COBS 6 Annex 4G

Identifying and describing the maximum rate of commission (or equivalent), the market average and the Example

1. A *firm* should state in each *menu* it issues:

   (a) its maximum rate of *commission* (or *equivalent*) for each product group in the statement;

   (b) the market average rate for each product group;

   (c) an illustration in the example column of an amount of *commission* (or *equivalent*) calculated by reference to its maximum rate for each product group in the statement and the example contribution levels stated in the tables (ie eg £100 per month or £10,000 lump sum).

Maximum rate of commission (or equivalent)

2. The maximum rate of *commission* (or *equivalent*) specified by a *firm* should be the maximum amount that the firm decides to retain.

3. If the maximum *commission* (or *equivalent*) is not apparent from the rates supplied by a *product provider* then a *firm* should adopt the net present value comparison method set out below.

4. For any product group, the maximum rate of *commission* (or *equivalent*) should not be more than a *firm* could reasonably expect to receive from any *product provider*.

Identifying a maximum rate of commission – comparison of net present value

5. A *firm* should use the assumptions set out in paragraphs 8-12 below when calculating the maximum commission figures to be inserted into its *menu*. Where a *firm* uses a tool provided by the *FSA* for this express purpose (for example a calculator provided by the *FSA* on a cd-rom for the purpose of calculating the maximum commission figures), the calculations can be presumed to have used these assumptions.

6. The net present value for each *commission* (or *equivalent)* rate should be calculated as the sum of the discounted values of each *commission* (or *equivalent*) payment that the *firm* may retain for that *commission* (or *equivalent)* rate, using the assumptions set out in paragraphs 8-12 below.

7. For any product group, the *firm's* maximum rate of *commission* (or *equivalent)* is the *commission* (or *equivalent)* rate in that product group with the highest net present value.

8. A *firm* should use the assumptions outlined in Table 1 when calculating net present values.

COBS 6 Annex 4 G Table 1 Table of assumptions to be used in calculating net present values.

Product	**a)** **Discount Rate**	**b)** **Net growth rate**	**c)** **Lapse rate (per annum)**	**d)** **Assumed Term**	**e)** **Withdrawal rate (per annum)**
Regular premiums/contributions					
Collective investment scheme	Net growth rate + 3%	6%	6%	10 years	
Endowment	Net growth rate + 3%	6%	6%	Maturity	
Personal Pensions / SHP	Net growth rate + 3%	6%	12% for 5 years then 5%	Maturity	
Whole of Life	Net growth rate + 3%	6%	6%	37 years	
Single premiums/contributions					
Annuities	Net growth rate + 3%	6%	0%	16 years	
Bonds	Net growth rate + 3%	6%	2.5%	7 years	5%
Collective investment scheme	Net growth rate + 3%	6%	6%	7 years	
Personal Pensions / SHP	Net growth rate + 3%	6%	2.5%	10 years	
Income withdrawals	Net growth rate + 3%	6%	0%	10 years	6%

9. *Commission* (or *equivalent*) payments should be assumed to be payable as outlined in *COBS* 6 Annex 4G Table 2

COBS 6 Annex 4 G Table 2 – The timing of *commission* (or *equivalent*) payments

Type of commission (or equivalent payment)	When payable
Initial / indemnified commission	immediately at outset of the contract
Commission as a % of premiums	at the time of payment of the relevant monthly premium
Commission as a % of fund value	at the end of each policy month, immediately after any withdrawals and lapses, at a monthly rate of $1/12^{th}$ of the annual % of the fund value

10. Withdrawals should be assumed to occur monthly at a rate that is 1/12th of the assumed annual withdrawal rate.

11. Lapses should be assumed to occur monthly, at a rate that is $1/12^{th}$ of the assumed annual lapse rate. In calculating the net present value, no commission should be assumed to be payable on the proportion of policies that are assumed to have lapsed.

12. Mortality rates should be ignored.

Describing the maximum rate of commission (or equivalent)

13. Subject to paragraph 14, a *firm* should use each appropriate description in *COB* 6 Annex 4G Table 3 (ie one or more) to describe the maximum rates of *commission* (*or equivalent*) in its *menu*.

COBS 6 Annex 4 G Table 3

Type of commission (or equivalent)	Descriptions
Regular premium or contributions	i. "X% of the first 12 month's payments" ii. "X % of each of the first n month's payments" iii. "Y% of all payments" iv. "Y% of all payments from month p" v. "Z% of your fund value each year from year q".
Lump sums	i. "X% of the amount you invest" ii. "Z% of your fund value each year from year q"

14. A *firm* should adapt any of the descriptions prescribed by Table 3 so that its *menus* adequately describe the particular characteristics of a *firm's commission* (*or equivalent*) arrangements. For example, a *firm* can and should re-express the percentage figure, in the description taken from Table 3, in a "shape" (that is a description of the pattern of payments) that it considers to be typical of the way in which it retains *commission* (or *equivalent*). This may differ from the shape in which the particular maximum rate of *commission* (or *equivalent*) is actually payable. Another example of the way in which a *firm* should adapt the descriptions in Table 3 is if the *commission* received by a *firm* is payable as a fixed cash amount per policy then alternative wording should be used by the *firm* to adequately describe the fixed nature of the payment in its description of the rate of commission.

15. A *firm* that uses more than one of the descriptions in *COBS* 6Annex 4G Table 3 should make it clear that it has used more than one description (eg by inserting the word "plus" in between each description).

16. The maximum rate of *commission* (or *equivalent*) should be rounded to the nearest 0.1% unless the *commission* (or *equivalent)* is a multiple of 0.25% of a fund value in which case it should be shown rounded to the nearest 0.25%.

Identifying and describing the market average

17. The *FSA* will publish the net present value of market average rates on its website from time to time.

18. A *firm* should express the market average rate in the shape or pattern of payments which most closely corresponds to the number, frequency and nature of payments in the shape or pattern of payments used to describe the firm's maximum *commission* (or *equivalent*).

19. A *firm* can use any suitable tool or method to re-express the market average in its *menus*, as

long as that method uses the assumptions set out in 8 -12 above (for example a calculator contained on a cd-rom of the type referred to in paragraph 5).

20. The market average rate shown in the *menu* a re-expression of the published net present value of the market average using the assumptions set out in 8 – 12 above. Subject to any rounding in the final description, this re-expression should have the same net present value as the published market average.

21. A *firm* should describe the market average rate using the most appropriate description in the Descriptions column in Table 3.

The market average may be equivalently expressed by adopting the method set out in the worked example in *COBS* 6 Annex 5G below, used in conjunction with tables of net present value factors that will be made available by the *FSA*. These factors will be calculated using the assumptions set out above. Alternatively, the market average expression may be expressed using such other tools, systems or methods as the *FSA* may make available from time to time.

Changes in the market average

22. A *firm* should ensure that its *menus* are revised to take account of changes in the market average rates published by the *FSA* by not later than:

(a) 2 months from the date on which the *FSA* prescribes amended market average rates if the effect of the amendment is to reduce any of the averages for a relevant product group by 4% or more of the previous average; and

(b) in all other cases at such time as the *firm* has occasion to revise its *statements*.

The example

23. Subject to paragraph 25, a *firm* should use, in the example in its *menu*, the description in Table 4 that corresponds to description(s) of the maximum rate of the *commission* (or *equivalent*) that appears in its *menu*.

COBS 6 Annex 4 G Table 4

Type of *commission* (or *equivalent*)	Description of the maximum rate of *commission* (or *equivalent*)	Corresponding description to be used in the example
Regular premium or contributions	i. "X% of the first 12 month's payments"	i. "£X initially"
	ii. "X % of each of the first n month's payments"	ii. "£X spread evenly over the first n months"
	iii. "Y% of all payments"	iii. "£Y each year"
	iv. "Y% of all payments from month p"	iv."£Y each year from month p"

	v. "Z% of your fund value each year from year q".	v. "£Z in year p, £Z + A in year p + 1, and so on (the actual amounts will vary in line with your fund value)"
Lump sums	i. "X% of the amount you invest"	"£X initially"
	ii. "Z% of your fund value each year from year q"	"£Z each year from year p (The actual amounts will vary in line with your fund value)"

24. A *firm* that uses more than one of the descriptions in Table 4 should make it clear that it has used more than one description (eg by inserting the word "plus" in between each description).

25. A *firm* should adapt any of the descriptions prescribed by Tables 3 and 4 as are necessary to ensure that a *menu* adequately describes the particular characteristics of a *firm's commission* (*or equivalent*) arrangement. Examples of the way in which the descriptions could be adapted are provided in paragraph 14 above.