

**CONDUCT OF BUSINESS SOURCEBOOK (CONTRACTING OUT)
INSTRUMENT 2012**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 145 (Financial promotion rules);
 - (c) section 156 (General supplementary powers); and
 - (d) section 157(1) (Guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 6 April 2012.

Amendments to the Handbook

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Supervision manual (SUP)	Annex C

Citation

- E. This instrument may be cited as the Conduct of Business Sourcebook (Contracting Out) Instrument 2012.

By order of the Board
21 March 2012

Annex A

Amendments to the Glossary of definitions

Delete the following definitions.

appropriate personal pension ~~a personal pension scheme or a stakeholder pension scheme which is an appropriate scheme under section 7(4) of the Pension Schemes Act 1993 or section 3(4) of the Pension Schemes (Northern Ireland) Act 1993.~~

contracting out comparison a description of:

- (a) ~~the benefits that minimum contributions would secure if a retail client did not contract out of the State Second Pension; and~~
- (b) ~~the material differences between the anticipate position if a retail client remains contracted into the State Second Pension and the anticipated position if that client contracts out;~~

~~which is calculated to the client's state retirement age using the lower and higher rates of return and aggregate contributions for the current tax year and any future tax years in the period ending 5 April 2012.~~

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

13.4 Contents of a key features illustration

...

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

...

(2) if the product is:

- (a) a *SIPP* from which no *income withdrawals* are being taken ~~(but if the *SIPP* is being used to contract out of the State Second Pension, the *key features illustration* must include a projection for an *appropriate personal pension* and a *contracting out comparison*, for those benefits);~~ or
- (b) a *life policy* that will be held in a *CTF* or sold with *basic advice* (unless the *policy* is a *stakeholder pension scheme*).

...

13 Annex 2 Projections

...

R	
3	How to calculate a projection for a future annuity
3.1	A <i>projection</i> for a future annuity must:
	...
(3)	(for a protected rights annuity) be calculated on a unisex basis so the policyholder has female mortality and the spouse has male mortality; [deleted]
	...

...

R

4	How to calculate a projection for an appropriate personal pension [deleted]	
4.1	(If a <i>client</i> is considering whether to contract out), a <i>projection</i> for an appropriate personal pension must include or be accompanied by	
	(1)	a <i>contracting out comparison</i> providing a description of:
	(a)	the benefits that minimum contributions would secure if a <i>retail client</i> did not contract out of the State Second Pension; and
	(b)	the material differences between the anticipated position if a <i>retail client</i> remains contracted into the State Second pension and the anticipated position if that <i>client</i> contracts out;
		which is calculated to the <i>client's</i> state retirement age using the lower and higher rates of return in 4.2R and aggregate contributions for the current tax year and any future tax years in the period ending 5 April 2012;
	(2)	an explanation that the figures in the comparison are intended to illustrate:
	(a)	the amount of the pension that the <i>client</i> might get compared with the benefit to be given up under the State Second Pension; and
	(b)	what might happen if the lower and higher rates of return were achieved each year.

R	
4.2	This table belongs to 4.1R
Pre and post vesting real rates of return for contracting out comparisons	
Lower rate	Higher rate
1%	3%

14.2 Providing product information to clients

The provision rules

14.2.1 R A *firm* that sells:

...

(3A) ~~the variation of a *SIPP* to a *retail client*, to contract out of the State Second Pension, must provide the *client* with a *projection* for an *appropriate personal pension* and a *contracting-out comparison* for those benefits together with such additional information as is necessary for the *client* to understand the consequences of the variation; [deleted]~~

...

Annex C**Amendments to the Supervision manual (SUP)**

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

16.8 Persistence reports from insurers and data reports on stakeholder pensions

...

Life policies and stakeholder pension to be reported on in the persistency or data reports

...

16.8.13 R A persistency or data report must not report on any of the following:

...

(2) ~~an appropriate *personal pension scheme* to which contributions are made only by the Department of Social Security; [deleted]~~

...