Powers exercised

A. The Financial Conduct Authority (“the FCA”) 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 (The FCA’s general rules);
   (2) section 137FA (FCA general rules: disclosure of information about pension scheme transaction costs etc);
   (3) section 137T (General supplementary powers); and
   (4) 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 April 2020.

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 Pension Schemes (Disclosure of Transaction Costs and Administration Charges) (Amendment) Instrument 2020.

By order of the Board
30 January 2020
Annex

Amendments to the Conduct of Business sourcebook (COBS)

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

19 Pensions supplementary provisions

…

19.5 Independent governance committees (IGCs) and publication and disclosure of costs and charges

Application

19.5.1 R This section applies to a firm which operates a relevant scheme in which there are at least two relevant policyholders.

Interpretation

19.5.1B R In this section “administration charges” and “transaction costs” have the same meaning as in COBS 19.8.1R.

…

Terms of reference for an IGC

19.5.5 R A firm must include, as a minimum, the following requirements in its terms of reference for an IGC:

…

(6) the Chair of the IGC will be responsible for the production of an annual report setting out:

…

(f) the arrangements put in place by the firm to ensure that the views of relevant policyholders are directly represented to the IGCs; and

(g) administration charges and transaction costs information complying with the requirements in COBS 19.5.16R;

(7) the Chair of the IGC will ensure the annual report is produced by 31 July each year, in respect of the previous calendar year;
(8) the **IGC** will ensure the publication of administration charges and transaction costs information complying with the requirements in **COBS 19.5.13R**;

(9) the **IGC** will ensure that all members of each **relevant scheme** are provided with an annual communication complying with the requirements in **COBS 19.5.17R**;

(10) the **IGC** will make available the annual communication referred to in *(9)*, on request, to:

(a) **relevant scheme** members’ spouses or civil partners; and

(b) persons within the application of the **relevant scheme** and qualifying or prospectively qualifying for benefits under the **relevant scheme**; and

(11) the **IGC** will ensure that information is communicated under this **rule** in a manner that pays due regard to the purposes for which **relevant policyholders** might reasonably use the information.

... 

**Duties of firms in relation to an IGC**

19.5.7 **R** A **firm** must:

... 

(7) take all necessary steps to facilitate the escalation of concerns by the **IGC** under **COBS 19.5.5R(4)** and **COBS 19.5.6G(5)**; and

(8) make the terms of reference and the annual report of the **IGC** publicly available; and

(9) provide each **relevant scheme’s IGC** with administration charges and transaction costs information, setting out the costs and charges for each default arrangement and each alternative fund option that the member is able to select.

...

**Publication and disclosure of costs and charges by IGCs**

19.5.13 **R** The administration charges and transactions costs information referred to in **COBS 19.5.5R(8)** must, in relation to each **relevant scheme**:
(1) be published by 31 July each year, in respect of the previous calendar year;

(2) be available for free on a publicly accessible website;

(3) include the costs and charges for each default arrangement and each alternative fund option that a member is able to select; and

(4) include an illustration of the compounding effect of the administration charges and transaction costs, based on either the assumptions contained in COBS 13 Annex 2 or those in Version 4.2 of the Actuarial Standard Technical Memorandum (ASTM1) produced by the Financial Reporting Council, for a representative range of fund options that a member is able to select.

19.5.14 R Regarding transaction costs:

(1) the requirements in COBS 19.5.13R(3) and COBS 19.5.16R(1) apply to the extent that such information is available to the IGC; and

(2) the published information should include a warning giving brief details of any unavailable information that the IGC is aware of.

19.5.15 G An example of the type of illustration referred to in COBS 19.5.13R(4) is shown below. The assumptions in the notes should reflect the actual assumptions used.

<table>
<thead>
<tr>
<th>Years</th>
<th>1</th>
<th>3</th>
<th>5</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Projected pension pot in today’s money

<table>
<thead>
<tr>
<th>Fund choice</th>
<th>Default Arrangement</th>
<th>Fund A</th>
<th>Fund B</th>
<th>Fund C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before charges + costs deducted</td>
<td>After all charges + costs deducted</td>
<td>Before all charges + costs deducted</td>
<td>After all charges + costs deducted</td>
</tr>
</tbody>
</table>
Example notes:

1. Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £10,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed from age 22 to 68 and increase in line with assumed earnings inflation of 2.5% to 4% each year.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rate for each fund are as follows:
   - Default fund: 2.5% above inflation
   - Fund A: 2% above inflation
   - Fund B: 1% above inflation
   - Fund C: 1% below inflation

19.5.16 R The administration charges and transaction costs information in the IGC’s annual report referred to in COBS 19.5.5R(6)(g) must, in relation to each relevant scheme:

   (1) at a minimum, include the costs and charges for each default arrangement;

   (2) explain how a relevant scheme member can access the costs and charges information for each default arrangement and each alternative fund option that a member is able to select, including providing a link to the website required by COBS 19.5.13R(2); and

   (3) be published alongside any information in the IGC’s annual report relating to the relevant scheme’s default investment strategy and value for members.

19.5.17 R The annual communication referred to in COBS 19.5.5R(9) must:

   (1) include a brief description of the most recent transaction costs and administration charges information that has been published in
accordance with COBS 19.5.13R, and an explanation of how that information is relevant to the relevant scheme member; and

(2) explain how a relevant scheme member can access the information referred to in (1), including providing a link to the website required by COBS 19.5.13R(2).

19.5.18 G The annual communication may be included with any other annual communication from the operator to the member of the relevant scheme.

19.5.19 G The annual communication provided to a relevant scheme member may also include the particular transaction costs and administration charges that have been incurred by that member.

19.5.20 G In communicating information in compliance with COBS 19.5.5R(11), the IGC should ensure, for example, that it is straightforward for a relevant scheme member to compare the transaction costs and administration charges between fund options that are available for them to select.

Amend the following as shown.

19.8 Disclosure of transaction costs and administration charges in connection with workplace pension schemes

...  

19.8.6 G (1) The breakdown of identifiable transaction costs should include at least taxes, explicit fees and charges, and costs in connection with securities lending and borrowing, and the benefit from anti-dilution mechanisms.

...  

Arrival Price (AP): supplemental provision for over the counter bond transactions

19.8.15 R Where a bond transaction is executed on an over the counter basis after bid prices and offer prices have been obtained from more than one potential counterparty, the arrival price must be taken to be:

(1) if the best bid price is below the best offer price, the mid-point between the best bid price and the best offer price;

(2) if the best bid price is higher than the best offer price, the best bid price in the case of a sale or the best offer price in the case of a purchase; or

(3) if the best bid price is equal to the best offer price, that price.
Where a bond transaction is *executed* on an *over the counter* basis after either a *bid price* or an *offer price* has been obtained, the arrival price must be estimated as follows:

1. by reference to the bid/offer spread on transactions in bonds with similar characteristics to the bond in question; or
2. by reference to a composite of indicative bid and offer quotes; or
3. by any other reasonable method.

...  

### Treatment of anti-dilution mechanisms

Subject to COBS 19.8.22R, a *firm* using an anti-dilution mechanism in connection with an arrangement or *investment* may factor this into the aggregate transaction costs calculation as follows:

...  

When aggregating transaction costs, a *firm* must not subtract any portion of a benefit derived from an anti-dilution mechanism that would reduce the aggregate transaction cost below zero.

A *firm* may provide information about the total benefit derived from an anti-dilution mechanism as part of or alongside the breakdown of identifiable transaction costs.

### TP 2 Other Transitional Provisions

<table>
<thead>
<tr>
<th>Material to which the transitional provision applies</th>
<th>Transitional provision</th>
<th>Transitional provision: dates in force</th>
<th>Handbook provisions: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.29A <em>COBS 19.5.5R</em>(8) and 19.5.13R*(1)</td>
<td>(1) The requirement to publish administration charges and transactions costs information does not apply in respect of the year 1 January to 31 December 2019. Accordingly, the first 1 April 2020 to 31 July 2021</td>
<td>1 April 2020</td>
<td></td>
</tr>
<tr>
<td>2.29B</td>
<td>COBS 19.5.5R(6)(g) and 19.5.16R</td>
<td>R</td>
<td>The requirement to set out administration charges and transactions costs information only applies in respect of the annual report for the year 1 January to 31 December 2020 and future years.</td>
</tr>
<tr>
<td>2.29C</td>
<td>COBS 19.5.5R(7)</td>
<td>R</td>
<td>The requirement to ensure the production of the annual report by 31 July each year, in respect of the previous calendar year, only applies in respect of the year 1 January to 31 December 2020 and future years.</td>
</tr>
<tr>
<td>2.29D</td>
<td>COBS 19.5.5R(7)</td>
<td>G</td>
<td>The effect of COBS 19.5.5R(7) and TP 2.29CR is that, in respect of the year 2020 onwards, the annual report must align with the calendar year.</td>
</tr>
<tr>
<td>2.29E</td>
<td>COBS 19.5.16R(2)</td>
<td>R</td>
<td>In respect of the year 1 January to 31 December 2020 only, the annual report need not explain how a relevant scheme member can access the costs and charges information for each alternative fund option that a member is able to select. This is because the publication of such information is not...</td>
</tr>
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</table>
required in respect of that year, due to TP 2.29AR(2).

<p>| | | |</p>
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</thead>
<tbody>
<tr>
<td>2.29F</td>
<td><em>COBS 19.5.5R(9) and 19.5.17R</em></td>
<td>G</td>
</tr>
<tr>
<td>IGCs do not need to ensure that members of <em>relevant schemes</em> are provided with the annual communication required by <em>COBS 19.5.5R(9)</em> until after the first publication of administration charges and transaction costs information. As a result of TP 2.29AR, the first annual communication will be in respect of the information published for the year 1 January to 31 December 2020.</td>
<td>1 April 2020 to 31 December 2021</td>
<td>1 April 2020</td>
</tr>
</tbody>
</table>