

## Chapter 6

Information about the firm, its  
services and remuneration

## 6.4 Disclosure of charges, remuneration and commission

### Application

- 6.4.1 **R** This section applies to a *firm* when it sells or *arranges* the sale of a *packaged product* to a *retail client* and the *firm's* services to sell or *arrange* are not in connection with the provision of a *personal recommendation*.
- 6.4.2 **G** [deleted]

### Disclosure of commission (or equivalent) for packaged products

- 6.4.3 **R**
- (1) If a *firm* sells or *arranges* the sale of a *packaged product* to a *retail client*, and subsequently if the *retail client* requests it, the *firm* must disclose to the *client* in *cash terms*.
    - (a) any *commission* receivable by it or any of its *associates* in connection with the transaction;
    - (b) if the *firm* is also the *product provider*, any *commission* or *commission equivalent* payable in connection with the transaction; and
    - (c) if the *firm* or any of its *associates* is in the same *immediate group* as the *product provider*, any *commission equivalent* in connection with the transaction.
  - (2) Disclosure "in *cash terms*" in relation to *commission* does not include the value of any indirect benefits listed in the table at **COBS 2.3.15 G**.
  - (3) In determining the amount to be disclosed as *commission equivalent*, a *firm* must put a proper value on the cash payments, benefits and services provided to its *representatives* in connection with the transaction.
  - (4) This *rule* does not apply if:
    - (a) the *firm* is acting as an *investment manager*; or
    - (b) the *retail client* is not present in the *United Kingdom* at the time of the transaction; or
    - (c) the *firm* provides the *client* with a *key features document*, a *key investor information document*, an *EEA key investor information document* or a *NURS-KII document*, in accordance with **COBS 14**, provided that the *firm* discloses to the *client* the actual amount

or value of *commission* or *equivalent* within five *business days* of effecting the transaction.

- (5) If the terms of a *packaged product* are varied in a way that results in a material increase in *commission* or *commission equivalent*, a *firm* must disclose to a *retail client* in writing any consequent increase in *commission* or *equivalent* receivable by it in relation to that transaction.

**6.4.4** **G** Where a *firm* is required to disclose the value of *commission equivalent*, the value will be at least as high as the amount of any *commission*.

**6.4.4A** **R** If the *firm* or its *associate* is the *pure protection contract insurer*, it may comply with **■** COBS 6.4.3R (1)(b) and **■** (c) by disclosing to the *consumer* an *indicative adviser charge* as an alternative to a *commission equivalent*.

**6.4.4B** **R** The *indicative adviser charge* must be at least reasonably representative of the cost of the services associated with making the *personal recommendation* in relation to the *pure protection contract*.

**6.4.4C** **G** An *indicative adviser charge* is likely to be reasonably representative of the cost of the services associated with making the *personal recommendation* if:

- (1) the total expected costs associated with making a *personal recommendation* and distributing the *pure protection contract* will:
  - (a) be recovered through *indicative adviser charges*; and
  - (b) not be recovered by charges for, or profits from, other services (such as manufacturing and administering the *pure protection contract*);
- (2) *indicative adviser charges* are reasonably capable of being self-supporting over a period of five years, or longer where this can be shown to be consistent with the *firm's* established payback period; and
- (3) the *personal recommendation* and any related services were to be provided by an unconnected *firm*, the level of the *indicative adviser charge* would be appropriate in the context of the service being provided by an unconnected *firm*.

**6.4.4D** **G**

- (1) In **■** COBS 6.4.4CG(1), the total costs associated with making a *personal recommendation* and distributing the *pure protection contract* include attributable indirect costs of the *firm's* (or *group's*) wider business such as *firm* or *group* overheads.
- (2) In **■** COBS 6.4.4CG(2), the *firm's* established payback period is the period of time in which the cash outflows associated with an investment made by the *firm* (or *group*) are expected to be recovered from the cash inflows generated by the *adviser charges*.

- 6.4.5** **R** (1) A *firm* must make the disclosure required by the *rule* on disclosure of *commission* or *equivalent* (■ COBS 6.4.3 R) as close as practicable to the time that it sells or *arranges* the sale of a *packaged product*.
- (2) The *firm* must make the disclosure:
- (a) in a *durable medium*; or
  - (b) when a *retail client* does not make a written application to enter into a transaction, orally. In these circumstances, the *firm* must give written confirmation as soon as possible after the date of the transaction, and in any event within five *business days*.

- 6.4.6** **E** (1) When determining the value of cash payments, benefits and services under the *rule* on disclosure of *commission equivalent* (■ COBS 6.4.3 R), a *firm* should follow the provisions of ■ COBS 6 Annex 6.
- (2) Compliance with this *evidential provision* may be relied on as tending to establish compliance with ■ COBS 6.4.3 R; and
- (3) Contravention of this *evidential provision* may be relied on as tending to establish contravention of ■ COBS 6.4.3 R.

**Guidance on disclosure requirements for packaged products**

- 6.4.7** **R** A *firm* must not enter into an arrangement to pay *commission* other than to the *firm* responsible for a sale, unless:
- (1) the *firm* responsible for the sale has passed on its right to receive the *commission* to the recipient; or
  - (2) [deleted]
  - (3) the *commission* is paid following the sale of a *packaged product* by the *firm* in response to a *financial promotion* communicated by that *firm* to a *client* of the recipient *firm*; or
  - (4) the arrangement is with a *firm* in the same *immediate group*.

**6.4.8** **G** A disclosure made under this section should indicate the timing of any payment. For example, if a *firm* exchanges its right to future *commission* payments for a lump sum, whether by way of a loan or other commercial arrangement, it should disclose the amount of *commission* receivable by it that has been exchanged for the lump sum.

**6.4.9** **G** The *rules* in this section build on the disclosure of fees, commission and non-monetary benefits made under the rules on inducements (■ COBS 2.3.1 R, ■ COBS 2.3A.5R, ■ COBS 2.3A.6R, ■ COBS 2.3A.15R and ■ COBS 2.3A.16R).

**6.4.10** **G** If the precise rate or value of *commission* or *equivalent* is not known in advance, the *firm* should estimate the rate likely to apply to the *representative* in respect of the transaction.

6.4.11

G

Commission or equivalent disclosure statements: content and wording

A *firm* should consider including the following in its written statement of *commission*:

- (1) Amounts or values of *commission* rounded as appropriate to help the *client* understand the document (for example, large amounts might be rounded to three significant figures).
- (2) The names of the *firms* involved in paying and receiving *commission* or *commission equivalent*.
- (3) A plain language description of whether remuneration takes the form of *commission* or *commission equivalent*. *Commission equivalent* could, for example, be described as "remuneration and services received from XYZ Ltd".
- (4) The timing of payments and period over which they are paid.
- (5) For payments relating to the *client's* fund, examples of how much money might be taken, such as:
  - (a) where the *commission* or *equivalent* is on an increasing basis, the amount to be taken in the first and tenth year in which it is paid; or
  - (b) where the *commission* or *equivalent* is a percentage of the fund, the amount that would be taken if the fund was worth a certain value and the amount that would be taken if the fund was worth twice that value.