# Chapter 19

# Pensions supplementary provisions

# 19.8 Disclosure of transaction costs and administration charges in connection with workplace pension schemes

## Interpretation

19.8.1 R In this section:

(1) [deleted]

(2) 'anti-dilution mechanism' is any method used to the benefit of an *investment* to offset the impact of inflows or outflows from that *investment*, whether by way of:

(a) a levy; or

(b) any adjustment enabling further investment into, or redemption of investments from, the *investment*.

(3) 'arrangement', in connection with a *relevant scheme*, is any *investment* available to scheme members for the investment of their pension contributions.

(4) [deleted]

## Application

19.8.2 R This section applies to:

(1) an *operator* of a *relevant scheme*; and

(2) a *firm* which holds information needed for the calculation of transaction costs or administration charges in the course of providing services in connection with:

(a) a *relevant scheme*;

(b) an arrangement; or

(c) an *investment* in which an arrangement is directly or indirectly invested.

## Purpose

19.8.3 G (1) The purpose of the *rules* in this section is to enable governance bodies of workplace pension schemes to meet their obligations as set out in (2) and (3) by obliging *firms* which hold the relevant information to calculate transaction costs to a common standard and provide that information, and information on administration charges, to governance bodies.

(2) An *operator* of a workplace *personal pension scheme* or *stakeholder pension scheme* is obliged under ■ COBS 19.5.7R(2) to take reasonable steps to provide its *IGC* (or *governance advisory arrangement*) with all information reasonably requested by it for the purpose of carrying out its role. The role of an *IGC*, under ■ COBS 19.5.5R(2), must include the assessment of value for money delivered by relevant schemes through the assessment of transaction costs (among other things).

(3) The trustees or managers of an occupational pension scheme are obliged to calculate, insofar as they are able to do so, the transaction costs borne by scheme members, and to assess the extent to which those costs represent good value for members. (See regulation 25 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879)).

## Obligation to disclose transaction costs and administration charges

**19.8.4** R A *firm* must respond in a reasonable time and in a reasonably acceptable format to a request for information relating to transaction costs and administration charges relating to a particular arrangement (or any *investment* in which the arrangement is directly or indirectly invested) over a period of time from or on behalf of:

(1) an *operator*, trustee or manager of a *relevant scheme*; or

another *firm* seeking to comply with its obligations under this section.

**19.8.5** R In responding to the request referred to in ■ COBS 19.8.4R, the *firm* must:

(1) calculate the transaction costs incurred in relation to the arrangement or *investment* to which the request relates (including transaction costs incurred in any *investment* in which the arrangement or *investment* is directly or indirectly invested) in accordance with this section;

(2) disclose the results of the aggregation of those transaction costs to the requesting *person*, along with a breakdown of the identifiable elements of those costs;

(3) disclose the administration charges incurred in that arrangement or any *investment* to which the request relates (including administration charges incurred in any *investment* in which the arrangement or *investment* is directly or indirectly invested); and

(4) provide other relevant information which would or may assist in making comparisons between the costs or charges in (1) to (3) and the equivalent costs or charges of other pension schemes where available.

19.8.6 G

(1) The breakdown of identifiable transaction costs should include at least taxes, explicit fees and charges, costs in connection with securities lending and borrowing, and the benefit from anti-dilution mechanisms.

(2) Other relevant information regarding transaction costs or administration charges might include, in relation to each arrangement (or *investment* in which the arrangement is directly or indirectly invested): the investment return, measures of risk, portfolio turnover rate, proportion of securities loaned or borrowed, costs other than transaction costs, and typical and maximum levels of entry, exit and switching costs. This is not an exhaustive list, and *firms* should use discretion based on the composition of each particular arrangement (or *investment* in which the arrangement is directly or indirectly invested).

(3) Where it is not possible to calculate the amount of transaction costs or administration charges attributable to an arrangement (or *investment* in which the arrangement is directly or indirectly invested), a pro rata approach may be used, which assumes that transaction costs and administration charges are incurred evenly over time. A pro rata approach may also be used where information is not available for a full period or in other situations where the provision of information would otherwise be subject to unreasonable delay.

(4) When calculating administration charges for a default arrangement, *firms* should have regard to ■ COBS 19.6 (Restriction on charges in qualifying schemes) and the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879).

### Taking reasonable steps to obtain necessary information

19.8.7 R

If a *firm* does not have the information necessary to comply with ■ COBS 19.8.4R and ■ COBS 19.8.5R, then it must:

(1) take reasonable steps to obtain that information; or

(2) where, despite having taken such reasonable steps, it remains unable to comply with ■ COBS 19.8.4R and ■ COBS 19.8.5R, provide a written explanation to the requesting party explaining why, including the percentage of *investments* in the arrangement (or *investment* in which the arrangement is directly or indirectly invested) for which information cannot be obtained, and indicating the categories of *investments* involved.

19.8.8 G

(1) In taking reasonable steps to obtain information about transaction costs or administration charges, a *firm* should request the information from other *firms* involved in providing services in connection with the *relevant scheme*, arrangement, or *investment* in which the arrangement is directly or indirectly invested.

(2) A *firm*, when seeking information about transaction costs or administration charges, should consider the materiality of that information to the calculation of costs and charges overall for each arrangement, in particular the degree to which it is necessary to look

through to transactions in underlying *investments* in order to arrive at a fair assessment of the costs or charges of each arrangement.

### Calculation of transaction costs for buying and selling transactions

19.8.9 R A *firm* must calculate the transaction cost of buying or selling an *investment* as the difference between arrival price (AP) and execution price (EP) of that *investment*, multiplied by the number of units of, or in, the *investment* transacted, as follows:

(1) AP and EP are determined in accordance with this section;

(2) where an *investment* is purchased:

transaction cost = (EP-AP) x (units); and

(3) where an *investment* is sold:

transaction cost = (AP-EP) x (units).

### Arrival Price (AP)

19.8.10 R A *firm* must determine the arrival price as follows:

(1) for a *transferable security*, or other *investment* which there are frequent opportunities to dispose of, redeem, or otherwise realise at a price publicly available to market participants that is either a market price or a price made available or validated by valuation systems independent of the *issuer*:

(a) the market mid-price at the time the order was transmitted to another *person* for execution or was executed, whichever is earlier

(b) if no such price is available, then the last available mid-price on the day the order was *executed*, or, if this is not available, the closing mid-price on the day before; or

(c) if the order to transact was executed on a day other than the day it was transmitted to another *person* for execution, the market opening mid-price on the day of execution, or, if this is not available, the closing mid-price the day before; or

(d) if the order was *executed* during an auction, the most recently available mid-price of the asset prior to the auction; or

(e) if an order is transmitted to another *person* for execution outside trading hours, the subsequent market opening mid-price.

(2) for an investment fund or other vehicle priced on a periodic basis:

(a) for a dual-priced vehicle, the fair value mid-price of the vehicle at the pricing point when the transaction took place; or

(b) for a single-priced vehicle, the fair value price of the vehicle at the pricing point when the transaction took place, prior to any dilution adjustment.

(3) for physical (in other words, real or tangible) assets, the price paid for that physical asset, excluding all charges, commissions, taxes and other payments associated with the transaction.

for any other *investment* which does not fall into (1), (2) or (3):

(a) the most recent independent valuation prior to the order to transact being executed, or, if earlier, transmitted to another *person* for execution, adjusted appropriately for market movements using an appropriate benchmark index; or

(b) if no such valuation is available, then an estimate based on a reasonable appraisal of the fair value of the asset prior to the order to transact being executed.

### Arrival Price (AP): supplemental provision for multiple orders on the same day

19.8.11 R Where an order is split into multiple orders ('child orders') in the same *investment* and transmitted on the same day, the arrival price of the first child order must be used as the arrival price of all subsequent child orders on that day.

### Arrival Price (AP): supplemental provision for initial public offerings, placings and other issuance of securities

19.8.12 R For orders in initial public offerings, placings and other issuance of securities, the transaction price must be used as the arrival price.

### Arrival Price (AP): supplemental provisions for derivatives

19.8.13 R When determining the arrival price for a *derivative* where there is no publicly available price, a firm must determine the fair value price of the *derivative*.

19.8.14 G (1) When considering the basis for determining transaction costs relating to *derivatives*, a *firm* should take into account:

(a) the existence of any multiplier or scalar in arriving at the correct number of units;

(b) the nature of the *derivative*;

(c) the availability and transparency of prices of the *derivative* itself;

(d) where applicable, the nature and value of the assets underlying the *derivative*, including their price transparency and relative proportions within that *derivative*; and

(e) any other costs associated with the *derivative*.

(2) When determining the fair value price, a firm should adopt a fair value approach in line with prevailing market conventions.

### Arrival Price (AP): supplemental provision for foreign exchange

19.8.15 R A *firm* must, in relation to a transaction involving foreign exchange, determine the arrival price using a reasonable estimate of the consolidated price rather than the price available from a single counterparty or foreign exchange platform, even if an agreement exists to undertake all foreign exchange transactions with a single counterparty.

### Arrival Price (AP): supplemental provision for over the counter bond transactions

19.8.15A **R** Where a bond transaction is *executed* on an *over the counter* basis after *bid prices* and *offer prices* have been obtained from more than one potential counterparty, the arrival price must be taken to be:

(1) if the best *bid price* is below the best *offer price*, the mid-point between the best *bid price* and the best *offer price*;

(2) if the best *bid price* is higher than the best *offer price*, the best *bid price* in the case of a sale or the best *offer price* in the case of a purchase; or

(3) if the best *bid price* is equal to the best *offer price*, that price.

19.8.15B **R** Where a bond transaction is *executed* on an *over the counter* basis after either a *bid price* or an *offer price* has been obtained, the arrival price must be estimated as follows:

(1) by reference to the bid/offer spread on transactions in bonds with similar characteristics to the bond in question; or

(2) by reference to a composite of indicative bid and offer quotes; or

(3) by any other reasonable method.

### Execution Price (EP)

19.8.16 **R** A *firm* must determine the execution price as the price at which a transaction is executed including all charges, commissions, taxes and other payments associated with the transaction, directly or indirectly, where those payments are made from the assets of the arrangement or of any *investment* in which the arrangement is directly or indirectly invested.

### Calculation of transaction costs for lending and borrowing transactions

19.8.17 **R** A *firm* must calculate the transaction cost of a loan transaction as the difference between the charge paid by the ultimate borrower in relation to that loan and the amount received by the arrangement (or underlying *investment*).

19.8.18 **G** The amounts used to calculate the transaction cost of a loan transaction should include all fees, commissions, charges and other costs levied by intermediaries involved in the transaction regardless of the legal structures involved.

**19.8.19** R To determine the transaction cost of a borrowing transaction, a *firm* must use the amount paid for the loan.

### Aggregation

**19.8.20** R The *firm* must aggregate and disclose, separately, the following transaction costs for each arrangement or *investment* and period to which the request relates:

(1) the sum of the transaction costs for buy and sell transactions factoring in anti-dilution mechanisms (see COBS 19.8.21R); and

(2) the sum of the transaction costs for lending and borrowing transactions.

### Treatment of anti-dilution mechanisms

**19.8.21** R Subject to COBS 19.8.22R, a *firm* using an anti-dilution mechanism in connection with an arrangement or *investment* may factor this into the aggregate transaction costs calculation as follows:

(1) where a levy is used, the monetary value of that levy may be subtracted from the aggregate transaction costs; and

(2) where an adjustment is made by enabling further investment into or redemption from an *investment*, the value of the benefit accruing to the *investment* may be subtracted from the aggregate transaction costs.

**19.8.22** R When aggregating transaction costs, a *firm* must not subtract any portion of a benefit derived from an anti-dilution mechanism that would reduce the aggregate transaction cost below zero.

**19.8.23** G A *firm* may provide information about the total benefit derived from an anti-dilution mechanism as part of or alongside the breakdown of identifiable transaction costs.