis; and

(3) provide an explanation of the key restrictions which may apply when the *guaranteed annuity rate* is taken up, particularly where these differ from the other projections shown.

R

3.2 A *projection* for a future annuity:

(1) must be calculated using lower rates of return , if the rates described in this section overstate the investment potential of the product;

(2) may be calculated using a lower rate of return if a *retail client* requests it.

4 [deleted]

R

5 Projections: accompanying statements and presentation

5.1 A *standardised deterministic projection* must be accompanied by:

(1) appropriate risk warnings, including warnings about volatility and the impact of inflation and that the product may pay back less than paid in (if that could be the case), and the degree to which any figures can be relied upon; and

(2) a statement:

(a) [deleted]

(b) that *charges* may vary;

(c) of the contributions that have been assumed;

(d) that increases in contributions have been assumed (if that is the case), together with sufficient information for a *retail client* to be able to understand the nature and magnitude of the assumed increases;

(e) of the sum of any actual *premiums* charged for any rider benefits or increased underwriting risks (where these have been charged);

(f) (for *personal pension schemes* and *stakeholder pension schemes*) of the assumptions used to calculate the regular income and that the *client* may choose when to take this income (if that is the case); and

(g) that the projection takes account of the existence of contractual obligations to provide a minimum rate (if that is the case).

[Note: article 185(5) of the *Solvency II Directive*]

R

5.1A When presenting a *standardised deterministic projection* a *firm* must:

(1) include a short introductory explanation of what the *projection* seeks to illustrate;

(2) use a descriptive heading such as 'What your regular income might be worth in future or 'What might I get back from my plan?';

(3) place the *projection* and the associated explanation adjacent to each other on the same page; and

(4) explain that the *client* will be sent annual statements (if that is the case) which will allow them to keep track of their benefits.

R

Additional requirements: pension schemes and products linked to other products

5.2 A *standardised deterministic projection* for a product where the benefits illustrated depend on a link to a separate product must include an appropriate description of the material factors that might influence the returns available overall and any restrictions assumed in providing an illustration of benefits in relation to that separate product.

[Note: article 185(5) of the *Solvency II Directive*]

Charges information for a non-PRIIP 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 13.4.1 R (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* (including, where applicable, any retained interest *charges* under (4), below) a *client* will or may be expected to bear in relation to the product and, if applicable, any investments within the product; and

(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;

(3) 'reduction in yield' information; and

(4) in relation to a *personal pension scheme*, the amounts (or if the amounts cannot be given, the formula by which the amounts can be calculated) of the *charges*, if any, which a *personal pension scheme operator* or *pension scheme* trustee will receive as retained interest in relation to money held within the *personal pension scheme*.

1.2 Where a *firm* does not include a *projection* within its *key features illustration* the charges information can be on a generic basis.

1.2A The information described in 1.1(4) must be disclosed alongside information about any other *charges* the *client* will be expected to bear, and information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank account.

Exceptions

1.3 An effect of charges table and reduction in yield information are not required for:

(1) a *life policy* without a *surrender value*, but an appropriate warning must be included to make it clear that the *policy* has no cash-in value at any time;

(2) [deleted];

(3) [deleted]

(4) a *stakeholder product* 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 charge [£250 x y/100] that year. If your fund is valued at £500 throughout the year, this means we charge [£500 x y/100] that year. [After ten years these deductions reduce to [£250 x r/100] and [£500 x r/100] respectively.]"

where 'y' is the annual charge and 'r' is the reduced annual charge (if any); or

13

(5) a *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* where the *client* elects to withdraw their funds in full, reducing the value of their rights to zero.

1.3A Where 1.3(5) applies, if a *client* subsequently does not withdraw the funds in full from their *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* reducing their rights to zero, the *firm* must provide the *client* with an 'effect of charges' table and 'reduction in yield' information.

1.4 Reduction in yield information is not required for a without profits *life policy* with guaranteed benefits (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*.

R

2 Effect of charges table

2.1 Each 'effect of charges' table must be accompanied by, or refer to:

(1) a statement that all relevant guarantees have been taken into account (if there are any);

(2) [deleted]

(3) the rate of return (for *personal pension schemes* and *stakeholder pension schemes*, this must be net of price inflation, where appropriate) used to calculate the figures in the table; and

(4) an explanation of the purpose of the table and what the table shows.

2.2 The effect of charges table:

(1) for a *life policy* must be in the following form unless the firm chooses to adopt the form of the effect of charges table in COBS 13 Annex 4 :

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 *non-PRIIP 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)	[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 4	This column is optional. If it is retained, it must show the total actual 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).
Note 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.	
Note 6	This column must show the *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.	

R

Exception

2.3 An effect of charges table and its title can be amended to the extent that it is necessary:

(1) to properly reflect the nature and effect of, for example, the *adviser charges*, *consultancy charges* or the charges inherent in a particular product; or

(2) to ensure that the column labels and any explanatory text reflect the product and whether inflation has been taken into account; or

(3) to ensure consistency with the terminology used in relation to a particular product.

G

2.4 [deleted]

R

3 Reduction in yield

3.1 Reduction in yield ('A') is 'B' less 'C' where:

(1) 'B' is the *intermediate rate of return* (for *personal pension schemes* and *stakeholder pension schemes*, net of price inflation, where appropriate) for the relevant product; and

(2) 'C' is determined by:

(a) carrying out a *standardised deterministic projection* to the *projection date*, 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 left out of account.

3.2 A *firm* must present reduction in yield as 'A%', as part of statements which explain that:

(1) charges have the effect of reducing investment growth (after price inflation for personal pension schemes and stakeholder pension schemes) from 'B%' to 'C%', or in some other appropriate way; and

(2) the information about the reduction in investment growth can be used to compare the effect of charges with similar products.

3.3 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 the case may be); 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 the case may be); or

(c) through a single figure combining the separate figures for each fund or contribution in a proportionate manner, with an appropriate description.

3.4 Where a *firm* is calculating reduction in yield information, it must:

(1) disregard charges related to mortality and morbidity risks; or

(2) (where the requirement in (1) produces figures that are misleading) include a statement with the reduction in yield information that it has been calculated taking into account charges related to mortality and morbidity risk.

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 13.4.1 R (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* (including, where applicable, any retained interest *charges* under (4), below) 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;

(3) 'reduction in yield' information; and

(4) in relation to a *personal pension scheme*, the amounts (or if the amounts cannot be given, the formula by which the amounts can be calculated) of the *charges*, if any, which a *personal pension scheme operator* or *pension scheme* trustee will receive as retained interest in relation to money held within the *personal pension scheme*.

Exceptions

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 charge [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will charge [£7500 x y/100] that year."

1.3 An effect of charges table and reduction in yield information are not required for a *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* where the *client* elects to withdraw their funds in full, reducing the value of their rights to zero.

1.3A Where 1.3 applies, if a *client* subsequently does not withdraw the funds in full from their *personal pension scheme*, *stakeholder pension scheme* or *drawdown pension* reducing their rights to zero, the *firm* must provide the *client* with an 'effect of charges' table and 'reduction in yield' information.

1.2A The information described in 1.1(4) must be disclosed alongside information about any other *charges* the *client* will be expected to bear, and information about any interest that will be paid to *clients* on money held within a *personal pension scheme* bank account.

R

2 Effect of charges table

13

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); and

(3) [deleted]

(4) the rate of return (after price inflation, where appropriate)used to calculate the figures in the table.

2.2 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	The payments into your plan	Withdrawals	Before charges are taken	If only plan and investment charges are taken	After all charges are taken from this plan
	£	£	£	£	£
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* or *uncrystallised funds pension lump sum* payments, figures must be included for each of the first ten years, or less if the value of the fund is projected at the *intermediate rate of return* to reach zero before then.

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 intended to be taken to the end of each relevant year. The column may be omitted if withdrawals are not anticipated or allowed.

Note 4 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 without taking any *charges* into account.

13

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 4 R 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 4 R 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 and its title can be amended, to the extent that it is necessary:

(1) to properly reflect the nature and effect of, for example, the adviser charges, consultancy charges or the charges inherent in a particular product; or

(2) to ensure that the column labels and any explanatory text reflect the nature of the product and to make it clear whether price inflation has been taken into account; or

(3) to ensure consistency with the terminology used in relation to a particular product.

G

2.4 [deleted]

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* (net of price inflation, where appropriate) 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* (net of price inflation, where appropriate) 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 statements which explain that:

(a) 'product charges reduce investment growth after price inflation from 'B%' to 'C%'', or in some other appropriate way; and

(b) the information about the reduction in investment growth can be used to compare the effect of charges with similar products.

(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 the investment growth (after price inflation, where appropriate) 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.