

**CONDUCT OF BUSINESS SOURCEBOOK (ADVISER CHARGING FOR
VERTICALLY INTEGRATED FIRMS) INSTRUMENT 2017**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ('the Act'):
- (1) section 137A (FCA's general rule-making power);
 - (2) section 137T (General supplementary powers); and
 - (3) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 May 2017.

Amendments to the Handbook

- D. The Conduct of Business sourcebook (COBS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Conduct of Business Sourcebook (Adviser Charging for Vertically Integrated Firms) Instrument 2017.

By order of the Board
27 April 2017

Annex

Amendments to the Conduct of Business sourcebook (COBS)

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

6 Information about the firm, its services and remuneration

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6.1A Adviser charging and remuneration

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Requirements on a ~~retail investment product provider or operator of an electronic system in relation to lending~~ firm making a personal recommendation in respect of its own retail investment products or P2P agreements

6.1A.9 R If the *firm* or its *associate* is the *retail investment product* provider, platform service provider or operator of an electronic system in relation to lending, the *firm* must ensure that the level of its *adviser charges* is at least reasonably representative of the cost of the services associated with making the *personal recommendation* (and related services).

6.1A.10 G An *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 ~~long term~~ costs associated with making a *personal recommendation* and distributing the *retail investment product* ~~do not include the costs associated with~~ will:

(a) be recovered through adviser charges; and

(b) not be recovered by charges for, or profits from, other services (such as manufacturing and administering the retail investment product);

(2) ~~the allocation of costs and profit to adviser charges and product charges is such that any cross-subsidisation is not significant in the long term~~ 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) were the *personal recommendation* and any related services to be provided by an unconnected *firm*, the level of *adviser charges* would be appropriate in the context of the service being provided by the *firm*.

6.1A.10A G (1) In COBS 6.1A.10G(1), the total costs associated with making a personal recommendation and distributing the retail investment product include attributable indirect costs from the firm's (or group's) wider business

such as *firm* or *group* overheads.

- (2) In COBS 6.1A.10G(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*.

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6.1C Consultancy charging and remuneration

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6.1C.10 G A *consultancy charge* is likely to be reasonably representative of the cost of the services associated with giving advice, or providing services, to an employer in connection with a *group personal pension scheme* or *group stakeholder pension scheme* if:

- (1) the total expected ~~long term~~ costs associated with advising the employer in relation to the *group personal pension scheme* or *group stakeholder pension scheme* do not include the costs will:
- (a) be recovered through *consultancy charges*; and
 - (b) not be recovered by charges for, or profits from, other services (such as those associated with establishing and operating that scheme);
- (2) the allocation of costs and profits to *consultancy charges* and ~~product charges~~ is such that any cross-subsidisation between the different activities is not significant in the long term 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) (were the services to be provided by an unconnected *firm*), the level of *consultancy charges* would be appropriate in the context of the service being provided by the *firm*.

6.1C.10A G (1) In COBS 6.1C.10G(1), the total costs associated with advising the employer in relation to the *group personal pension scheme* or *group stakeholder pension scheme* include attributable indirect costs of the *firm's* (or *group's*) wider business such as *firm* or *group* overheads.

- (2) In COBS 6.1C.10G(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*.

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6.4 Disclosure of charges, remuneration and commission

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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 long-term costs associated with making a *personal recommendation* and distributing the *pure protection contract* ~~do not include the costs associated with~~ 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) ~~the allocation of costs and profit to the indicative adviser charge and product charges is such that any cross-subsidisation is not significant in the long-term~~ 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.

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