

SIMPLIFIED PROSPECTUS INSTRUMENT 2005

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions:
- (1) the following sections in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 140 (Restriction on managers of authorised unit trust schemes);
 - (c) section 145 (Financial promotion rules);
 - (d) section 156 (General supplementary powers);
 - (e) section 157(1) (Guidance);
 - (f) section 238(5) (Restrictions on promotion);
 - (g) section 247 (Trust scheme rules);
 - (h) section 248 (Scheme particulars rules);
 - (i) section 278 (Rules as to scheme particulars); and
 - (2) regulation 6 (FSA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228).
- B. The rule-making powers and related provisions listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

- C. This instrument comes into force as indicated in this table.

Annex	Date
A	1 May 2005 (part) and 1 October 2005 (part)
B	1 May 2005 (part) and 1 October 2005 (part)
C	1 May 2005
D	1 May 2005
E	1 May 2005 (part) and 1 October 2005 (part)

- D. Changes to the Handbook text in Annexes A, B and E placed in bold square brackets, irrespective of whether the change takes the form of insertion of additional text or deletion of text, come into force on 1 October 2005. Otherwise, these Annexes come into force on 1 May 2005.

Amendments to the Handbook

- E. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COB)	Annex B
Collective Investment Schemes sourcebook (CIS)	Annex C
New Collective Investment Schemes sourcebook (COLL)	Annex D
Electronic Commerce Directive (ECO)	Annex E

Citation

- F. This instrument may be cited as the Simplified Prospectus Instrument 2005.

By order of the Board
21 April 2005

Amended by Addendum
23 June 2005

Annex A

Amendments to Glossary

In this Annex underlining indicates new text and striking through indicates deleted text. Further, in this Annex, changes to Handbook text placed in bold square brackets, irrespective of whether the change takes the form of insertion of additional text or deletion of text, come into force on 1 October 2005. Otherwise, this Annex comes into force on 1 May 2005.

...

fund supermarket service a service consisting of the provision by a firm of regulated activities for a customer which consists of arranging (bringing about) deals in investments and safeguarding and administering investments with particular reference to regulated collective investment schemes where:

(a) the schemes are managed by other firms;

(b) the customer's units are held under

arrangements in which their legal title is held by a nominee company; and

(c) the service relates to schemes offered by several product providers, at least one of whom is not an affiliated company of another provider.

key features information about a life policy, [key features] scheme, or stakeholder pension scheme which is required to be produced in the format specified in COB 6.1 (Packaged products and ISA disclosure) to COB 6.5 (Content of key features and important information: life policies, [key features] schemes, cash deposit ISAs and stakeholder pension schemes).

key features scheme means a scheme that is not:

(a) a simplified prospectus scheme; or

(b) a qualified investor scheme; or

(c) a recognised scheme under section 264 of the Act (Schemes constituted in other EEA States).

simplified prospectus (in relation to a simplified prospectus scheme) a marketing document containing information about the scheme and complying with the requirements in COB 6.2.26R (Production and publication of simplified prospectus) and COB 6.2.37R (Table: Contents of the simplified prospectus).

simplified prospectus
scheme

means:

- (a) a UCITS scheme that is not a recognised scheme under section 264 of the Act (Schemes constituted in other EEA States); or
- (b) a key features scheme for which an election that is permitted by COB 6.2.22R(2) ([Key features] schemes) has been made.

...

*See Addendum 23 June 2005

Annex B

Amendments to the Conduct of Business sourcebook

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

Further, in this Annex, changes to Handbook text placed in bold square brackets, irrespective of whether the change takes the form of insertion of additional text or deletion of text, come into force on 1 October 2005. Otherwise, this Annex comes into force on 1 May 2005.

COB Contents

...

Conduct of Business

...

COB 6 Product disclosure and the customer's right to cancel or withdraw

...

6.2 Provision of key features or simplified prospectus

...

6.5 Content of key features and important information: life policies, [key features] schemes, ISA cash deposit components and stakeholder pension schemes

...

...

- COB 3 Financial Promotion
- ...
- 3.8 Form and content of financial promotions
- ...
- Standardised past performance information
- ...
- 3.8.13 R (5) This *rule* does not apply to a *prospectus* drawn up in accordance with *CIS* 3.2.1R (Drawing up of prospectus) or *COLL* 4.2.2R (Publishing the prospectus) or a *simplified prospectus* drawn up in accordance with the requirements of *COB* 6.2 (Provision of key features or simplified prospectus).
- ...
- 3.9 Direct offer financial promotions
- ...
- Packaged products
- 3.9.10 R (1) A direct offer financial promotion relating to a packaged product other than a simplified prospectus scheme must contain the information required by *COB* 6.5.2R(1), (3) and (5) as applicable (Contents of key features).
- (2) A direct offer financial promotion relating to a simplified prospectus scheme must contain the information required by *COB* 6.2.37R (Table: Contents of the simplified prospectus) and where a projection has to be provided in accordance with *COB* 6.2.43R(1) (Projection for simplified prospectus scheme), the required contents of that projection.
- 3.9.11 G The information should follow, where possible, the same *order* as *key features* or, as the case may be, the *simplified prospectus*. But adjustments may be made to the order, where this would assist design and understanding of the material.
- ...
- 3.14 The internet and other electronic media
- ...
- Specific guidance
- 3.14.5 G (1) *Key features, simplified prospectus, initial disclosure document* and written contractual terms
- ...
- (b) It is important that recipients should have the opportunity to view the full text of the relevant *key features, simplified prospectus, initial disclosure document*, terms and conditions, customer agreement and any other applicable risk information required by the

rules.

...

(2) Application forms

- (a) It is not necessary for access to an application form to be denied until the recipient has read *key features* or the *simplified prospectus*, and other contractual terms, but *firms* should ensure that on the application form, or in the preceding text, they draw attention to the existence of this material and the importance of reading it, as relevant business will be conducted on the basis of the *key features* or *simplified prospectus*, and written contractual terms.

...

COB 5 Advising and selling

...

5.7 Disclosure of charges, remuneration and commission

...

Packaged products

...

5.7.4 G (1) A *firm* may make the disclosures required by COB 5.7.3R in its *terms of business*, in a *client agreement*, or in a separate written statement. Disclosure should indicate any product-related *charges* that are deducted from the *private customer's* investment. If the product is a *packaged product*, product-related *charges* and expenses will be disclosed in the *key features* document, *simplified prospectus* or in the minimum information that the *firm* is required to provide to the *private customer* in accordance with COB 6.2 (Provision of key features or *simplified prospectus*) and COB 6.4 (Product disclosure: special situations). ...

....

...

(3) In the case of a *packaged product*, product related charges and expenses will be disclosed in the *key features* document, *simplified prospectus* or in the minimum information that the *firm* is required to provide to *private customers* in accordance with COB 6.2 (Provision of key features or *simplified prospectus*) and COB 6.4 (Product disclosure: special situations). When a *firm* is a *broker fund adviser*, disclosure should include any *fees* payable to the *firm* or its *associate* in connection with that activity by a *product provider*.

...

5.7.10 R The requirement in COB 5.7.5R to disclose to a *private customer* the amount or value, in cash terms, of *commission* or *equivalent* does not apply if the *firm* provides the *private customer* with example *key features* or a *simplified prospectus*, in accordance with COB 6.2.7R (Life policies), COB 6.2.22R [(Schemes *Key features schemes*)] and COB 6.2.33R (Obligation on a firm to provide a *simplified prospectus*) as applicable, provided that the *firm* discloses to the *private customer* the actual amount or value of *commission* or *equivalent* within five *business days* of effecting the transaction.

...

5.7.13 G The disclosures required by COB 5.7.5R should normally be made in writing. For example, if a specific *key features* document, *simplified prospectus* or *projection* is provided to a *private customer*, the required disclosures should either be contained in the *projection* or the *key features* document or *simplified prospectus*, or be given to the *private customer* in a separate written statement at the time these *documents* are given to the *private customer*.

...

...

5.7.16 E Table Calculating commission equivalent

This table forms part of COB 5.7.8E

Calculating commission equivalent		
...		
	8.	The following costs should be excluded:
	...	
		(e) costs of developing and maintaining computer systems for the provision of <i>projections</i> of benefits, <i>customer specific key features</i> documents, <u>simplified prospectuses</u> or other product information;
		...

5.7.17 G Table Remuneration and commission disclosure statements: content and wording.

This table forms part of COB 5.7.13G

Remuneration and commission disclosure statements: content and wording			
...			
3. Examples of some common cases are:	
	(c)	fund related basis:	
		(i)	using the same rate of growth and the same periods as those in the <i>key features document</i> or the <u>simplified prospectus</u> , the example will normally show the <i>commission</i> or <i>remuneration</i> in the first year in which it is paid and the tenth year; or
			...

...

- COB 6 Product disclosure and the customer's right to cancel or withdraw
- 6.1 Product disclosure
- 6.1.1 R *COB 6.1 to COB 6.5 apply to a firm:*
- (1) which sells, *personally recommends* or *arranges (brings about)* for the sale of a *packaged product (other than units in a simplified prospectus scheme)* to a *private customer* or to ...
- (1A) which is an operator of a *simplified prospectus scheme* or which sells, *personally recommends* or *arranges (brings about)* for the sale of *units in such a scheme* to a *client*, whether or not held within a *PEP* or an *ISA*; or
- ...
- 6.1.2 G (1) *COB 6.2.21R* (Exceptions from the requirement to provide key features for life policies) and *COB 6.2.24R* (Exceptions from the requirement to provide key features for [key features] schemes) contain exemptions from the requirement to produce *key features* in relation to *life policies* and [key features] schemes. For *simplified prospectus schemes* *COB 6.2.35R* (Exceptions from the requirement to provide the *simplified prospectus*) and *COB 6.2.36R* (Exception from the requirement to provide a *simplified prospectus*: firms offering a funds supermarket service) contain similar exemptions from the requirement to provide a *simplified prospectus*.
- ...
- Application of ~~COB 6.2.26R~~ 6.2.46R and COB 6.2.47R
- 6.1.2A R ~~*COB 6.2.26R*~~ 6.2.46R (UCITS Directive: requirement to offer a *simplified prospectus* for section 264 schemes) and COB 6.2.47R (Sale of a section 264 scheme by distance contract) ~~applies~~ apply to a *firm* when it sells, *personally recommends* or *arranges* for the sale of a *UCITS scheme* which is a *recognised scheme* under section 264 of the Act (*Schemes constituted in other EEA States*) to a *client*.
- Requirement to produce key features
- 6.1.4 R ...
- (3) (1) does not apply in relation to a *simplified prospectus scheme*.
- Quality and production of key features
- 6.1.5 R A *firm* must ensure that any *key features* or information document it produces in relation to a *packaged product*, *cash deposit ISA* or *cash deposit CTF* is in

writing, whether in printed hard copy or in electronic format, and:

- (1) ...
- (2) is separate from any other material given to the *customer*, unless it is produced for a [~~collective investment scheme~~, key features] scheme [~~investment trust savings scheme~~] or *stakeholder pension scheme*; in that case it may be included as part of another item of sales or marketing material, but only if the *key features* or information document appears with due prominence.

6.2 Provision of key features or simplified prospectus

...

- 6.2.4 G *Firms* are reminded that any *key features*, *simplified prospectus* or other information required by *COB* 6.4 2 to *COB* 6.5 is a form of *financial promotion* and therefore the *financial promotion rules* contained in *COB* 3 apply (subject to the application provisions of *COB* 3.1 to *COB* 3.3).

...

- 6.2.5A G Where this chapter requires *key features*, a *simplified prospectus* or other information to be given, it does not require the same information to be provided again if the *private customer* already has it.

...

Provision of key features: [key features] schemes

- 6.2.22 R (1) When a *firm* sells, *personally recommends* or arranges for the sale of a [key features] scheme to a *private customer*, unless *COB* 6.2.24R (exceptions) or *COB* 6.4.27R to *COB* 6.4.31R (telephone sales and other exemptions) applies, the *private customer* must be provided with appropriate *key features* for the scheme before ~~he~~ ~~the private customer~~ completes an application for the *scheme holding*.
- (2) (1) does not apply where the *operator* of the scheme has elected that the scheme will comply with *COB* 6.2.26R to *COB* 6.2.45R instead of the provisions in *COB* 6 that relate to *key features*.
- (3) (2) does not apply to an *investment trust*.
- 6.2.23 G (1) *COB* 6.2.22R applies not just to new purchases but also to any recommendation or application to transfer the value of a particular fund holding within a [key features] scheme to a different fund within the same *scheme*.

...

Exceptions from the requirement to provide key features for [key features] schemes

- 6.2.24 R A firm need not provide *key features* to a *private customer* in respect of a [key features] scheme if:
- ...
- (6) a *private customer* is making a purchase of a *scheme holding* (whether or not held within a *CTF*) in a [fund key features scheme] in which he already has a *scheme holding* and has already been provided with appropriate *key features* covering the purchase; or
 - (7) ... the transfer; or
 - (8) the *scheme* is a *UCITS scheme* recognised under section 264 of the *Act* (Schemes constituted in other EEA States); however, if the sale is by way of a *distance contract*, the *firm* must provide all the contractual terms and conditions and the information in COB App.1 instead of *key features*.

Purpose of the COB 6 provisions on the simplified prospectus

- 6.2.25A G The purpose of COB 6.2.26R (Production and publication of simplified prospectus), COB 6.2.27R (Revision of simplified prospectus) to COB 6.2.32R (Offering a simplified prospectus), COB 6.2.37R (Table: Contents of the simplified prospectus), COB 6 Annex 2R (Total expenses ratio) and COB 6 Annex 3R (Portfolio turnover rate) is to give effect to the provisions of the Management Company Directive (2001/107/EC) which amended the UCITS Directive, in so far so as it imposes a series of obligations on Member States in relation to the *simplified prospectus*. The *simplified prospectus* is a pre-sale marketing document which contains sufficient information about a *simplified prospectus scheme* to enable an investor to make an informed decision about whether to acquire *units* in the *scheme* to which it relates.

Requirement to offer a simplified prospectus for section 264 schemes

- 6.2.26 R
- (1) ~~When a firm sells, personally recommends or arranges for the sale of a UCITS scheme which is a recognised scheme under section 264 of the Act (schemes constituted in other EEA States) to a client, it must offer the client free of charge a copy of the scheme's most recent simplified prospectus before an application for the scheme holding is completed.~~
 - (2) ~~The simplified prospectus must meet the requirements of the UCITS Directive necessary for the scheme to enjoy the rights conferred by the Directive.~~
 - (3) ~~When the scheme holding is purchased on behalf of a client by an investment manager exercising discretion, the requirement in (1) will be satisfied by the investment manager being offered the simplified prospectus free of charge before the application form for a schemes holding is completed.~~
 - (4) ~~a firm must not carry on any of the activities referred to in (1) in relation~~

to a *UCITS scheme* which is a *recognised scheme* under section 264 of the Act unless it is satisfied on reasonable grounds that:

- (a) a copy of the *scheme's simplified prospectus* has been filed with the FSA before any *units* in the *scheme* are marketed in the UK; and
- (b) the information contained in the *simplified prospectus* is up to date and is not in need of revision;

and that any subsequent amendments thereto have been filed with the FSA.

Production and publication of simplified prospectus

- 6.2.26 R (1) An operator of a *simplified prospectus scheme* must, for each *simplified prospectus scheme* in respect of which it is the *operator*, produce and publish a *simplified prospectus* in accordance with the *rules* in this section and ensure that it contains in summary form each of the matters referred to in COB 6.2.37R.
- (2) A *simplified prospectus* must be incorporated in a written document or in any *durable medium*.
- (3) An operator of a *simplified prospectus scheme* must be satisfied on reasonable grounds that each *simplified prospectus* which it produces:
- (a) includes all such information as is necessary to enable an investor to make an informed decision about whether to acquire *units* in the *scheme*;
 - (b) does not omit any key item of information;
 - (c) wherever possible is written in plain language which avoids technical language and jargon; and
 - (d) adopts a format and style of presentation which is clear and attractive to the average reader, so that it can be easily understood by him.
- (4) The *simplified prospectus* may be attached to the full *prospectus* as a removable part of it.
- (5) Where the *simplified prospectus scheme* is an *umbrella* or has more than one *class* of *units*, the *operator* may at its option produce and publish either a composite *simplified prospectus* covering all the *sub-funds* that comprise the *umbrella* or all the *classes* of *units*, as applicable, or a separate *simplified prospectus* for each *sub-fund* comprising the *umbrella* or for each *class* of *units*, as the case may be.
- (6) Where in accordance with (5) an *operator* produces and publishes separate *simplified prospectuses* for the *sub-funds* of an *umbrella* or, as the case may be, for each *class* of *units*, references in COB 6.2.26R to COB 6.2.45R to “*scheme*” or “*simplified prospectus scheme*” should be taken as referring to the relevant *sub-fund* or *class*, as applicable.

Revision of simplified prospectus

- 6.2.27 R An operator of a simplified prospectus scheme must, for each simplified prospectus scheme of which it is the operator, keep its simplified prospectus up-to-date and must revise it immediately on the occurrence of any material change.
- 6.2.28 G It is the FSA's view that any change to a simplified prospectus scheme that would be likely to influence the average investor in deciding whether to invest in the scheme or realise his investment in it should be regarded as a material change for the purposes of COB 6.2.27R. Examples would be changes to the scheme's objectives or investment policy. The FSA would expect a simplified prospectus to be updated at least annually.

Filing requirements

- 6.2.29 R A UCITS management company must for each UCITS scheme it manages file the scheme's initial simplified prospectus, together with each revision to it, with:
- (1) the FSA; and
 - (2) the competent authority of each EEA state in which its units are to be marketed in the exercise of an EEA right.

UK firms exercising passporting rights in respect of UCITS scheme

- 6.2.30 R (1) A UCITS management company must for each UCITS scheme it manages and in respect of which it is marketing units in another EEA State in the exercise of an EEA right, produce a simplified prospectus for the scheme drawn up in accordance with the requirements contained in this section.
- (2) The simplified prospectus must be drawn up in the, or one of the, official languages of the EEA State for which it was prepared or in a language approved by the competent authority of that State.
- (3) The simplified prospectus may, without alteration, be used for marketing purposes in the EEA State for which it was prepared and in which the units of the simplified prospectus scheme are to be sold.

- 6.2.31 G (1) In translating the *simplified prospectus* from English into the or one or more of the official languages of the *EEA State* in which the *simplified prospectus scheme* is to be marketed, or into a language approved by the *competent authority* of that *State*, it is permissible under article 28.3 of the *UCITS Directive*, as amended, in the *FSA*'s view, for figures expressed in pounds sterling to be converted into the appropriate local currency such as euros. It is not necessary, for example, for the *simplified prospectus* of a *scheme* that is to be marketed across the *EEA* in the exercise of an *EEA right*, to have to refer to each amount in pounds sterling, in euros and additionally in every other local currency of an *EEA State* in which *units* of the *scheme* are to be marketed that has not adopted the euro as its currency.
- (2) *Operators* considering marketing the *units* of their *simplified prospectus schemes* in another *EEA State* in the exercise of an *EEA right* should have regard to the local marketing legislation of such country. In this regard the attention of *firms* is drawn to *COB 6.2.38R(2)* (Reduction in yield), under which an *operator* when it is producing a *simplified prospectus* for a *simplified prospectus scheme* whose *units* are to be marketed in another *EEA State*, need not provide the reduction in yield information or format for that *simplified prospectus*. Inclusion of such information and format might be confusing for investors in such countries who are unlikely to be familiar with them. The *simplified prospectus* that is to be marketed in the *United Kingdom* must, however, include the reduction in yield information and format. Likewise there is no requirement for a projection under *COB 6.2.43R(1)* to have to be included in a *simplified prospectus* which is being used for marketing purposes in another *EEA State*.

Offering a simplified prospectus

- 6.2.32 R (1) When a *firm* sells, *personally recommends* or *arranges (brings about)* for the sale of a *simplified prospectus scheme*, it must offer the *scheme's* up-to-date *simplified prospectus* free of charge to any *person* who may become a subscriber to the *scheme* before a contract for the sale of *units* is concluded.
- (2) The requirement in (1) will be met by a *firm* in relation to a *private customer* if it or any other *firm* provides him with a copy of the *simplified prospectus* in accordance with *COB 6.2.33R(1)*.

Obligation on a firm to provide a simplified prospectus

- 6.2.33 R (1) When a *firm* sells, *personally recommends* or *arranges (brings about)* for the sale of a *simplified prospectus scheme* to a *private customer* in the *United Kingdom*, the *firm* must provide him with the up-to-date *simplified prospectus* for the *scheme* before he completes an application for the *scheme holding* unless *COB 6.2.35R* or *COB 6.2.36R* or *COB 6.4.27R* to *COB 6.4.31R* (telephone sales and other exemptions) apply.

(2) (1) does not apply to a UCITS management company when it sells units in a UCITS scheme without personally recommending or arranging for the sale of such units.

- 6.2.34 G (1) COB 6.2.33R applies not just to new purchases but also to any recommendation or application to transfer the value of a particular fund holding within a scheme to a different sub-fund within the same scheme.
- (2) Where a private customer has responded to a direct offer financial promotion, the mailing package or direct offer financial promotion should have included the simplified prospectus for the scheme, in which case there is no requirement to provide a further simplified prospectus to such a private customer in respect of the same transaction.
- (3) COB 6.2.33R may apply to either the operator or the distributor of a simplified prospectus scheme depending on how units in the scheme are to be sold.
- (4) Where one of the exceptions in COB 6.2.35R or COB 6.2.36R applies, firms should bear in mind that they must still comply with COB 6.2.32R (Offering a simplified prospectus) which represents an absolute requirement of the UCITS Directive and as such, cannot be made subject to any exclusions. For example, a firm offering a funds supermarket service which is entitled to the benefit of the exception in COB 6.2.36R must ensure that every private customer is offered the simplified prospectus of each relevant simplified prospectus scheme before a contract for the sale of units is concluded.

Exceptions from the requirement to provide the simplified prospectus

- 6.2.35 R A firm need not, unless a private customer specifically requests it, provide a simplified prospectus to a private customer for a simplified prospectus scheme if:
- (1) the firm is a product provider and the scheme holding is sold on the personal recommendation of, or arranged to be sold on the personal recommendation of, or arranged to be sold by another person, provided that other person:
- (a) is a firm (or appointed representative) operating from an establishment maintained by the firm (or appointed representative) in the United Kingdom; or
- (b) is operating from an establishment in an EEA State whose law imposes obligations on the person to provide information about the scheme holding in accordance with articles 3 and 5(1) and (2) of the Distance Marketing Directive; or
- (2) at the time the private customer signs the application, the private customer is habitually resident outside the EEA and is not present in the United Kingdom; or

- (3) (except for *distance contracts with retail customers*) the *scheme holding* is purchased by the *private customer* in the course of an *execution-only transaction*; or
- (4) the *scheme holding* is purchased on behalf of the *private customer* by an *investment manager* exercising discretion; or
- (5) the sale of the *scheme holding* is arranged or recommended by an *investment manager* who is not exercising discretion and the *private customer* has agreed, either in relation to that specific holding or generally, that the *simplified prospectus* need not be provided; or
- (6) a *private customer* is making a purchase of a *scheme holding* (whether or not held within a *CTF*) in a *scheme* in which he already has a *scheme holding* and has already been provided with the up-to-date *simplified prospectus* which covers the purchase; or
- (7) a *private customer* is transferring from *accumulation units* to *income units* of the same *scheme* (or vice versa) and has already been supplied with the up-to-date *simplified prospectus* of the *scheme* which covers the transfer.

Exception from the requirement to offer a simplified prospectus: firms offering a funds supermarket service

- 6.2.36 R (1) A firm to which COB 6.2.33R (Obligation on a firm to provide a simplified prospectus) applies that is offering a *funds supermarket service*, need not, unless a *private customer* requests it, provide a *private customer* with a *simplified prospectus* for any *simplified prospectus scheme* to which its *funds supermarket service* relates provided it complies with the condition in (2).
- (2) The condition is that the *firm* must instead provide the *private customer* with a composite *key features document* that meets the requirements of COB 6.5 (Content of key features) which covers each of the *key features schemes* and *simplified prospectus schemes* to which its *funds supermarket service* relates.

6.2.37 R Table: Contents of the simplified prospectus

This table belongs to COB 6.2.26 R (1)

<u>Contents of simplified prospectus</u>	
Note:	<p><u>This table sets out the required contents of the <i>simplified prospectus</i>. It reproduces Schedule C (Contents of the simplified prospectus) of the Management Company Directive (2001/107/EC), as amplified by the Commission Recommendation (2004/384/EC).</u></p> <p><u>This Table also includes, and cross-refers to, other material which the FSA considers should be included.</u></p>
<p><u>Brief presentation of the <i>simplified prospectus scheme</i> (in this Table referred to as “the <i>scheme</i>”).</u></p> <p><u>Where a <i>scheme</i> comprises an <i>umbrella</i> or has more than one <i>class</i> of <i>units</i> and the <i>operator</i> in accordance with COB 6.2.26R(5) is producing a separate <i>simplified prospectus</i> for each <i>sub-fund</i> or, as the case may be, for each <i>class</i> of <i>units</i>, references in this Table to <i>scheme</i> should be taken, wherever appropriate, as referring to the relevant <i>sub-fund</i> or <i>class</i>, as applicable.</u></p>	
(1)	<u>when the <i>scheme</i> was created and an indication of the <i>EEA State</i> where the <i>scheme</i> has been registered or incorporated;</u>
(2)	<u>in the case of a <i>scheme</i> having different investment compartments (<i>sub-funds</i>), the indication of this circumstance;</u>
(3)	<u>the name and contact details of the <i>operator</i> (when applicable);</u>
(4)	<u>the expected period of existence of the <i>scheme</i> (when applicable);</u>
(5)	<u>the name and contact details of the <i>depository</i>;</u>
(6)	<u>the name and contact details of the auditors;</u>
(7)	<u>the name and brief details of the financial group (e.g. a bank) promoting the <i>scheme</i>;</u>
<u>Investment information</u>	
(8)	<u>a short description of the <i>scheme's</i> objectives including:</u>
(a)	<u>a concise and appropriate description of the outcomes sought for any investment in the <i>scheme</i>;</u>

<u>Contents of simplified prospectus</u>		
	(b)	<u>a clear statement of any guarantees offered by third parties to protect investors and any restrictions on those guarantees; and</u>
	(c)	<u>a statement, where relevant, that the <i>scheme</i> is intended to track an index or indices, and sufficient information to enable investors both to identify the relevant index or indices and to understand the extent or degree of tracking pursued;</u>
Notes:	1.	<u>Information on (8)(a) should include a statement as to whether there is any arrangement intended to result in a particular capital or income return from the <i>units</i> or any investment objective of giving protection to their capital value or income return and, if so, details of that arrangement or protection.</u>
	2.	<u>The information disclosed under (8)(b) should include an explanation of what is to happen when an <i>investment</i> is encashed before the expiry of any related guarantee or protection.</u>
(9)	<u>the <i>scheme's</i> investment policy, including:</u>	
	(a)	<u>the main categories of eligible financial instruments which are the object of investment;</u>
	(b)	<u>whether the <i>scheme</i> has a particular strategy in relation to any industrial, geographic or other market sectors or specific classes of assets, e.g. investments in emerging countries' financial instruments;</u>
	(c)	<u>where relevant, a warning that, whilst the actual portfolio composition is required to comply with the broad legal and statutory rules and limits, risk-concentration may occur in regard of certain tighter asset classes, economic and geographic sectors;</u>
	(d)	<u>if the <i>scheme</i> invests in bonds, an indication of whether they are corporate or government, their duration and the ratings requirements;</u>
	(e)	<u>if the <i>scheme</i> uses financial derivative instruments, an indication of whether this is done in pursuit of the <i>scheme's</i> objectives, or for hedging purposes only;</u>
	(f)	<u>whether the <i>scheme's</i> management style makes some reference to a benchmark; and in particular whether the <i>scheme</i> has an 'index tracking' objective, with an indication of the strategy to be pursued to achieve this; and</u>

<u>Contents of simplified prospectus</u>			
	(g)	<u>whether the <i>scheme's</i> management style is based on a tactical asset allocation with high frequency portfolio adjustments;</u>	
	<u>provided the information is material and relevant;</u>		
Note:	<u>The information referred to in paragraphs (8) and (9) may be set out as a single item in the <i>simplified prospectus</i> (e.g. for the information on index tracking), provided that the information so combined does not lead to confusion of the objectives and policies of the <i>scheme</i>. The order of the information items may be adapted to reflect the <i>scheme's</i> specific investment objectives and policy.</u>		
(10)	<u>a brief assessment of the <i>scheme's</i> risk profile by investment compartment or sub-fund, including:</u>		
	(a)	<u>overall structure of the information provided:</u>	
		(i)	<u>a statement to the effect that the value of investments may fall as well as rise and that investors may get back less than they put in;</u>
		(ii)	<u>a statement that details of all the risks actually mentioned in the <i>simplified prospectus</i> may be found in the full <i>prospectus</i>;</u>
		(iii)	<u>a description in words of any risk investors have to face in relation to their investment, but only where such risk is relevant and material, based on risk impact and probability; and</u>
	(b)	<u>details regarding the description (in words) of the following risks:</u>	
		(i)	<u>specific risks:</u>
			<u>The description referred to in paragraph (10)(a)(iii) should include a brief and understandable explanation of any specific risk arising from particular investment policies or strategies or associated with specific markets or assets relevant to the <i>scheme</i> such as:</u>
		A	<u>the risk that the entire market of an asset class will decline thus affecting the prices and values of the assets (market risk);</u>
		B	<u>the risk that an issuer or a counterparty will default (credit risk);</u>

<u>Contents of simplified prospectus</u>			
			<u>C</u> <u>only where strictly relevant, the risk that a settlement in a transfer system does not take place as expected because a counterparty does not pay or deliver on time or as expected (settlement risk);</u>
			<u>D</u> <u>the risk that a position cannot be liquidated in a timely manner at a reasonable price (liquidity risk);</u>
			<u>E</u> <u>the risk that the investment's value will be affected by changes in exchange rates (exchange or currency risk);</u>
			<u>F</u> <u>only where strictly relevant, the risk of loss of assets held in custody that could result from the insolvency, negligence or fraudulent action of the custodian or of a subcustodian (custody risk); and</u>
			<u>G</u> <u>risks related to a concentration of assets or markets; and</u>
		<u>(ii)</u>	<u>horizontal risk factors:</u>
			<u>The description referred to in paragraph (10)(a)(iii) should also mention, where relevant and material, the following factors that may affect the product:</u>
			<u>A</u> <u>performance risk, including the variability of risk levels depending on individual fund selections, and the existence, absence of, or restrictions on any guarantees given by third parties;</u>
			<u>B</u> <u>risks to capital, including potential risk of erosion resulting from withdrawals/cancellations of units and distributions in excess of investment returns;</u>
			<u>C</u> <u>exposure to the performance of the provider/third-party guarantor, where investment in the product involves direct investment in the provider, rather than assets held by the provider;</u>
			<u>D</u> <u>inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers;</u>
			<u>E</u> <u>inflation risk; and</u>
			<u>F</u> <u>lack of certainty that environmental factors, such as a tax regime, will persist;</u>

<u>Contents of simplified prospectus</u>		
	(iii)	<u>possible prioritisation of information disclosure:</u>
		<u>In order to avoid conveying a misleading image of the relevant risks, the information items should be presented so as to prioritise, based on scale and materiality, the risks so as to better highlight the individual risk profile of the scheme;</u>
(11)		<u>the historical performance of the scheme (where applicable) and a warning that this is not an indicator of future performance (which may be either included in or attached to the simplified prospectus), including:</u>
	(a)	<u>disclosure of past performance:</u>
	(i)	<u>the scheme's past performance, as presented using a bar chart showing annual returns for the last ten full consecutive years. If the scheme has been in existence for fewer than ten years but at least for a period of one year, it is recommended that the annual returns, calculated net of tax and charges, be given for as many years as are available; and</u>
	(ii)	<u>if a scheme is managed according to a benchmark or if its cost structure includes a performance fee depending on a benchmark, the information on the past performance of the scheme should include a comparison with the past performance of the benchmark according to which the scheme is managed or the performance fee is calculated;</u>
Note:		<u>Comparison should be achieved by representing the past performance of the benchmark and that of the scheme through the use of appropriate graphs to assist the reader to make the comparison.</u>
	(b)	<u>disclosure of cumulative performance:</u>
		<u>Disclosure should be made of the cumulative performance of the scheme over the ten year period referred to in paragraph (11)(a)(i). A comparison should also be made with the cumulative performance (where relevant) of a benchmark, when comparison to a benchmark is required in accordance with paragraph (11)(a)(ii);</u>
Note:		<u>Where the scheme has been in existence for fewer than ten years but at least for a period of one year, disclosure of the past cumulative performance should be made for as many years as are available.</u>

<u>Contents of simplified prospectus</u>		
	(c)	<u>exclusion of subscription and redemption fees, subject to appropriate disclosure:</u>
		<u>A statement should be made that past performance of the <i>scheme</i> does not include the effect of subscription and redemption fees.</u>
Notes:	1.	<u>Where a comparison is being made with the cumulative performance of a benchmark as required by paragraph (11)(b), the comparison should be achieved by representing the past performance of the benchmark and that of the <i>scheme</i> through the use of appropriate graphs to assist the reader to make the comparison.</u>
	2.	<u>The <i>scheme's</i> historical performance may be produced as a separate attachment to the <i>simplified prospectus</i>.</u>
(12)		<u>a profile of the typical investor the <i>scheme</i> is designed for;</u>
<u>Economic information</u>		
(13)		<u>the <i>scheme's</i> applicable tax regime, including:</u>
	(a)	<u>the tax regime applicable to the <i>scheme</i> in the <i>UK</i>; and</u>
	(b)	<u>a statement which explains that the regime of taxation of the income or capital gains received by individual investors depends on the tax law applicable to the personal situation of each individual investor and/or to the place where the capital is invested and that if investors are unclear as to their fiscal position, they should seek professional advice or information from local organisations, where available;</u>
Note:		<u>This information should include a statement in relation to <i>SDRT provision</i>, explaining how the <i>scheme</i> may suffer stamp duty reserve tax as a result of transactions in <i>units</i> and whether the <i>operator's</i> policy is such that an <i>SDRT provision</i> may be imposed.</u>
(14)		<u>details of any entry and exit commissions relating to the <i>scheme</i> and details of the <i>scheme's</i> other possible expenses or fees, distinguishing between those to be paid by the <i>unitholder</i> and those to be paid from the <i>scheme's</i> or the <i>sub-fund's</i> assets, including:</u>
	(a)	<u>overall contents of the information provided:</u>
	(i)	<u>disclosure of a total expense ratio (TER), calculated as indicated in <i>COB 6 Annex 2R</i>, except for a newly created <i>fund</i> where a TER cannot yet be calculated;</u>

<u>Contents of simplified prospectus</u>			
		(ii)	<u>on an ex ante basis, disclosure of the expected cost structure, that is an indication of all costs available according to the list set forth in COB 6 Annex 2R so as to provide investors, in so far as possible, with a reasonable estimate of expected costs;</u>
		(iii)	<u>all entry and exit commissions and other expenses directly paid by the investor;</u>
		(iv)	<u>an indication of all the other costs not included in the TER, including disclosure of transaction costs;</u>
		(v)	<u>as an additional indicator of the importance of transaction costs, the portfolio turnover rate, calculated as shown in COB 6 Annex 3R; and</u>
		(vi)	<u>an indication of the existence of fee-sharing agreements and soft commissions;</u>
<u>Notes:</u>		1.	<u>In explaining the function of the TER to the reader, appropriate wording should be used in the <i>simplified prospectus</i>. For example, TER might be explained in the following terms:</u> <u>“The TER shows the annual operating expenses of the <i>scheme</i> – it does not include transaction expenses. All European funds highlight the TER to help you compare the annual operating expenses of different <i>schemes</i>.”.</u>
		2.	<u>It is the FSA’s understanding that the disclosure of a reasonable estimate of expected costs on an ex ante basis, as required by paragraph (14)(a)(ii), only applies to new <i>schemes</i> where a TER cannot yet be calculated. Where a TER can be calculated for a <i>simplified prospectus scheme</i>, there is no need to have to disclose a reasonable estimate of expected costs on an ex ante basis in accordance with paragraph (14)(a)(ii), in addition to the <u>TER</u>.</u>

Contents of simplified prospectus

	3.	<p><u>In disclosing details of all entry and exit commissions relating to the <i>fund</i> and details of the <i>scheme's</i> other possible expenses or fees, the <i>firm</i> must present the information in the format required by <i>COB 6 2.38R (1) (Reduction in yield)</i>. Compliance with this <i>rule</i> will ensure that the information is presented in the form of an <i>impact of charges table based on reduction in yield figures</i>, so as to assist the comprehension of the reader.</u></p>
	4.	<p><u>Paragraph (14)(a)(vi) should not be interpreted as a general validation of the compliance of any individual agreement or commission with the provisions of the <i>Handbook</i>. Taking into account current market practice, consideration should be given as to how far the <i>scheme's</i> existing fee-sharing agreements and comparable fee arrangements are for the exclusive benefit of the <i>scheme</i>.</u></p>
	5.*	<p><u>For the purposes of paragraph (14)(a)(vi), fee-sharing agreements should be taken as those agreements whereby a party remunerated, either directly or indirectly, out of the assets of a <i>scheme</i> agrees to split its remuneration with another party and which result in that other party meeting expenses through this fee-sharing agreement that should normally be met, either directly or indirectly, out of the assets of the <i>scheme</i>.</u></p>
	6.*	<p><u>For the purposes of paragraph (14)(a)(vi) soft commissions should be regarded as any economic benefit, other than clearing and execution services, that an asset manager receives in connection with the <i>scheme's</i> payment of commissions on transactions that involve the <i>scheme's</i> portfolio securities. Soft commissions are typically obtained from, or through, the executing broker.</u></p>
	7.*	<p><u>The <i>simplified prospectus</i> should make a reference to the full <i>prospectus</i> for detailed information on these kinds of arrangements, which should allow any investor to understand to whom expenses are to be paid and how possible conflicts of interest will be resolved in his/her best interest. The information provided in the <i>simplified prospectus</i> should remain concise in this respect.</u></p>

*See Addendum 23 June 2005

<u>Contents of simplified prospectus</u>	
*	(b) <u>detailed information about 'fee sharing agreements' and 'soft commissions', including:</u>
	(i) <u>identification of 'fee-sharing agreements';</u>
Note:*	<u>See note 5 to paragraph (14)(a).</u>
	(ii) <u>identification of soft commissions;</u>
Note:*	<u>See note 6 to paragraph (14)(a).</u>
	(iii)* <u>presentation of TER and portfolio turnover note;</u>
Note:	<u>Both the TER and the portfolio turnover rate may be either included in or attached to the <i>simplified prospectus</i> in the same paper as information on past performance.</u>
<u>Commercial information</u>	
(15)	<u>how to buy the <i>units</i>;</u>
Note:	<u>This should include an explanation of any relevant right to cancel or withdraw from the purchase, or, where it is the case, that such rights do not apply.</u>
(16)	<u>how to sell the <i>units</i>;</u>
(17)	<u>in the case of a <i>scheme</i> having different investment compartments (<i>sub-funds</i>), an explanation of how to switch from one investment compartment into another and any charges applicable in such cases;</u>
(18)	<u>when and how dividends on <i>units</i> or <i>shares</i> of the <i>scheme</i> (if applicable) are distributed;</u>
(19)	<u>when and where prices of <i>units</i> are published or made available;</u>
<u>Additional information</u>	
(20)	<u>a statement that, on request, the full <i>prospectus</i> and the annual and half-yearly reports of the <i>scheme</i> may be obtained free of charge before the conclusion of the contract and afterwards, together with details of how they may be obtained or how a <i>person</i> may gain access to them;</u>
(21)	<u>the name and contact details of the <i>FSA</i> as being the <i>competent authority</i> which has authorised or registered the <i>scheme</i>;</u>
*See Addendum 23 June 2005	

<u>Contents of simplified prospectus</u>	
<u>(22)</u>	<u>details of a contact point (<i>person</i> or department, and, if appropriate the times of day etc.) where additional information may be obtained if needed;</u>
<u>(23)</u>	<u>the date of publication of the <i>simplified prospectus</i>.</u>
<u>General Note:</u>*	
	<u>In making the disclosures required by paragraphs (8) to (19) of this Table, the information must be presented in the form of questions and answers. This format is designed to assist the comprehension of the reader.</u>

*See Addendum 23 June 2005

Reduction in yield

- 6.2.38 R (1) In disclosing the information required by paragraph (14) of COB 6.2.37R (Table: Contents of the simplified prospectus), a *firm* should set out the information in the format required by, and include the contents of, COB 6.5.30R (Table for [key features] schemes) to COB 6.5.35R (Calculation method for “effect of charges to date” for [key features] schemes) and COB 6.5.38R (Commission and commission equivalent for life policies, [key features] schemes and stakeholder pension schemes), as if such provisions applied to *simplified prospectus schemes*, as modified by COB Table 6.2.39R.
- (2) Where the *units* of a *simplified prospectus scheme* are to be marketed and sold in another *EEA State*, the *operator* of the *scheme* need not comply with the requirements in (1) for the *simplified prospectus* that is to be used to market the *scheme* in that *EEA State*.
- (3) Note 3 to paragraph (14) of COB 6.2.37R (Table: Contents of the simplified prospectus) and COB 6.2.38R to COB 6.2.40G cease to have effect on 30 June 2009, unless re-made.

6.2.39 R Table Application of COB 6.5.30R to COB 6.5.35R, and COB 6.5.38R

This table belongs to COB 6.2.38R

<u>Application of COB 6.5.30R to COB 6.5.35R, and COB 6.5.38R</u>		
<u>Rule</u>	<u>Description</u>	<u>Modification</u>
<u>COB 6.5.31R</u>	<u>Table</u>	<u>Substitute “COB 6.2.43R (1)” for the reference to COB 6.5.15R (2).</u>

<u>COB 6.5.32R (1), (2) and (3)</u>	<u>Scheme projections</u>	<u>Substitute “COB 6.2.43R (1)” for the references to COB 6.5.15R (2).</u>
<u>COB 6.5.32R (3) and (7)(a)</u>	<u>Scheme projections</u>	<u>Substitute “client” for the references to “private customer”.</u>

6.2.40 G The FSA intends to review the operation of COB 6.2.38R and COB 6.2.39R in 2008 and will re-examine these RIY requirements from first principles at that time. This will be done with a view to determining whether the retention of the RIY information and format, in addition to the disclosure of the European TER standard, remains appropriate in the light of the then prevailing circumstances, including consumer understanding of the issues. Should the result of that review indicate that these RIY requirements should be retained or otherwise changed, the FSA will consult publicly on its proposals in accordance with section 155(1) of the Act.

Distance contracts for the sale of simplified prospectus schemes

6.2.41 R When a firm sells, personally recommends or arranges (brings about) for the sale of a simplified prospectus scheme to a retail customer in circumstances where a distance contract is being concluded, it must ensure that the retail customer is provided in good time with all the contractual terms and conditions and the information in COB Appendix 1.1 before the contract for the scheme holding is concluded.

6.2.42 G Firms should bear in mind the guidance at COB 6.2.5AG. Where a simplified prospectus is provided to a retail customer in circumstances where a distance contract is being concluded, this chapter does not require the same information to be provided again to the customer as a result of COB 6.2.41R. Firms should note, however, that while the contents of a simplified prospectus and the contractual terms and conditions and the information required by COB Appendix 1.1 substantially overlap, there are differences between them. Consequently it is necessary for firms additionally to provide the contractual terms and conditions and the information required by COB Appendix 1.1 to the extent that such information is not covered by the contents of the simplified prospectus. This additional information may accompany, but should not form part of, the simplified prospectus itself.

Projection for simplified prospectus scheme

6.2.43 R (1) When a firm sells, personally recommends or arranges for the sale of a simplified prospectus scheme to a private customer and the proposed transaction is for a scheme:

(a) which relates to an election to make income withdrawals; or

(b) where the private customer’s primary objective is to acquire:

- (i) a specified sum of money on a specified date; or
- (ii) a specified sum of money on death; or
- (iii) an annuity of a specified amount payable as from a specified date;

the firm must provide the private customer with a projection, illustrating how the principal terms of the proposed transaction apply to him.

- (2) (1) does not apply to a UCITS management company when it sells units in a UCITS scheme without personally recommending or arranging for the sale of such units.
- (3) (1) does not apply to a direct offer financial promotion in relation to units in a simplified prospectus scheme.

6.2.44 G A projection may be provided by a firm for a simplified prospectus scheme where COB 6.2.43R (1) does not require one, at a firm's discretion. Likewise it is at the firm's discretion to decide whether it is appropriate to include the projection, whether or not required by COB 6.2.43R (1), as part of the simplified prospectus.

PEP and ISA investments

- 6.2.45* R (1) When a firm sells, personally recommends or arranges for the sale of a unit in an simplified prospectus scheme to a private customer which is to be held within a PEP or ISA, it must provide him with the following additional information:
- (a) a description of the nature of the services the firm will provide for the private customer in relation to the PEP or ISA;
 - (b) for ISAs or ISA components which are stated as satisfying the CAT standards:
 - (i) a table comparing the ISA or ISA component with the CAT standards;
 - (ii) clarification that satisfying the CAT standards does not mean that the investment is appropriate for the private customer or that there is any guarantee of performance;
 - (c) the fact, if applicable, that an ISA does not meet the CAT standards together with any relevant explanation;
 - (d) a statement that the favourable tax treatment of ISAs may not be maintained;
 - (e) how and when statements (if any) will be sent;

*See Addendum 23 June 2005

- (f) an explanation how the ISA or plan may be terminated or transferred to another ISA or PEP manager;
 - (g) whether the ISA is a mini or maxi-ISA agreement and an explanation of the differences between the two; and
 - (h) whether the private customer has a choice to reinvest income, where uninvested money will be held and whether interest is paid on such money.
- (2) (1) does not apply to a UCITS management company when it sells units in a UCITS scheme without personally recommending or arranging for the sale of such units.
 - (3) (1) does not apply to the extent that a private customer is making a purchase of a scheme holding in a simplified prospectus scheme in which he already has a scheme holding and has already been provided with the information set out at (1)(a) to (h) which remains up-to-date.

UCITS Directive: requirement to offer a simplified prospectus for section 264 schemes

- 6.2.46 R
- (1) When a firm sells, personally recommends or arranges (brings about) for the sale of a UCITS scheme which is a recognised scheme under section 264 of the Act (Schemes constituted in other EEA States) to a client, it must offer the client free of charge a copy of the scheme's most recent simplified prospectus before an application for the scheme holding is completed.
 - (2) The simplified prospectus must meet the requirements of the UCITS Directive necessary for the scheme to enjoy the rights conferred by the Directive.
 - (3) When the scheme holding is purchased on behalf of a client by an investment manager exercising discretion, the requirement in (1) will be satisfied by the investment manager being offered the simplified prospectus free of charge before the application form for a scheme holding is completed.
 - (4) A firm must not carry on any of the activities referred to in (1) in relation to a UCITS scheme which is a recognised scheme under section 264 of the Act unless it is satisfied on reasonable grounds that:
 - (a) the scheme's simplified prospectus has been sent to the FSA before any units in the scheme are marketed in the UK; and
 - (b) the information contained in the simplified prospectus is up-to-date and is not in need of revision;and that any subsequent amendments thereto have been sent to the FSA.

Sale of a section 264 scheme by distance contract

- 6.2.47* R If the sale in COB 6.2.46R (1) is by way of a *distance contract*, the *firm* must provide all the contractual terms and conditions and the information in COB Appendix 1.1.
- ...
- 6.4 Product disclosure: special situations
- ...
- 6.4.2 G *Firms* are reminded that, under COB 6.2.2R, the *key features* required to be provided to a *private customer* under COB 6.4 must be provided by the *firm* in a *durable medium*. See also COB 6.2.3G – COB 6.2.5G. For *simplified prospectus schemes*, *firms* are referred to COB 6.2.26R to COB 6.2.45R for the applicable provisions in relation to *simplified prospectuses*.
- Occupational pension schemes
- 6.4.3 G COB 6.1 (Packaged product and ISA disclosure) and COB 6.2 (Provision of key features or simplified prospectus) apply to a *firm* in respect of the purchase of *packaged products*, whether *life policies* or *schemes*, by the trustees of *money-purchase occupational schemes*. ...
- 6.4.4 R (1) When a *firm* sells, *personally recommends* or arranges the sale of a new group or master *life policy*, the first in a series of individual *life policies* or the first *units* in a particular [*key features*] *scheme or simplified prospectus scheme* to or for the trustees of a *money-purchase occupational scheme*, it must provide the trustees with *key features*, in accordance with COB 6.2.7R to COB 6.2.25R or for a *simplified prospectus scheme*, with a *simplified prospectus*, in accordance with COB 6.2.26R to COB 6.2.45R.
- ...
- (3) In addition to the information to be provided to trustees under COB 6.4.4R(1), the *firm* must ensure that *key features or the simplified prospectus* are made available to the trustees to distribute to all scheme members at the outset of the scheme and for subsequent new members.
- ...
- 6.4.5 G ...
- (3) *Group personal pension schemes* are not *occupational pension schemes* and COB 6.4.4R does not apply to them. *Firms* should therefore provide each *person* who is offered membership of a *group personal pension scheme* with *key features or a simplified prospectus* in accordance with COB 6.1 and COB 6.2. ...
- ...

*See Addendum 23 June 2005

Self-invested personal pension schemes

- 6.4.6 R (1) *A firm which sells, personally recommends or arranges the sale of a packaged product (other than a simplified prospectus scheme) to or for a member, prospective member or trustees of a self-invested personal pension scheme, must provide key features to that member or trustees, in accordance with COB 6.2.7R to COB 6.2.25R or for the sale of a simplified prospectus scheme, provide a simplified prospectus to that member or trustees, in accordance with COB 6.2.26R to COB 6.2.45R.*
- ...

- 6.4.7 G *Investments within a self-invested personal pension scheme (a “SIPP”) are effected by the trustees on behalf of scheme members. Key features or a simplified prospectus should be given to the trustees and to members of SIPPs when packaged products (whether life policies or schemes) are recommended by a firm to scheme members or effected by SIPP trustees. ...*

Income withdrawals

- 6.4.8 R *When a firm personally recommends, arranges or effects income withdrawals to or for a private customer, the customer must be provided with key features or with a simplified prospectus in good time before he signs any form of application or authority electing to make those withdrawals, whether that election is made with advice on investments or on an execution-only basis, unless COB 6.4.10R to COB 6.4.12R or COB 6.4.27R to COB 6.4.31R (telephone sales and other exemptions) applies.*

- 6.4.9 R *In relation to an election to make income withdrawals, the requirement for the provision of key features or a simplified prospectus in:*

...

- (2) *COB 6.2.22R or, for simplified prospectus schemes, COB 6.2.33R also applies when an existing scheme holding is to be used.*

- 6.4.10 R *In relation to an election to make income withdrawals, the requirements of COB 6.4.11R and COB 6.4.12R override the relevant requirement in COB 6.2 (Provision of key features or simplified prospectus), where there is conflict, but only where this would not contravene a requirement of the UCITS Directive.*

- 6.4.11 R *When a private customer makes a series of elections within a period of 12 months to make income withdrawals, the firm that is personally recommending, arranging or effecting the elections may provide one combined set of key features or simplified prospectuses for those elections, or may provide separate sets of key features for elections which relate to life policies and [key features] schemes or separate simplified prospectuses for simplified prospectus schemes.*

...

Stakeholder pension schemes

- 6.4.15 R *When a firm sells, manages, personally recommends or arranges the sale of a stakeholder pension scheme to or for a private customer, the firm must, subject*

to COB 6.4.18R and unless COB 6.4.27R to COB 6.4.31R (telephone sales and other exemptions) applies, provide the *private customer* with *key features* or a *simplified prospectus* before the *private customer* completes an application for the *stakeholder pension scheme*.

...

- 6.4.19 R (1) When a *firm* sells, *personally recommends* or arranges the sale of a new group or master *life policy*, the first in a series of individual *life policies* or the first *units* in a particular [*key features*] *scheme* or *simplified prospectus scheme* to the trustees or the operator of a *stakeholder pension scheme*, it must provide the trustees or operator with *key features*, in accordance with COB 6.2.7R to COB 6.2.25R or for a *simplified prospectus scheme*, with a *simplified prospectus*, in accordance with COB 6.2.26R to COB 6.2.45R.

...

Exemption: telephone sales

- 6.4.27 R (1) Where this chapter requires *key features*, a *simplified prospectus* or other information to be provided, in the case of voice telephony communications, a *firm*:

(a) ...

...

- (3) In the case of either (1) or (2), the *firm* must send the *private customer* immediately after the contract is concluded, the required *key features*, *simplified prospectus* or other information (as applicable) in a *durable medium*.

...

...

Exemption: certain other means of distance communication

- 6.4.29 R This exemption applies where this chapter requires a *key features*, *simplified prospectus* or other information to be provided in relation to a *distance contract*, if the *distance contract* is concluded at the *customer's* request using a *means of distance communication* (other than telephone) which does not enable provision of the information in a *durable medium* before the *customer* is bound by the contract or offer. In that case, the *firm* must provide a *key features*, *simplified prospectus* or other information to the *customer* in a *durable medium* immediately after the conclusion of the contract.

Exemption: successive or separate operations under an initial service agreement

- 6.4.30 R This exemption applies where this chapter requires a *key features*, *simplified prospectus* or other information to be provided in relation to a *distance contract*, if the *firm* has an initial service agreement with the *customer* and the contract is in relation to a successive operation or a separate operation of the same nature under that agreement (see COB 1.10.2G (1)).

Exemption: other successive or separate operations

6.4.31 R This exemption applies where this chapter requires a *key features*, *simplified prospectus* or other information to be provided in relation to a *distance contract* if:

- (1) the *firm* has no initial service agreement with the *customer*;
- (2) the *firm* has performed an operation for the *customer* within the last year; and
- (3) the contract is in relation to a successive operation or separate operation of the same nature (see *COB* 1.10.2G(2)).

...

6.5 Content of key features and important information: life policies, [key features] schemes, ISA cash deposit components and stakeholder pension schemes

...

General

6.5.2 R A *firm* must ensure, unless *COB* 6.5.3R applies, that:

- (1) the *key features* it produces for a [life policy or a key features scheme other than a stakeholder pension scheme (whether or not held within a PEP or an ISA) packaged product other than a stakeholder pension scheme] includes the information required by *COB* 6.5.11R, set out in the order shown divided by appropriate and prominent sub-headings, some of which are prescribed in the *rules*;

...

...

6.5.4 G ...

- (2) For the purposes of *COB* 6.5.2R(1)
 - (a) a *firm* which offers more than one [key features] scheme may choose whether to produce separate *key features* for each *scheme* (including a fund or *sub-fund* or *share class*), or to produce a single *key features* to cover a range of funds (provided the differences between those funds are made clear);
 - (b) where a publication covers more than one [key features] scheme (for example, in the case of a year book comprising information on all the funds offered by a *unit trust manager*), it might consist of a *key features* section at the beginning giving details common to all the

relevant funds (whether *units trusts, ICVCs, sub-funds* of an *umbrella scheme* or *share* classes within an *ICVC*), followed by separate pages setting out, for each fund, those items which are specific to it, for example 'Aims', Risk Factors' and 'Charges and their Effect'.

...

- 6.5.11 R Table Table of Information / Applicable provisions
This table belongs to COB 6.5.2 R(1)

Information		Application provisions
Title Nature of <i>life policy</i> or [<u>key features</u>] <i>scheme</i> or <i>stakeholder pension scheme</i>		COB 6.5.12R COB 6.5.13R – COB 6.5.14G
An example		COB 6.5.15R – COB 6.5.19R
Description of the <i>life policy</i> or [<u>key features</u>] <i>scheme</i> or <i>stakeholder pension scheme</i>		COB 6.5.20R
Tables:	<i>Life policies</i> [<u>Key features</u> §§]schemes	COB 6.5.23R – COB 6.5.26R COB 6.5.30R – COB 6.5.32R
Deductions Summary:	<i>Life policies</i> [<u>Key features</u> §§]schemes	COB 6.5.27R – COB 6.5.29R COB 6.5.33R – COB 6.5.36G
<i>Commission and remuneration</i>		COB 6.5.38R – COB 6.5.39G
Further information		COB 6.5.40R

...

Title

- 6.5.12 R A *firm* must include this heading: 'key features of the [name of *life policy*/[key features] *scheme*/*stakeholder pension scheme*]'.

Nature of *life policy* or [key features] *scheme* or *stakeholder pension scheme*

- 6.5.13 R (1) A *firm* must describe the nature of the *life policy* or [key features] *scheme* or *stakeholder pension scheme* under the following headings: 'its aims', 'your commitment', or, 'your investment' (whichever is more appropriate) and 'risk factors'.

...

An example

- 6.5.15 R A *firm* must include a *projection*, illustrating how the principal terms of the proposed transaction apply to the *private customer*:

...

- (2) where the proposed transaction does not relate to a *CTF* or a *stakeholder product* sold through *basic advice* and is for a [key features] *scheme* or a *linked life stakeholder product*:

...

- 6.5.16 G A *projection* may be included for [key features] *schemes* where *COB* 6.5.15R(2) does not require one, at a *firm's* discretion.

...

Description of the life policy or [key features] *scheme* or stakeholder pension scheme

- 6.5.20 R In addition to *COB* 6.5.13R and *COB* 6.5.18R, a *firm* must set out in the form of questions and answers a description of the principal terms of the *life policy*, [key features] *scheme*, or *stakeholder pension scheme* and any other information necessary to enable the *private customer* to make an informed decision.

...

- 6.5.21 G The information required by *COB* 6.5.20R should include:

- (8) for a *life policy* or a [key features] *scheme* which is to be held within a *CTF* the information referred to in *COB* 6.5.40R(7).

Tables and deductions summaries for life policies, [key features] *schemes* and stakeholder pension schemes

- 6.5.22 G (1) ...
(2) *COB* 6.5.30R to *COB* 6.5.36G set out the Tables, Deductions, Summary and method of calculating 'Effect of deductions to date' for [key features] *schemes*.

...

...

Table for [key features] *schemes*

- 6.5.30 R For [key features] *schemes*, a *firm* must include the contents of *COB* 6.5.31R unless the [key features] *scheme* is to be held within a *stakeholder CTF*.

...

Deductions summary for [key features] *schemes*

- 6.5.33 R ...

...

Calculation method for 'effect of changes to date' for [key features] schemes

6.5.35 R

...

Commission and *commission equivalent* for life policies, [key features] schemes and stakeholder pension schemes

6.5.38 R A *firm* must include under the heading 'How much will the advice cost?' either the statement prescribed in (1), (1A) or (1B), as applicable, or the information required by (2):

...

(1A) for [key features] schemes: 'Your adviser will give you details about the cost. The amount will depend on the size of your [use: 'investment' or 'contribution'] [add if appropriate: 'and in the case of regular savings the period for which you make them']. It will be paid for out of the charges'; or

...

...

Further information for life policies, [key features] schemes, stocks and shares ISAs, PEPs and stakeholder pension schemes

6.5.40 R A *firm* must include the following information in the *key features*, separately or as part of the information required by COB 6.5.2R:

(1) for *life policies*:

- (a) a clear indication, in one place, of the nature and amount or rate of any charges or expenses which the *private customer* will or may bear; if charges or expenses are levied in the form of reduced investment, both the method and effect must be clearly explained; in the case of a single *premium* charge for mortality or morbidity under *linked benefit policies*, it is sufficient to describe its nature and basis;
- (b) the information that Annex II to the *Third Life Directive* requires to be communicated to policyholders, which is specified in COB 6.5.49R; and
- (c) an explanation how the *private customer* may obtain further information about compensation arrangements and other matters relating to the *life policy*.

(2) for all [key features] schemes, an explanation that other information about the *scheme* is available on request and how it may be obtained;

(3) for *regulated collective investment schemes* [that constitute key features schemes] and for such *investments* held within a *PEP* or an *ISA*:

...

...

...

- 6.6 Projections
- Application
- 6.6.1 R *COB 6.6 applies to a firm in respect of projections for life policies, key features schemes, simplified prospectus schemes and stakeholder pension schemes.*
- Purpose
- 6.6.2 G *COB 6.6 amplifies Principle 7 (Communications with clients) which requires a firm to pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading. A projection needs to be carried out on a basis of uniform and consistent rates of investment return so that firms do not seek to compete on the basis of wholly speculative forecasts as to the potential value of future benefits. This should ensure that private customers purchasing a life policy, key features scheme, simplified prospectus scheme, or stakeholder pension scheme receive information about possible future returns from their investment in a way which is fair and not misleading.*
- Content
- 6.6.3 G *COB 6.6 sets out:*
- ...
- (6) *the method of calculating charges and expenses relating to key features schemes or simplified prospectus schemes. COB 6.6.63G - COB 6.6.79G;*
- ...
- General
- 6.6.4 R *A firm must not provide a projection for a life policy, key features scheme, simplified prospectus scheme, or stakeholder pension scheme unless the projection is calculated and presented in accordance with the rules in COB 6.6.*
- Exceptions
- 6.6.5 R *COB 6.6.4R does not apply to a firm when it provides a projection:*
- ...
- (7) *provided in accordance with COB 8.2.4R and COB 8.2.17E where the life policy, key features scheme, simplified prospectus scheme, or stakeholder pension scheme is a structured capital-at-risk product.*
- ...
- Information to accompany projections
- 6.6.8 ...
- (2) *The information under the headings 'Tables', 'Deductions Summary' and 'Commission and Remuneration' in COB 6.5 (Key Features) need not be included in a projection issued in respect of:*

- (a) an existing contract; or
- (b) a *financial promotion* (other than a *direct offer financial promotion*); or
- (c) an *execution-only transaction* relating to a key features scheme or a simplified prospectus scheme.

...

Generic and stochastic projections

6.6.9 R ...

(2) A *firm* which provides a generic *projection* must ensure that:

...

- (f) key features or a simplified prospectus are supplied in accordance with COB 6.1 to COB 6.5 (Key Features) if a recommendation is subsequently made.

...

...

6.6.15 R (1) The statements in COB 6.6.16R must accompany each *projection* for a *life policy*, key features scheme or simplified prospectus scheme as indicated, except a generic *projection* given in accordance with COB 6.6.9R (see COB 6.6.17R), or a *protected rights annuity projection* calculated in accordance with COB 6.6.11R (see COB 6.6.18R).

...

6.6.16 R Table Statements to accompany projections of *life policies*, key features schemes, simplified prospectus schemes, or stakeholder pension schemes (excluding generic projections and protected rights annuity projections)

This table belongs to COB 6.6.15R

Statements to accompany projections of *life policies*, key features schemes, simplified prospectus schemes, or stakeholder pension schemes (excluding generic projections and protected rights annuity projections)

...

6.6.17 R Table Statements to accompany generic projections

This table belongs to COB 6.6.15R

Statements to accompany generic projections
These figures are only illustrative.
An assessment of your needs will be confirmed before a recommendation can be made OR your needs will be confirmed before a recommendation can be made.
<u>Key features</u> or a <u>simplified prospectus</u> , together with including a projection which is personal to your circumstances, will be provided if a recommendation

for an investment product is made.

...

The calculation of a projection

- 6.6.20 G COB 6.6.21R - COB 6.6.53G set out:
- (1) definitions of key terms used in the calculation of a *projection* (COB 6.6.21R);
 - (2) the basic approach to be used when calculating a *projection* for *life policies* (COB 6.6.34R), *Holloway sickness policies* (COB 6.6.35R), *key features schemes* or *simplified prospectus schemes* (COB 6.6.36R), and *stakeholder pension schemes* (COB 6.6.34R);
 - (3) principles which must be taken into account when calculating a *projection* including general principles which may apply to all *life policies*, *key features schemes*, *simplified prospectus schemes* and *stakeholder pension schemes* (COB 6.6.37R - COB 6.6.38R) and specific principles applicable to certain types of product or features within a product (COB 6.6.39R - COB 6.6.46R);

...

...

Adjusted premium

- 6.6.22 R (1) The adjusted *premium* is the *premium* or contribution payable under the contract during the contract period (defined in COB 6.6.25R), disregarding any increases that cannot be quantified at the commencement of the contract (but allowing for any increases which are assumed and disclosed in the *key features* or *projection*).

...

...

Charges and expenses

- 6.6.23 R (1) For a *key features scheme*, *simplified prospectus scheme* or unit-linked *life policy*, charges and expenses are all explicit charges and expenses the *customer* will or may bear:
- (a) including:
 - (i) all other deductions and expenses which will or may bear upon the fund (including charges in respect of any *collective investment scheme* or insurance fund in which any funds of the contract in question are invested but excluding dealing costs of the underlying portfolio); and
 - (ii) all deductions from the *premium* or contribution payable which do not accrue to the benefit of the *customer* by way of contribution to the value of the benefit;
 - (b) having regard to:

- (i) the principal terms of the contract; and
- (ii) any tax relief which will be available to the fund or key features scheme or simplified prospectus scheme in respect of so much of the *scheme's* gross expenses as can be properly attributed to the contract.

...

... Contract period

6.6.25 R The contract period of a *life policy*, key features scheme, simplified prospectus scheme or *stakeholder pension scheme* is the period beginning with the commencement of the contract and ending as follows:

...

...

6.6.27 R In the case of any contract not falling within *COB* 6.6.25 R, then:

- (1) for key features schemes and simplified prospectus schemes, the contract period will end on the tenth anniversary of the commencement date of the contract; and
- (2) for all other contracts there will be two contract periods, the first ending on the fifth anniversary of the commencement date of the contract, and the second ending on the tenth anniversary of the commencement date.

...

Relevant contribution

6.6.29 R The relevant contribution is the actual payment or payments to be made by the *customer*, or a sum which reasonably reflects the amounts which the *customer* is proposing to invest, into a key features scheme or simplified prospectus scheme, except in the case of a protected rights annuity (see *COB* 6.6.31 R).

...

Key features scheme and simplified prospectus scheme calculation

6.6.36 R (1) A *projection* of any future benefit payable under a key features scheme or simplified prospectus scheme must be calculated by reference to the relevant contribution for the *scheme*.

...

(3) An allowance must be made where a *customer* has exercised or expressed the intention to exercise an option under the key features scheme or simplified prospectus scheme to make withdrawals, either by:

...

General rules applicable to the calculation of projections

6.6.37 R (1) A *projection* must be rounded down to not more than three significant figures.

(2) Where the *projection*, other than a *projection* in real terms of a *pension contract* or *stakeholder pension scheme*, is less than the amount

guaranteed under the *life policy*, *key features scheme* or *simplified prospectus scheme*, the *projection* must be increased to that guaranteed amount.

...

...

6.6.50 R Table Rate of return assumptions for all key features schemes, simplified prospectus schemes, ordinary branch non-pensions, industrial branch, friendly S_{society}, immediate annuity and Holloway sickness policies (all monetary rates of return)

This table belongs to COB 6.6.49 R

Rate of return assumptions for all <u>key features schemes</u> , <u>simplified prospectus schemes</u> , ordinary branch non-pensions, industrial branch, friendly S _{society} , immediate annuity and Holloway sickness policies (all monetary rates of return)			
(a) Non-tax-exempt business relating to <u>key features schemes</u> , <u>simplified prospectus schemes</u> , ordinary branch non-pensions and industrial branch business	4%	6%	8%
(b) <i>Holloway sickness policies</i>	4%	6%	8%
(c) Tax-exempt business held within an <i>ISA</i> , <i>PEP</i> or <i>CTF</i> or by a <i>friendly society</i> , relating to <u>key features schemes</u> , <u>simplified prospectus schemes</u> , ordinary branch non-pensions and industrial branch business	5%	7%	9%
(d) immediate annuities	5%	7%	9%
Notes			

In relation to key features schemes and simplified prospectus schemes: The monetary rates of return above include any distribution of income. The rates of return may be used for contracts for units denominated in currencies other than sterling unless it is expected they will overstate the investment potential of the contract.

...

Calculation of the reduction in yield due to the effect of charges and expenses content

- 6.6.54 R G COB 6.6.55R - COB 6.6.62R set out the *rules* to be used when calculating the effect of deductions (the 'reduction in yield') to be provided within key features (COB 6.5) or in a projection accompanying a simplified prospectus (COB.6.2.43R) for all types of *life policies*, key features schemes and simplified prospectus schemes. COB 6.6.63G - COB 6.6.79G provide *guidance* in assessing the expenses and charges relating to key features schemes and simplified prospectus schemes.

...

Charges and expenses disclosure for key features schemes and simplified prospectus schemes

- 6.6.63 G COB 6.6.65G - COB 6.6.79G set out *rules* and *guidance* on how to calculate charges and expenses (as described in COB 6.6.23R) for key features schemes and simplified prospectus schemes.

...

Charges and expenses disclosure for authorised unit trusts

...

- 6.6.65 G ...

- (4) Where a key features scheme or simplified prospectus scheme invests in other *packaged products*, it will be necessary to look through to ensure that all charges and expenses which the *customer* will or may bear are included. Appropriate allowance may be made for any abatement to avoid double charging. If the *product provider* is not required to make expense disclosure in respect of such *packaged products*, the charges and expenses of an equivalent product from another provider should be used. In the case of *investment trusts*, the method in COB 6.6.70G(4) should be used.

...

Representative unit trust

- 6.6.66 G ...

- (2) The representative *unit trust* will normally be the one that is most likely to be selected by the *customers* to whom the material is issued. Where advantage is taken of this option, the *document* should include

information which shows the differences if other trusts are selected. The normal presentation will be to show the differences as a reduction of investment return, or as an adjustment to the Table in *key features* or in the *projection* accompanying the *simplified prospectus*. Where the reduction of *investment* return is used, it will not be necessary to show differences unless the rounded difference is at least 0.1% and the unrounded difference is at least 0.05%.

...

...

Notes:

1. This Annex sets out the requirements in relation to the TER. It reproduces, and adapts where appropriate for the purposes of COB 6, Annex 1 to Commission Recommendation (2004/384/EC), amplifying Schedule C (Contents of the simplified prospectus) to the Management Company Directive (2004/107/EC).

2. The non-exhaustive typology of calculation bases referred to in paragraph 2(b) below reflects the diversity of recent commercial practice across Member States (at the end of 2003) and should not be interpreted as a general validation of the compliance of any individual agreement or commission with the provisions of the Handbook.

Total expense ratio (TER)

1. Definition of the TER

The total expense ratio (TER) of a *simplified prospectus scheme* is the ratio of the *scheme's* total operating costs to its average net assets calculated according to paragraph 3.

2. Included/excluded costs

- (a) The total operating costs are all the expenses which come in deduction of a *simplified prospectus scheme's* assets. These costs are usually shown in a *scheme's* statement of operation for the relevant fiscal period. They are assessed on an 'all taxes included' basis, which means that the gross value of expenses should be used.

- (b) Total operating costs include any legitimate expenses of the *simplified prospectus scheme*, whatever their basis of calculation (e.g. flat-fee, asset-based, transaction-based – see note 2 above), such as:
 - management costs including performance fees;
 - administration costs;
 - fees linked to *depository* duties;
 - audit fees;
 - payments to shareholder services providers including payments to the *simplified prospectus scheme's* transfer agent and payments to broker-dealers that are record owners of the *scheme's* shares and that provide sub-accounting services for the beneficial owners of the *scheme's* shares;

- payments to lawyers;
- any distribution or unit cancellation costs charged to the *scheme*;
- registration fees, regulatory fees and similar charges;
- any additional remuneration of the management company (or any other party) corresponding to certain fee-sharing agreements in accordance with paragraph 4 below.

(c) The total operating costs do not include:

- transaction costs which are costs incurred by a *simplified prospectus scheme* in connection with transactions on its portfolio. They include brokerage fees, taxes and linked charges and the market impact of the transaction taking into account the remuneration of the broker and the liquidity of the concerned assets;
- interest on borrowing;
- payments incurred because of financial derivative instruments;
- entry/exit commissions or any other fees paid directly by the investor;
- soft commissions in accordance with paragraph 4.

3. Calculation method and disclosure

(a) The TER is calculated at least once a year on an ex post basis, generally with reference to the fiscal year of the *simplified prospectus scheme*. For specific purposes it may also be calculated for other time periods. The *simplified prospectus* should in any case include a clear reference to an information source (e.g. the *scheme's* website) where the investor may obtain previous years'/periods' TER figures.

(b) The average net assets must be calculated using figures that are based on the *scheme's* net assets at each calculation of the net asset value (NAV), e.g. daily NAVs where this is the normal frequency of NAV calculation as approved by the *simplified prospectus scheme's* competent authorities. Further circumstances or events which could lead to misleading figures have equally to be taken into consideration.

Tax relief should not be taken into account.

The calculation method of the TER must be validated by the *simplified prospectus scheme's* auditors and/or competent authorities.

4. Fee-sharing agreements and soft commissions

It regularly results from fee-sharing agreements on expenses that are generally not included in the TER, that the management company or another party is actually meeting, in all or in part, operating costs that should normally be included in the

TER. They should therefore be taken into account when calculating the TER, by adding to the total operating costs any remuneration of the management company (or another party) that derives from such fee-sharing agreements.

There is no need to take into account fee-sharing arrangements on expenses that are already in the scope of the TER. Soft commissions should also be left outside the scope of the TER.

Thus:

- the remuneration of a management company through a fee-sharing agreement with a broker on transaction costs and with other fund management companies in the case of funds of funds (if this remuneration has not already been taken into account in the synthetic TER (see paragraph 6 below) or through other costs already charged to the fund and therefore directly included into the TER) should anyway be taken into account in the TER,
- conversely, the remuneration of a management company through a fee-sharing agreement with a *scheme* (except when this remuneration falls under the scope of the specific fund-of-fund case covered in the previous indent) should not be taken into account.

5. Performance fees:

Performance fees should be included in the TER and should also be disclosed separately as a percentage of the average net asset value.

6. Simplified prospectus scheme investing in UCITS scheme or in non-UCITS scheme:

When a *simplified prospectus scheme* invests at least 10% of its net asset value in *UCITS schemes* or in *schemes* that are not *UCITS schemes* which publish a TER in accordance with this Annex, a synthetic TER corresponding to that investment should be disclosed.

The synthetic TER is equal to the ratio of:

- the *simplified prospectus scheme's* total operating costs expressed by its TER and all the costs borne by the *scheme* through holdings in underlying funds (i.e. those expressed by the TER of the underlying funds weighted on the basis of the *simplified prospectus scheme's* investment proportion), plus the subscription and redemption fees of these underlying funds, divided by
- the average net assets of the *scheme*.

As mentioned in the previous subparagraph, subscription fees and redemption fees of the underlying funds should be included in the TER. Subscription and redemption fees may not be charged when the underlying funds belong to the same group in accordance with Article 24 (3) of the *UCITS Directive*.

When any of the underlying *schemes* that are not *UCITS schemes* does not publish a TER in accordance with this Annex, disclosure of costs should be adapted in the following way:

- the impossibility of calculating the synthetic TER for that fraction of the investment must be disclosed,
- the maximum proportion of management fees charged to the underlying fund(s) must be disclosed in the *simplified prospectus*,
- a synthetic figure of total expected costs must be disclosed, by calculating:
 - a truncated synthetic TER incorporating the TER of each of those underlying funds for which the TER is calculated according to this Annex, weighted on the basis of the *simplified prospectus scheme's* investment proportion, and
 - by adding, for each of the other underlying funds, the subscription and redemption fees plus the best available maximum estimate of TER-eligible costs. This should include the maximum management fee and the last available performance fee for that fund, weighted on the basis of the *simplified prospectus scheme's* investment proportion.

7. Umbrella funds/multiclass funds:

In the case of umbrella funds, the TER should be calculated for each *sub-fund*. If, in the case of multiclass funds, the TER differs between different share classes, a separate TER should be calculated and disclosed for each share class. Furthermore, in keeping with the principle of equality among investors, where there are differences in fees and expenses across classes, these different fees/expenses should be disclosed separately in the *simplified prospectus*. An additional statement should indicate that the objective criteria (e.g. the amount of subscription), on which these differences are based, are available in the full *prospectus*.

COB 6 Annex 3R

Note: This Annex sets out the requirements in relation to the portfolio turnover rate. It reproduces Annex II to Commission Recommendation (2004/384/EC), amplifying Schedule C (Contents of the simplified prospectus) to the Management Company Directive (2004/107/EC).

This table also includes other material which the FSA considers should be included.

Portfolio turnover rate

A simplified prospectus scheme's or, where relevant, a compartment's (sub-fund's) portfolio turnover rate must be calculated in the following way:

Purchases of securities = X

Sales of securities = Y

Total 1 = total of transactions in securities = X + Y

Issues/Subscriptions of units of the scheme = S

Cancellations/Redemptions of units of the scheme = T

Total 2 = Total transactions in units of the scheme = S + T

Reference average of total net assets = M

Turnover = [(Total 1 - Total 2)/M]*100

The reference average of total net assets corresponds to the average of net asset values calculated with the same frequency as under COB 6 Annex 2R. The portfolio turnover rate disclosed should correspond to the period(s) for which a TER is disclosed. The simplified prospectus should in any case include a clear reference to an information source (e.g. the scheme's website) where the investor may obtain previous periods' performance.

Note

Firms should note that inclusion of the portfolio turnover rate in the simplified prospectus is mandatory. The rate must be calculated according to the formula which is prescribed above. However, because the rate includes both purchases and sales of securities, readers may find it difficult to understand. Consequently firms should consider including an explanation of the formula, such as:

(Purchases of securities + Sales of securities) – (Subscription of units + Redemptions of units)

(Average Fund Value over 12 months) x 100.

COB Appendix 1 – Required information for certain terms of business, key features, simplified prospectuses and direct offer financial promotions

1.1.1 R

Table Required information

This table belongs to *COB 3.9.6R*, *COB 4.2.10R*, *COB 6.2.16R*, *COB 6.2.18R*, *COB 6.2.41R*, *COB 6.2.47R*, *COB 6.4.13R*, *COB 6.4.25R*, *COB 6.4.27R*, and *COB 6.5.2R (6)*, *COB 6.5.42R* to *COB 6.5.44R*

...

Transitional provisions TP4

Miscellaneous transitional provisions applying to all firms

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
13	COB 6.2.26R <u>COB 6.2.46R</u>	<u>R</u>	Simplified prospectus requirements for section 264 schemes <i>A firm may comply with COB 6.2.22R (Schemes) instead of COB 6.2.26R COB 6.2.46R (Requirement to offer a simplified prospectus for section 264 schemes), if the EEA State in which the recognised scheme is established ...</i>		
15	...				
16	<u>COB 6.2.26R to COB 6.2.45R</u>	<u>R</u>	<u>Simplified prospectus requirements for simplified prospectus schemes</u> <u><i>A firm need not comply with the rules specified in column (2) to the extent that it complies with the provisions of COB 6.2 (Provision of key features or simplified prospectus) that relate to key features schemes and ensures that every key features for the scheme which is offered to a client or provided to a private customer is</i></u>	<u>From 1 May 2005</u>	<u>30 September 2005</u>

			<u>produced in accordance with the applicable requirements of COB 6.5 (Content of key features and important information: life policies, [key features] schemes, ISA cash deposit components and stakeholder pension schemes).</u>		
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Schedule 2 – Notification requirements

G

1 Table				
Handbook Reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...				
<i>COB</i> 6.2.22R (2)	notice of election	in writing – election that <i>scheme</i> will comply with those provisions of <i>COB</i> 6.2 that relate to the <i>simplified prospectus</i> – date from which election is to take effect	election	as soon as reasonably practicable
<i>COB</i> 6.2.46R(4)	simplified prospectus and subsequent amendments	in writing – required contents of simplified prospectus	commencement of sale of <i>units</i>	as soon as reasonably practicable
...				

Annex C

Amendments to the Collective Investment Schemes sourcebook

In this Annex, underlining indicates new text.

- 11 Meetings of holders, amendments to the scheme and service of notices
- 11.4 Amendments to the instrument constituting the scheme
- ...
- Matters to be included in notices sent to unitholders when a manager proposes a change from dual to single pricing
-
- 11.4.5 G ...
 - (2) ...
 - (c) The *FSA* has no objection to detailed issues being covered by reference to the *prospectus*, *key features* or *simplified prospectus* for the *AUT* and other documents, where these documents accompany the notice sent to *unitholders* or *plan investors*.
 - ...
- ...

Annex D

Amendments to the New Collective Investment Schemes sourcebook

In this Annex, underlining indicates new text.

Prohibition on promotional payments: guidance

- 6.7.13 G Examples of payments which are not permitted by *COLL* 6.7.12R include:
- (1) *commission* payable to intermediaries (such payments should normally be borne by the *authorised fund manager*);
 - (2) payments or costs in relation to the preparation or dissemination of *financial promotions* (other than the preparation of *key features* or the *simplified prospectus*); and
 - (3) payments to third parties, for maintaining details of beneficial *unitholders*.

...

Annex E

Amendments to the Electronic Commerce sourcebook

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

Further, in this Annex, changes to Handbook text placed in bold square brackets, irrespective of whether the change takes the form of insertion of additional text or deletion of text, come into force on 1 October 2005. Otherwise, this Annex comes into force on 1 May 2005.

1 Incoming ECA providers

...

1.2 Provision of essential information to customers

...

Provision of essential information to customers: UK requirements

1.2.6 E (1) In order to comply with *ECO* 1.2.1R, before entering into a contract with a *UK ECA recipient* who is a *consumer*, an *incoming ECA provider* should comply with the following UK requirements:

- (a) in every case where *COB* 6.2 (Provision of key features or simplified prospectus) or *COB* 6.4 (Product disclosure: special situations) would require the provision of *key features*, provide the information identified in the *rules* listed in ~~at~~ *ECO* 1.2.9E;

...

...

1.2.9 E Table Provision of essential information to customers: key features.

This table belongs to *ECO* 1.2.6E(1)(a)

COB rule	Description
<i>COB</i> 6.5.15R	Projections: an example
<i>COB</i> 6.5.19R(1)	Projections: an example
<i>COB</i> 6.5.19R(3)	Projections: an example
<i>COB</i> 6.5.40R(1)(a) and (c)	Further information for life policies, [<u>key features</u>] schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
<i>COB</i> 6.5.40R(3)	Further information for life policies, [<u>key features</u>] schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
<i>COB</i> 6.5.40R(4) (a) - (g), (i) - (p)	Further information for life policies, [<u>key features</u>] schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
<i>COB</i> 6.5.40R(5) (a) - (b), (d) - (g)	Further information for life policies, [<u>key features</u>] schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes
<i>COB</i> 6.5.40R(6)	Further information for life policies, [<u>key</u>

<p><i>COB</i> 6.5.42R(3) - (10), (12) - (14)</p> <p><i>COB</i> 6.5.43R</p> <p><i>COB</i> 6.5.44R</p>	<p><u>features</u>] schemes, insurance or equity ISAs, PEPs or stakeholder pension schemes</p> <p>Information requirements for cash deposit ISAs, friendly society tax-exempt policies, traded life policies and broker funds</p> <p>Friendly society tax exempt policies</p> <p>Traded life policies</p>
--	---

...

1.3 Provision of insurance services

...

1.3.3 E Table Provision of insurance services. This table belongs to ECO 1.3.1R

The following provisions of COB):	Description
<i>COB</i> 3 (entire chapter)	Financial promotion
<i>COB</i> 6.1	Packaged product and ISA disclosure
<i>COB</i> 6.2.2R to <i>COB</i> 6.2.24R	Provision of key features or <u>simplified prospectus</u>
<i>COB</i> 6.4	Product disclosure: special situations
<i>COB</i> 6.5 (except <i>COB</i> 6.5.40R(1)(b), <i>COB</i> 6.5.47R, <i>COB</i> 6.5.48G and <i>COB</i> 6.5.49R)	Content of key features
<i>COB</i> 6.6	Projections

...

ADDENDUM

SIMPLIFIED PROSPECTUS INSTRUMENT 2005

In this Addendum the text shown is that which results following this instrument. Underlining indicates the insertion of new Handbook text while striking through indicates the text to be deleted.

Annex A (Glossary) of this instrument is amended by adding the following amended definition:

...

UCITS scheme an authorised fund whose instrument constituting the scheme contains the statement in *COLL 3.2.6R 1(2)* (Table:contents of the instrument constituting the scheme) or, if it complies with *CIS*, the statement required by *CIS 2.2.6R (2)(a)(i)* (Matters that must be included in the trust deed) or paragraph 4 (1)(b) of Schedule 2 to the *OEIC Regulations*, that it is a *UCITS scheme*, unless:

...

...

Annex B (COB) of this instrument is amended as follows:

6.2.37 R ...
(14) (a) ...
Notes: ...

~~5. For the purposes of paragraph (14)(a)(vi), fee-sharing agreements should be taken as those agreements whereby a party remunerated, either directly or indirectly, out of the assets of a scheme agrees to split its remuneration with another party and which result in that other party meeting expenses through this fee-sharing agreement that should normally be met, either directly or indirectly, out of the assets of the scheme.~~

~~6. For the purposes of paragraph 14(a)(vi), soft commissions should be regarded as any economic benefit, other than clearing and execution services, that an asset manager receives in connection with the scheme's payment of commissions on transactions that involve the scheme's portfolio securities. Soft commissions are typically obtained from, or through, the executing broker.~~

~~7.5.~~ The *simplified prospectus* should ...

- ...
- (b) ~~detailed~~ information about “fee sharing agreements” and “soft commissions”, ~~including~~:

- (i) identification of “fee-sharing agreements”;

Note: ~~See note 5 to paragraph (14)(a).~~ For the purposes of paragraph (14)(b)(i), fee-sharing agreements should be taken as those agreements whereby a party remunerated, either directly or indirectly, out of the assets of a *scheme* agrees to split its remuneration with another party and which result in that other party meeting expenses through this fee-sharing agreement that should normally be met, either directly or indirectly, out of the assets of the *scheme*.

- (ii) identification of soft commissions;

Note: ~~See note 6 to paragraph (14)(a).~~ For the purposes of paragraph 14(b)(ii), soft commissions should be regarded as any economic benefit, other than clearing and execution services, that an asset manager receives in connection with the *scheme's* payment of commissions on transactions that involve the *scheme's* portfolio securities. Soft commissions are typically obtained from, or through, the executing broker.

- (c) ~~(iii)~~ presentation of TER and portfolio turnover ~~note~~ rate;

...

General Note:

In making the disclosures required by paragraphs (8) to (19) of this Table, the information must be presented in the form of questions and answers. This format is designed to assist the comprehension of the reader. This requirement will not apply in relation to a *simplified prospectus* that is to be used to market the *units* of the *scheme* in another *EEA State*.

...

- 6.2.45 R (1) When a *firm* sells, *personally recommends* or arranges for the sale of a *unit* in ~~an~~ a *simplified prospectus scheme* to a *private customer* which is to be held within a *PEP* or *ISA*, it must provide him with the following additional information:
- (a) a description of ...
- (b) ~~for ISAs or ISA components which are stated as satisfying the CAT standards:~~

- (i) ~~a table comparing the ISA or ISA components with CAT standards;~~
- (ii) ~~clarification that satisfying the CAT standards does not mean that the investment is appropriate for the private customer or that there is any guarantee of performance; [deleted]~~
- (c) ~~the fact, if applicable, that an ISA does not meet the CAT standards together with any relevant explanation; [deleted]~~
- (d) ...

...

6.2.47 R

If the sale in COB 6.2.46R(1) is by way of a *distance contract to a retail customer*, the *firm* must provide all the contractual terms and conditions and the information in COB Appendix 1.1.

...

Addendum
23 June 2005