

**RETAIL DISTRIBUTION REVIEW (KEY FEATURES ILLUSTRATIONS)
INSTRUMENT 2011**

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 156 (General supplementary powers);
 - (c) 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. (1) Part 2 of Annex B comes into force on 1 October 2012.
- (2) The remainder of this instrument comes into force on 31 December 2012.

Amendments to the Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Retail Distribution Review (Key Features Illustrations) Instrument 2011.

By order of the Board
22 September 2011

Annex A

Amendments to the Glossary of definitions

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

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

generic key features illustration

(in COBS) a key features illustration which reflects the terms of a contract which is representative of the type of business normally undertaken by the firm, or the type of business it is promoting, rather than the terms of a particular contract with, or that will be offered to, a particular client.

Amend the following as shown.

appropriate charges information

(in COBS) information about charges which is calculated and presented in accordance with the charges rules in COBS 13.4.1R and COBS 13 ~~Annex~~ Annexes 3 or 4.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

Part 1: Comes into force on 31 December 2012

13.1 The obligation to prepare product information

...

Information on life policies

13.1.2 R ...

Exceptions

13.1.3 R *A firm* is not required to prepare:

...

(3) *a key features illustration*;

(a) ...

(b) ...

(c) if it includes the information from the *key features illustration* in a *key features document*; or

(d) for a packaged product which, at the end of its fixed term, provides for the return of the initial capital invested and a specified level of growth linked by a pre-set formula to the performance of a specified asset or index or a combination of assets or indices; or

...

...

13.4 Contents of a key features illustration

...

Exceptions

13.4.2 R ~~*A key features illustration must not include a generic projection unless*~~
When the rules in this chapter require a key features illustration to be prepared, it must not take the form of a generic key features illustration:

- (1) unless there are reasonable grounds for believing that ~~that projection~~ it will be sufficient to enable a *retail client* to make an informed decision about whether to invest; or
- (2) if it is part of a *direct offer financial promotion* which contains a *personal recommendation*; or
- (3) if a *personal pension scheme* or a *stakeholder pension scheme* is facilitating the payment of an *adviser charge*; or
- (4) if a *group personal pension scheme* or a *group stakeholder pension scheme* is facilitating the payment of a *consultancy charge* and the combined effect of the *consultancy charges* facilitated by the product and the product charges is not consistent for all investors in the relevant group or sub-group; or
- (5) unless it is prepared for groups or sub-groups of employees in a *group personal pension scheme* or a *group stakeholder pension scheme* and it contains:
 - (a) a *generic projection* which is prepared in accordance with *COBS 13 Annex 2* paragraph 1.3 and based on a default fund or other commonly selected fund;
 - (b) an effect of charges table calculated in accordance with *COBS 13 Annex 4R* paragraph 2 and contains additional rows that show a range of typical periods to retirement age; and
 - (c) reduction in yield information which is calculated in accordance with *COBS 13 Annex 4R* paragraph 3.3(2) and combines the product charge and, if applicable, the *consultancy charge*.

13.4.3 G A ~~generic projection~~ *key features illustration* is unlikely to be sufficient to enable a *retail client* to make an informed decision about whether to invest if the *premium* or investment returns on the product will be materially affected by the personal characteristics of the investor.

...

After COBS 13.5 insert the following new section. The text is not underlined.

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.

Amend the following as shown.

13 Annex 2 Projections

This annex belongs to *COBS 13.4.1R* (Contents of a key features illustration), *COBS 13.5.1R* (Projections for in-force products) and *COBS 13.5.2R* (Projections: other situations).

...

R		
1.3	(1)	If a <i>generic projection</i> is prepared for a <i>stakeholder pension scheme</i> or <i>personal pension scheme</i> <u>in circumstances where a <i>generic key features illustration</i> is permitted under <i>COBS 13.4.2R</i></u> , sufficient separate <i>projections</i> , covering a range of different contractual periods and contributions, must be included for a <i>retail client</i> to be able to make an informed decision about whether to invest.
	...	

...

R	
1.8	In the case of a <i>stakeholder pension scheme</i> <u>in circumstances where a <i>generic key features illustration</i> is permitted under <i>COBS 13.4.2R</i></u> , the specimen benefits table, contained within the “Stakeholder pension decision tree” factsheet available on www.moneyadvice.service.org.uk and headed “Pension Table...How much should I save towards a pension?” which sets out initial monthly pension amounts, may be used instead of a <i>standardised deterministic projection</i> but only if it is accompanied by an explanation of the caveats and assumptions behind the table.

...

R	
Assumptions: charges	
2.6	The <i>charges</i> allowed for in a <i>standardised deterministic projection</i> :
(1)	must properly reflect:
	(a) all of the charges, expenses and deductions a <i>client</i> will, or may be expected <u>expect to pay</u> be taken after investment into the product;

...

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			
1	Appropriate charges information		
1.1	Appropriate <u>Appropriate charges information</u> comprises:		
	(1)	(a)	a description of the nature and amount of the <i>charges a client</i> will or may be expected to bear <u>in relation to the product and, if applicable, any investments within the product</u> ;
		(b)	<u>if applicable, a description of the nature and amount of the <i>adviser charges a retail client</i> has agreed may be taken, including whether it is taken before or after investment into the product</u> ;
	(2)	an ‘effect of charges’ table; and	
	(3)	‘reduction in yield’ information.	
...			
Exceptions			
1.3	An effect of charges table and reduction in yield information are not required for:		
	...		
	(3)	<p>a <i>stakeholder pension scheme</i>, 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 [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct [£7500 x y/100] that year.” [deleted]</p>	
	(4)	<p>a <i>stakeholder product</i> that is not a stakeholder pension scheme, or a product that will be held in a CTF where the relevant product and the CTF 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 [$£250 \times y/100$] that year. If your fund is valued at £500 throughout the year, this means we deduct [$£500 \times y/100$] that year. [After ten years these deductions reduce to [$£250 \times r/100$] and [$£500 \times r/100$] respectively.]”</p> <p>where (in the case of (3) and (4)) ‘y’ is the annual charge and ‘r’ is the reduced annual charge (if any).</p>
...		

R	
2	Effect of charges table
...	

2.2 The effect of charges table:

- (1) for a *life policy, personal pension scheme or a stakeholder pension scheme* must be in the following form unless the firm chooses to adopt the form of the effect of charges table in COBS 13 Annex 4:

R					
Note 1A	Note 2	Note 3	Note 4	Note 5	Note 6
At end of year	Total paid in to date	Withdrawals	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£	£
1					
...					
5					
10					
...					

- (2) for any other *packaged product* must be in the following form:

R				
Note 1B	Note 2	Note 3	Note 5	Note 6

At end of year	Investment to date	Income	Effect of deductions to date	What you might get back
	£	£	£	£
1				
5				
10				
...				

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

R		
<u>Note 1A</u>	(a)	This column must include the first five years, every subsequent fifth year and the final year of the <i>projection period</i> .
	(b)	Figures may be shown for every subsequent tenth year rather than subsequent fifth year where the <i>projection period</i> exceeds 25 years, or for whole of life policies.
	(c)	For whole of life policies, should the projected fund reach zero before the end of the <i>projection period</i> this must be highlighted.
	(d)	For a <i>drawdown pension</i> include figures for each of the first ten years, or less if the value of the fund is projected at the <i>higher rate of return</i> to reach zero before then. [deleted]
	(e)	If there is discontinuity in the trend of <i>surrender values</i> , the appropriate intervening years must also be included.
	(f)	Figures for a longer term may be shown.
<u>Note 1B</u>	(a)	This column must include the first year, the fifth year and every subsequent fifth year of the <i>projection period</i> .
	(b)	[deleted]
	(c)	Figures for a longer term may be shown.
<u>Note 2</u>		This column must show the cumulative contributions paid to the end of each relevant year.
<u>Note 3</u>		This column must show the cumulative withdrawals taken or income paid to the end of each relevant year (if any). The column may be omitted if withdrawals or income are not anticipated or allowed.
<u>Note</u>		This column is optional. If it is retained, it must show the total actual

4	deductions to the end of each relevant year calculated using the following method:
	(a) apply the <i>intermediate rate of return</i> for the relevant product to the figure in the ‘effect of deductions to date’ column for the previous year;
	(b) subtract this figure from the figure in the ‘effect of deductions to date’ column for the year being shown; and
	(c) add the resulting figure to the figure in the ‘total actual deductions to date’ column for the previous year (if any).
<u>Note</u> 5	This column may be deleted if the product is a without profits <i>life policy</i> with benefits that are guaranteed except on surrender or variation, a <i>life policy</i> with a term not exceeding five years, or a <i>life policy</i> that will be held in a <i>CTF</i> . If this column is not deleted, the ‘effect of deductions to date’ figure must be calculated by taking the accumulated value of the fund without reference to <i>charges</i> and then subtracting from this figure the figure in the ‘what you might get back column’ for the same year.
<u>Note</u> 6	This column must show <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.

...

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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. For instance:
	The column titled ‘What you might get back’ might be replaced with ‘What the transfer value might be’ for personal pensions, or ‘Open market value’ for <i>income withdrawals</i> or <i>short term annuities</i>.
	The <i>withdrawals</i> column may be called ‘Total income taken’ for <i>income withdrawals</i> or <i>short term annuities</i>.
	The table may be titled ‘What effect will the deductions have?’ for <i>income withdrawals</i> or <i>short term annuities</i>.

...

After Annex 3 insert the following new annex. The text is not underlined.

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			
1	Appropriate charges information		
1.1	<i>Appropriate charges information</i> comprises:		
	(1)	(a)	a description of the nature and amount of the <i>charges a client</i> will or may be expected to bear in relation to the product and, if applicable, any investments within the product;
		(b)	if applicable, a description of the nature and amount of the <i>adviser charges</i> and <i>consultancy charges a retail client</i> or employer has agreed may be taken before investment into the product;
		(c)	if applicable, a description of the nature and amount of the <i>adviser charges</i> and <i>consultancy charges a retail client</i> or employer has agreed may be taken after investment into the product;
	(2)	an ‘effect of charges’ table; and	
	(3)	‘reduction in yield’ information.	
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 [£500 x y/100] that year. If your fund is valued at £7500 throughout the year, we will deduct [£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);				
	(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				
	(4)	the rate of return used to calculate the figures in the table.				
2.2	Subject to Note 2 below, an 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	Withdrawals	If there were no charges	If only product and investment charges are taken	After all charges are taken
		£	£	£	£	£
	1					
	...					
	5					
	At age [xx]					
Note 1	This column must include at least the first, third and fifth year and the intended date of retirement.					
	For a <i>drawdown pension</i> , figures must be included for each of the first ten years, or less if the value of the fund is projected at the higher rate of return to reach zero before then.					
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	This column must show the cumulative withdrawals intended to be taken to the end of each relevant year. The column may be omitted if withdrawals are not anticipated or allowed.					
Note	This column must show a <i>standardised deterministic projection</i> of the					

4	benefits, 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, 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 <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, but taking into account only the <i>charges</i> described in COBS 13 Annex 4R paragraph 1.1(1)(a).
Note 6	<p>This column must show a <i>standardised deterministic projection</i> of the benefits, 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 taking into account all charges described in COBS 13 Annex 4R paragraph 1.1(1)(a) and (c).</p> <p>Where both <i>adviser charges</i> and <i>consultancy charges</i> are being facilitated from a product this column should show the combined effect of those charges.</p> <p>This column may be omitted if there are no <i>adviser charges</i> or <i>consultancy charges</i>.</p>

R	
Exception	
2.3	An effect of charges table may be amended, but only if and to the extent that it is necessary to properly reflect the nature and effect of, for example, the <i>adviser charges</i> , <i>consultancy charges</i> or the <i>charges</i> inherent in a particular product.

G	
2.4	The effect of COBS 13 Annex 4 paragraph 2.3R is that, for example, the column labels and explanatory text may be adjusted to reflect the nature of the contract or the terminology used.
2.5	An effect of charges table must be appropriately titled, for example, 'How the charges reduce the value of your pension fund'.

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> for the relevant product; and	
	(2)	'C' is determined by:	
		(a)	carrying out a <i>standardised deterministic projection</i> to the <i>projection date</i> , but without taking any <i>adviser charges</i> or <i>consultancy charges</i> into account, using 'B'; and then
		(b)	calculating the annual rate of return ('C') (rounded to the nearest tenth of 1 %) required to achieve the same projection value if <i>charges</i> are excluded.
3.2	Total reduction in yield ('D') is 'B' less 'E' where:		
	(1)	'B' is the <i>intermediate rate of return</i> for the relevant product; and	
	(2)	'E' is determined by:	
		(a)	carrying out a <i>standardised deterministic projection</i> to the <i>projection date</i> taking all <i>charges</i> into account, using 'B'; and then
		(b)	calculating the annual rate of return ('E') (rounded to the nearest tenth of 1 %) required to achieve the same projection value if <i>charges</i> are excluded.
3.3	(1)	A <i>firm</i> must present the product reduction in yield as 'A%', as part of a statement which explains that 'product charges reduce your anticipated rate of returns from 'B%' to 'C%''', or in some other appropriate way.	
	(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 from 'B%' to 'E%''', or in some other appropriate way and explain the difference between the two reduction in yield figures.	
3.4	If contributions will be invested in more than one fund in a single designated investment or made by an initial lump sum payment that is followed by regular contributions, the reduction in yield must be:		
	(1)	calculated separately for each fund or for the single contribution and the regular contributions, as applicable; and	
	(2)	presented:	
		(a)	on a fund-by-fund, or single contribution and regular contribution, basis, together with a statement which explains the nature and effect of a reduction in yield, the

			reason for the inclusion of more than one reduction in yield figure and the reason for the differences between them; or
		(b)	(if the reduction in yield results are so similar that one figure could reasonably be regarded as representative of the others) as a single figure together with a statement which explains the nature and effect of a reduction in yield, and that the reduction in yield figure given is representative of the reduction in yield figures for each of the funds or for the single and regular contributions, as applicable; or
		(c)	through a single figure combining the separate figures for each fund or contribution in a proportionate manner, with an appropriate description.

Amend the following as shown.

14.2 Providing product information to clients

...

- 14.2.1B R When the rules in this chapter require the offer or provision of a key features illustration, a firm may provide a generic key features illustration if that generic key features illustration has been prepared in accordance with COBS 13.4.2R.
- 14.2.1C R A firm that arranges to start the facilitation of, or an increase in, an adviser charge or consultancy charge from an in-force packaged product, must provide to the retail client sufficient information for the retail client to be able to understand the likely effect of that facilitation.
- 14.2.2 R The documents or information required to be provided or offered by ~~the first provision rule (COBS 14.2.1R and COBS 14.2.1CR)~~ must be in a durable medium or made available on a website (where that does not constitute a durable medium) that meets the website conditions.

Part 2: Comes into force on 1 October 2012

Amend the following as shown.

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>2.5A</u>	<u>COBS 13.4.2R</u>	<u>R</u>	<u>A firm may rely on COBS 13.4.2R(5) (as introduced by the Retail Distribution Review (Key Features Illustrations) Instrument 2011) as if it was in force from 1 October 2012.</u>	<u>1 October 2012 until 31 December 2012</u>	<u>31 December 2012</u>
...					