

**PENSION SCHEMES (DISCLOSURE OF TRANSACTION COSTS AND
ADMINISTRATION CHARGES) (AMENDMENT) INSTRUMENT 2020**

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 *IGC*; 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.

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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.

...

Insert the following new text in the appropriate position. The text is not underlined.

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 (AS TM1) 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.

Projected pension pot in today's money								
Fund choice								
	Default Arrangement		Fund A		Fund B		Fund C	
Years	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted	Before charges + costs deducted	After all charges + costs deducted
1								
3								
5								
10								

15				
20				
25				
30				
35				
40				

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.

...

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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.

19.8.15B R 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

19.8.21 R 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:

...

19.8.22 R 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.

19.8.23 G 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

(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
...					
<u>2.29A</u>	<u>COBS 19.5.5R(8) and 19.5.13R(1)</u>	<u>R</u>	<u>(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</u>	<u>1 April 2020 to 31 July 2021</u>	<u>1 April 2020</u>

			<p><u>publication of administration charges and transactions costs information must be completed by 31 July 2021, in respect of the year 1 January to 31 December 2020.</u></p> <p><u>(2) In respect of the year 1 January to 31 December 2020, the requirement to publish administration charges and transactions costs information applies to default arrangements only.</u></p>		
<u>2.29B</u>	<u>COBS 19.5.5R(6)(g) and 19.5.16R</u>	<u>R</u>	<u>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.</u>	<u>1 April 2020 to 31 July 2021</u>	<u>1 April 2020</u>
<u>2.29C</u>	<u>COBS 19.5.5R(7)</u>	<u>R</u>	<u>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.</u>	<u>1 April 2020 to 31 July 2021</u>	<u>1 April 2020</u>
<u>2.29D</u>	<u>COBS 19.5.5R(7)</u>	<u>G</u>	<u>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.</u>	<u>1 April 2020 to 31 July 2021</u>	<u>1 April 2020</u>
<u>2.29E</u>	<u>COBS 19.5.16R(2)</u>	<u>R</u>	<u>In respect of the year 1 January to 31 December 2020 only, the annual report need not explain how a <i>relevant scheme</i> 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</u>	<u>1 April 2020 to 31 July 2021</u>	<u>1 April 2020</u>

			<u>required in respect of that year, due to TP 2.29AR(2).</u>		
<u>2.29F</u>	<u>COBS 19.5.5R(9) and 19.5.17R</u>	<u>G</u>	<u>IGCs do not need to ensure that members of <i>relevant schemes</i> are provided with the annual communication required by <i>COBS 19.5.5R(9)</i> 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.</u>	<u>1 April 2020 to 31 December 2021</u>	<u>1 April 2020</u>