

**CONDUCT OF BUSINESS SOURCEBOOK (KEY FEATURES ILLUSTRATIONS
FOR PERSONAL PENSIONS) (AMENDMENT) INSTRUMENT 2013**

WHEREAS:

- A. The Authority has, in accordance with Article 5 of the Designation Order, appointed persons to exercise functions referred to in Article 5(1) of the Designation Order, which include the function of the Financial Conduct Authority of making rules, giving guidance and issuing codes.
- B. By virtue of Article 5(3)(a) of the Designation Order the persons appointed may discharge the relevant functions as if they were the governing body of the Financial Conduct Authority.
- C. By virtue of Article 7(1) of the Designation Order this Instrument shall be treated as if it had been made by the Financial Conduct Authority acting through its governing body.
- D. Article 2(1)(c) of the Early Commencement Order commenced certain of the Financial Conduct Authority's rule making and other powers for the purposes specified in Part 3 of the Schedule to that Order.

Interpretation

- 1 In this Instrument (including the Recitals):
 - (1) "Designation Order" means the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 (SI 2013/161);
 - (2) "Early Commencement Order" means the Financial Services Act 2012 (Commencement No. 1) Order 2013 (SI 2013/113);
 - (3) "the 2000 Act" means the Financial Services and Markets Act 2000;
 - (4) "the 2012 Act" means the Financial Services Act 2012;
 - (5) "the Authority" means the Financial Services Authority; and
 - (6) "Financial Conduct Authority" means the body corporate referred to in section 1A of the 2000 Act as amended by section 6 of the 2012 Act.

Rules etc. made, given or amended by the Financial Conduct Authority

- 2 In accordance with Article 2(1) of the Early Commencement Order and in the exercise of the powers and related provisions specified in paragraph 3, the Financial Conduct Authority amends the Conduct of Business sourcebook (COBS) in accordance with the Annex to this instrument.
- 3 The Financial Conduct Authority makes, amends, issues, gives or imposes the provisions in the Annex to this Instrument in exercise of the following powers and related provisions of the 2000 Act, as amended by the 2012 Act:
 - (1) Section 137A (The FCA's general rules);

- (2) Section 137R (Financial promotion rules);
 - (3) Section 137T (General supplementary powers); and
 - (4) Section 139A (Power of the FCA to give guidance).
- 4 The rule-making powers in paragraph 3 are specified for the purpose of section 138G (Rule-making instruments) of the 2000 Act, as amended by the 2012 Act.

Commencement

- 5 The Financial Conduct Authority directs that:
- (1) Part 1 of the Annex to this Instrument comes into force on 6 April 2014;
 - (2) Part 2 of the Annex to this Instrument comes into force on 6 April 2013.

Citation

6. This Instrument may be cited as the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013.

By order of the persons appointed under Article 5 of the Designation Order to discharge specified functions of the Financial Conduct Authority as if they were its governing body

19 March 2013

Annex

Amendments to the Conduct of Business sourcebook (COBS)

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

Part 1: Comes into force on 6 April 2014

13.2 Product information: production standards, form and contents

13.2.1 G ...

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

...

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 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 ~~alternative~~ *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*.

...

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 ~~an alternative~~ *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.

Projections: other situations

- 13.5.2 R A *firm* that communicates a *projection* for a *packaged product* which is not a *financial instrument*;
- (1) for which a ~~key feature~~ features illustration is not required to be provided; and
 - (2) which is not an in-force *packaged product*;
- must ensure that such a *projection* is either a *standardised deterministic projection* or ~~an alternative~~ a *stochastic projection* in accordance with *COBS 13 Annex 2*.

...

- 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 4.6.7R* 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*, and in particular, the *firm* should identify where a *projection* in real terms is required under *COBS 13*.

...

13.6 Preparing product information: changes to adviser and consultancy charges

- 13.6.1 R A *firm* that agrees to start facilitating the payment of an *adviser charge* or *consultancy charge*, or an increase in such a charge, from an 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 ~~that information has to be provided~~ it takes effect.

...

13 Annex 2 Projections

...

R	
1.2	Calculating projections: additional requirements for a pension scheme
(1)	A <i>standardised deterministic projection</i> within a <i>key features illustration</i> for a <i>personal pension scheme</i> or <i>stakeholder pension scheme</i> must include or be in real terms and be accompanied by information explaining <u>the impact of inflation on those benefits why price inflation has been taken into account and that price inflation reduces the worth of all savings and investments.</u>

(2)	Where a <i>firm</i> chooses to provide that information required in (1) in the form of one or more <i>projections</i> of benefits, it must include a <u>A projection</u> in real terms, so long as it <u>must be either calculated using:</u>	
	(a)	calculated using:
	(a)	(i) the appropriate <i>lower, intermediate and higher rate rates of return</i>;
	(b)	(ii) the intermediate rate of price inflation, in accordance with COBS 13 Annex 2 2.5R; and
	(c)	(iii) an annuity calculated in accordance with COBS 13 Annex 2 3.1R; or,
	(b)	consistent with the <i>statutory money purchase illustration</i> assumptions, with any material differences between the assumptions used and those otherwise required for accompanying <i>standardised deterministic projections</i> explained.
(3)	<u>A standardised deterministic projection for a personal pension scheme or stakeholder pension scheme 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.</u>	

...

R		
1.3	(1)	...
	(2)	A projection prepared on that basis may omit benefits in nominal terms projections at the <i>lower and higher rates of return</i> and only show a range of figures <u>benefits in real terms</u> at the <i>intermediate rate of return</i>, of benefits in real terms.

...

R		
Calculating Providing an alternative a stochastic projection		
1.5	An alternative <u>A stochastic projection</u> must <u>may only be provided if:</u>	
(1)	(if the <i>alternative projection</i> is not a <i>stochastic projection</i>) not exceed the <i>higher rate of return</i>; [deleted]	
(2)	(if the <i>alternative projection</i> is not a <i>stochastic projection</i>), use assumptions consistent with the assumptions which apply to <i>standardised deterministic projections</i> in this Annex, unless the reasons for any	

	inconsistency are:
	(a) reasonable;
	(b) explained to a <i>retail client</i> , with enough information for the <i>retail client</i> to be able to understand the difference between the <i>alternative projection</i> and any <i>standardised deterministic projection</i> being provided; and [deleted]
(3)	(if the <i>alternative projection</i> is a <i>stochastic projection</i>) only be used if:
	(a) there are reasonable grounds for believing that a <i>retail client</i> will be able to understand it;
	(b) it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data; and
	(c) the <i>alternative projection</i> is accompanied by enough information for the <i>retail client</i> to be able to understand the difference between the <i>alternative projection</i> and any <i>standardised deterministic projection</i> being provided. [deleted]
(4)	<u>it is based on a reasonable number of simulations and assumptions which are reasonable and supported by objective data;</u>
(5)	<u>it is accompanied by enough information for the <i>retail client</i> to be able to understand the difference between the <i>stochastic projection</i> and the <i>standardised deterministic projection</i> being provided; and</u>
(6)	<u>it is presented in real terms where the accompanying <i>standardised deterministic projection</i> is required to be in real terms.</u>

G	
1.6	An <i>alternative projection</i> may be used either as part of a <i>key features illustration</i> or separately. However, it must not detract from any <i>standardised deterministic projection</i> required by COBS 13.4.1R or COBS 13.5.1R. [deleted]

...

R	
1.10	A <i>standardised deterministic projection</i> for an existing business <i>personal pension scheme</i> or <i>stakeholder pension scheme</i> <u>taken out before 6 April 2014</u> may omit the projection at the <i>intermediate rate of return</i>.

R	
2	Assumptions to follow when calculating projections

...

R	
Assumptions: rates of return	
2.3	<i>A standardised deterministic projection</i> must be calculated using rates that accurately reflect the investment potential of the product and do not exceed the following maximum rates of return <u>with the lower and higher rates each maintaining a differential of 3% relative to the intermediate rate:</u>
	...

...

R			
Additional requirements: drawdown pensions			
2.9	(1)	...	
	(2)	<i>A standardised deterministic projection for a drawdown pension</i> must be based on an assumption that the current gilt-index yield will continue to apply throughout the relevant term and include:	
		...	
		(d)	(under the heading 'What the benefits might be' <u>or similar heading</u>), the amount of income and the projected value of the fund at each fifth anniversary <u>five yearly intervals to age 99</u> for the <i>lower, intermediate and higher rate of return</i> for as long as the fund is projected to exist (at the <i>higher rate of return</i>);
		...	

R	
<u>Drawdown Pension: Exception</u>	
2.10	<i>A standardised deterministic projection for a drawdown pension</i> can be <u>prepared in nominal terms, rather than real terms.</u>

...

R			
5	<u>How to present a projection</u> <u>Projections: accompanying statements and presentation</u>		
5.1	A <i>standardised deterministic projection</i> must be accompanied by:		
	(1)	appropriate risk warnings, including warnings about volatility <u>and the impact of inflation and that the product may pay back less than paid in (if that could be the case), the relationship between figures in real terms and those in nominal terms</u> , and the degree to which any figures can be relied upon; and	
	(2)	a statement:	
	(a)	that <i>projection</i> rates are standardised or an explanation that <i>projection</i> rates that are lower than the standard rates have been used and why; [deleted]	
		...	
	(d)	that increases in contributions have been assumed (if that is the case), together with sufficient information for a <i>retail client</i> to be able to understand the nature and magnitude of the assumed increases; and	
	(e)	of the sum of any actual <i>premiums</i> charged for any rider benefits or increased underwriting risks (where these have been charged); <u>and</u>	
	(f)	<u>(for <i>personal pension schemes</i> and <i>stakeholder pension schemes</i>) of the assumptions used to calculate the regular income and that the <i>client</i> may choose when to take this income (if that is the case).</u>	

R			
5.1A	<u>When presenting a <i>standardised deterministic projection</i> a firm must:</u>		
	(1)	<u>include a short introductory explanation of what the <i>projection</i> seeks to illustrate;</u>	
	(2)	<u>use a descriptive heading such as ‘What your regular income might be worth in future or ‘What might I get back from my plan?’;</u>	
	(3)	<u>place the <i>projection</i> and the associated explanation adjacent to each other on the same page; and</u>	
	(4)	<u>explain that the <i>client</i> will be sent annual statements (if that is the case) which will allow them to keep track of their benefits.</u>	

13 Annex 3 Charges information for a 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* 13.4.1R (Contents of a key features illustration)

R
Charges

...

Exceptions	
1.3	An effect of charges table and reduction in yield information are not required for:
	...
(4)	<p>a <i>stakeholder product</i> or a product that will be held in a <i>CTF</i> where the relevant product and the <i>CTF</i> levy their <i>charges</i> annually, if the following is included instead:</p> <p>"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 deduct <u>charge</u> [£250 x y/100] that year. If your fund is valued at £500 throughout the year, this means we deduct <u>charge</u> [£500 x y/100] that year. [After ten years these deductions reduce to [£250 x r/100] and [£500 x r/100] respectively.]"</p> <p>where 'y' is the annual charge and 'r' is the reduced annual charge (if any).</p>

...

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)	<p>a warning that one effect of the <i>charges</i> referred to is that a <i>retail client</i> could get back less than they invest (if that is the case); and <u>[deleted]</u></p>

	(3)	the rate of return (<u>for <i>personal pension schemes</i> and <i>stakeholder pension schemes</i>, this must be net of price inflation, where appropriate</u>) used to calculate the figures in the table; and
	(4)	<u>an explanation of the purpose of the table and what the table shows.</u>

2.2	The effect of charges table:	
...		

(3) must be completed in accordance with the following notes:

...	
Note 6	This column must show <u>the <i>standardised deterministic projection</i> of the surrender value, cash-in value or transfer value, calculated in accordance with the <i>rules</i> in COBS 13 Annex 2 (Projections) at the appropriate <i>intermediate rate of return</i> to the end of each relevant year.</u>

R		
Exception		
2.3	An effect of charges table <u>and its title</u> may can be amended, but only if and to the extent that it is necessary:	
	(1)	to properly reflect the nature and effect of, <u>for example, the <i>adviser charges, consultancy charges</i> or the <i>charges</i> inherent in a particular product; or</u>
	(2)	<u>to ensure that the column labels and any explanatory text reflect the product and whether inflation has been taken into account; or</u>
	(3)	<u>to ensure consistency with the terminology used in relation to a particular product.</u>

G		
2.4	The effect of 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract. [deleted]	

...

R	
3	Reduction in yield
3.1	Reduction in yield ('A') is 'B' less 'C' where:
	(1) 'B' is the <i>intermediate rate of return (for personal pension schemes and stakeholder pension schemes, net of price inflation, where appropriate)</i> for the relevant product; and
	...
3.2	A <i>firm</i> must present reduction in yield as 'A%', as part of a statement <u>statements which explain</u> that:
	(1) charges and expenses have the effect of reducing your anticipated returns 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) <u>the information about the reduction in investment growth can be used to compare the effect of charges with similar products.</u>

...

13 Annex 4 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* 13.4.1R (Contents of a key features illustration)

R
Charges

...

Exception	
1.2	An effect of charges table and reduction in yield information are not required for a <i>stakeholder pension scheme</i> , where <i>adviser charges</i> or <i>consultancy charges</i> 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 deduct charge [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct charge [£7500 x y/100] that year."

...

R	
2	Effect of charges table
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); <u>and</u>
(3)	a warning that one effect of the <i>charges</i> referred to is that a <i>retail client</i> could get back less than they invest (if that is the case); and <u>[deleted]</u>
(4)	the rate of return (<u>after price inflation, where appropriate</u>) used to calculate the figures in the table.
2.2	Subject to Note 2 below, an <u>An</u> 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	Total paid in to date <u>The payments into your plan</u>	Withdrawals	If there were no <u>Before charges are taken</u>	If only product plan and investment charges are taken	After all charges are taken <u>from this plan</u>
	£	£	£	£	£
...					

Note 1	...
Note 2	This column is optional. If it is retained it must show the cumulative contributions paid to the end of each relevant year.
Note 3	...
Note 4	This column must show a <i>standardised deterministic projection</i> of the benefits, calculated in accordance with the rules in COBS 13 Annex 2 (Projections) at the appropriate <i>intermediate rate of return</i> , to the end of each relevant year, but without taking any <i>charges</i> into account.

Note 5	This column must show a <i>standardised deterministic projection</i> of the benefits, calculated in accordance with the rules in <i>COBS 13 Annex 2 (Projections)</i> at the appropriate <i>intermediate rate of return₂</i> to the end of each relevant year, but taking into account only the charges described in <i>COBS 13 Annex 4R paragraph 1.1(1)(a)</i> .
Note 6	This column must show a <i>standardised deterministic projection</i> of the benefits, calculated in accordance with the rules in <i>COBS 13 Annex 2 (Projections)</i> at the appropriate <i>intermediate rate of return₂</i> to the end of each relevant year taking into account all charges described in <i>COBS 13 Annex 4R paragraph 1.1(1)(a) and (c)</i>

R	
Exception	
2.3	An effect of charges table <u>and its title</u> may can be amended, but only if and to the extent that <u>it is necessary</u> :
	(1) to properly reflect the nature and effect of, for example, the <i>adviser charges, consultancy charges</i> or the <i>charges</i> inherent in a particular product; <u>or</u>
	(2) <u>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</u>
	(3) <u>to ensure consistency with the terminology used in relation to a particular product.</u>

G	
2.4	The effect of <i>COBS 13 Annex 4 paragraph 2.3R</i> is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract or the terminology used. <u>[deleted]</u>
...	

R	
3	Reduction in yield

3.1	Product reduction in yield ('A') is 'B' less 'C' where:	
	(1)	'B' is the <i>intermediate rate of return</i> (<u>net of price inflation, where appropriate</u>) for the relevant product; and
	...	
3.2	Total reduction in yield ('D') is 'B' less 'E' where:	
	(1)	'B' is the <i>intermediate rate of return</i> (<u>net of price inflation, where appropriate</u>) for the relevant product; and
	...	
3.3	(1)	A <i>firm</i> must present the product reduction in yield as 'A%', as part of a <u>statement</u> <u>statements</u> which <u>explains</u> <u>explain</u> that:
	(a)	'product charges reduce your anticipated rate of returns <u>investment growth after price inflation</u> from 'B%' to 'C%', or in some other appropriate way; and
	(b)	<u>the information about the reduction in investment growth can be used to compare the effect of charges with similar products.</u>
	(2)	If <i>adviser charges</i> or <i>consultancy charges</i> , or both <i>adviser charges</i> and <i>consultancy charges</i> are to be facilitated by the product, a <i>firm</i> must also present the reduction in yield as 'D%', as part of a statement which explains that 'all charges reduce your anticipated rate of returns <u>the investment growth (after price inflation, where appropriate)</u> from 'B%' to 'E%', or in some other appropriate way and explain the difference between the two reduction in yield figures.
...		

Part 2: Comes into force on 6 April 2013

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: coming into force
...					
2.5-A	<u>COBS 13.4.1R</u>	R	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	<u>6 April 2014</u>
2.5A	...				
2.5AA	<u>COBS 13.5.1R</u>	R	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	<u>6 April 2014</u>
2.5AB	<u>COBS 13.5.2R</u>	R	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	<u>6 April 2014</u>

<u>2.5-B</u>	<u>COBS 13 Annex 2</u>	<u>R</u>	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	<u>6 April 2014</u>
2.5B	...				
2.5C	...				
<u>2.5D</u>	<u>COBS 13 Annex 3</u>	<u>R</u>	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	
<u>2.5E</u>	<u>COBS 13 Annex 4</u>	<u>R</u>	<u>A firm may comply with the provision listed in column (2) as amended by the Conduct of Business Sourcebook (Key Features Illustrations for Personal Pensions) (Amendment) Instrument 2013 as if the amendments to the Handbook set out in that instrument were in force.</u>	<u>From 6 April 2013 to 5 April 2014</u>	