

**CONDUCT OF BUSINESS SOURCEBOOK (AMENDMENT NO 11)  
INSTRUMENT 2003**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the powers listed in Schedule 4 to the Conduct of Business sourcebook.
- B. The rule-making powers listed in that Schedule are specified for the purpose of section 153(2) of the Financial Services and Markets Act 2000 (Rule-making instruments).

**Commencement**

- C. This instrument comes into force on 1 May 2003.

**Amendments to the Conduct of Business sourcebook**

- D. The Conduct of Business sourcebook is amended in accordance with Annex A to this instrument.
- E. Schedule 1 to the Conduct of Business sourcebook (Record keeping requirements) is amended in accordance with Annex B to this instrument.
- F. Schedule 2 to the Conduct of Business sourcebook (Notification requirements) is amended in accordance with Annex C to this instrument.

**Amendments to the Glossary**

- G. The Glossary is amended in accordance with Annex D to this instrument.

**Citation**

- H. This instrument may be cited as the Conduct of Business Sourcebook (Amendment No 11) Instrument 2003.

By order of the Board  
20 March 2003

## Annex A

### Amendments to the Conduct of Business sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

5.3.26 R (1) Every six months, a *firm* must notify the *FSA*, in writing, of the number of *pension opt-out* and the number of *pension transfer* transactions ~~within COB 5.3.25R~~ which it has ~~handled~~ arranged during the previous six months; ~~and it must also supply, at quarterly intervals, the following details in respect of the preceding quarter:~~ A *firm* need not make a notification if it has not arranged any such transactions.

(1A) A *firm* must also notify the *FSA*, in writing, at quarterly intervals, of the following details in respect of the preceding quarter:

- (a) the number of ~~*execution-only: pension opt-outs* or *pension transfers*~~ arranged if they exceed 1% of all the *firm's pension opt-outs* or *pension transfers* arranged during that quarter;
  - (i) *pension opt-outs* arranged if they exceed 1% of all the *firm's pension opt-outs* arranged during the quarter; and
  - (ii) *pension transfers* arranged if they exceed 1% of all the *firm's pension transfers* arranged during the quarter;
- (b) the number of: ~~*pension opt-outs* and *pension transfers*~~ arranged against the *firm's* advice if they exceed 1% of all the *opt-outs* and *pension transfers* arranged by the *firm* during the quarter; and
  - (i) *pension opt-outs* arranged against the *firm's* advice if they exceed 1% of all the *firm's pension opt-outs* arranged by the *firm* during the quarter; and

(ii) pension transfers arranged against the firm's advice if they exceed 1% of all the firm's pension transfers arranged by the firm during the quarter; and

(c) the number of pension opt-outs and the number of pension transfers arranged on a correspondence-only basis if they exceed 1% of all the opt outs and transfers arranged by the firm during that quarter.

(1B) A firm must provide the information required by (1) and (1A) as soon as reasonably practicable after the end of the period.

(2) A firm must make ~~retain~~ records of the notifications required by (1) and (1A) and retain them indefinitely.

...

### **Generic and stochastic projections**

6.6.9 R ...

(2) ...

(3) A firm may issue a stochastic projection only where:

(a) the purpose is to indicate a range of possible outcomes; and

(b) either:

(i) it is provided for the purpose of a proposed transaction;

or

(ii) it is provided in addition to a projection which:

(A) is not a stochastic projection but which complies with COB 6.6.4 R; or

(B) is a projection excepted under COB 6.6.5 R (6).

(4) A firm which issues a stochastic projection must ensure that:

- (a) it is based on a reasonable number of simulations and is consistent with the economic assumptions underlying the rates of inflation in COB 6.6.48A R and the intermediate rates of return in COB 6.6.50 R and COB 6.6.51 R;
- (b) its presentation does not reduce the impact of non-stochastic projections; and
- (c) it is issued only in circumstances in which the firm has taken reasonable steps to ascertain that the customer will be able to understand the stochastic projection.

6.6.9A E (1) For the purposes of COB 6.6.9 R (3)(a) and (4)(a) and (b):

- (a) to indicate a range of expected outcomes, a firm should present the results:
  - (i) as amounts showing the median (50%) figure and, in addition, at least the amounts at 10% and 90%, or at least the amounts at 20% and 80%; or
  - (ii) graphically showing the frequency of results from at least 10% to 90%; or
  - (iii) in a diagrammatic form which indicates both the range and frequency of results;
- (b) to base the stochastic projection on a reasonable number of simulations, a firm should incorporate the results of at least 500 simulations; to enable consistent projections to be issued and to facilitate recreating previously issued projections, a firm should use the same set of simulations until the investment model or the underlying assumptions are revised; and
- (c) to be consistent with the economic assumptions, a firm should ensure that:
  - (i) the parameters of each asset class are consistent with each other and the median (50%) result for a fund invested 70% in UK equities and 30% in UK government fixed interest stocks does not exceed a projection calculated using the intermediate rate of return from COB

6.6.50 R or COB 6.6.51 R; and

(ii) the investment model is tested and adjusted so that the results are consistent with COB 6.6.9R(4)(a).

(2) Compliance with (1) may be relied upon as tending to establish compliance with COB 6.6.9 R (3)(a) and (4)(a) and (b).

## Annex B

### Amendments to COB Schedule 1

In this Annex, underlining indicates new text and striking through indicates deleted text.

COB 5.3.26R(2)	Statistics of pension opt-out or <u>pension</u> transfer transactions <del>involving private</del> customers	Details of the notification required by COB 5.3.26 <u>R</u> (1) <del>and (1A)</del>	On making the notification	Indefinitely
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## Annex C

### Amendments to COB Schedule 2

In this Annex, underlining indicates new text and striking through indicates deleted text.

COB 5.3.26R	<u>pension</u> opt-out and <u>pension</u> transfer transactions <del>involving private customers</del>	in writing – number of <u>pension</u> opt-outs and <u>pension</u> <u>transfer</u> transactions the firms has <del>handled</del> <u>arranged</u> in previous 6 monthly period	6 monthly intervals	as soon as reasonably practicable
COB 5.3.26R	execution only <u>pension</u> opt-out and <u>pension</u> transfer transactions	in writing – number of transactions arranged if they exceed 1% of all the firm's <u>pension</u> opt-outs or <u>pension</u> transfers arranged during the quarter.	3 monthly intervals	as soon as reasonably practicable

COB 5.3.26R	<u>pension</u> opt-out and <u>pension</u> transfer transactions	in writing – number of transactions arranged against the firm's advice if they exceed 1% of all the firm's <u>pension</u> opt-outs or <u>pension</u> transfers arranged during the quarter.	3 monthly intervals	as soon as reasonably practicable
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COB 5.3.26R	<u>pension</u> opt-out and <u>pension</u> transfer transactions	in writing – <u>the</u> number of <u>any</u> transactions arranged on a correspondence – only basis <del>if they exceed 1% of all the opt outs and transfers arranged</del> by the firm during the quarter.	3 monthly intervals	as soon as reasonably practicable
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## Annex D

### Amendments to the Glossary

Amend the following definitions as shown (underlining indicates new text and striking through indicates deleted text).

- mark-up or mark-down* (a) (when a *firm* receives a *customer order* and takes a *principal* position in the relevant *investment* in order to fulfil that *customer order*)~~(that is, when the *firm* takes a *principal position in the relevant investment* which it would not otherwise take, except to fulfil that *customer order*)~~ the difference, if any, ~~difference~~ between:
- (i) the price at which the *firm* takes a *principal* position in the relevant *investment* in order to fulfil that *customer order*; and
  - (ii) the *price* at which the *firm* *executes* the transaction with its *customer*;
- (b) (when a *firm* *executes* a *customer order* against its own book and owes a duty of best execution) the difference between:
- (i) the *price* at which best execution would be achieved; and
  - (ii) the *price* at which the *firm* *executes* the transaction with its *customer*.

*stochastic projection* a *projection* showing a summary of results from repeated simulations using an investment model, where the model uses key financial parameters which are subject to random variations and are projected into the future.